# RENFIN II LIMITED

**Consolidated Financial Statements 2011**
**International Financial Reporting Standards**
**Consolidated Financial Statements and Report of the Independent Auditors for the year ended December 31, 2011**

# Contents

# Company Information

| | |
|---|---|
| **Directors** | David Blair (appointed on June 13, 2007)<br>James Keyes (appointed on July 9, 2009)<br>John Elder (appointed September 22, 2010) |
| **Registered office** | Jayla Place<br>Wickhams Cay 1<br>Road Town<br>Tortola VG1110<br>British Virgin Islands |
| **Investment manager** | Kashtan Limited<br>Clifton House<br>75 Fort Street<br>PO Box 1350<br>Grand Cayman<br>KY1-1108 |
| **Advisor to Investment manager** | (From April 16, 2012)<br>Renaissance Asset Managers (Guernsey) Limited<br>Hirzel Court<br>St Peter Port<br>Block F<br>GY1 2NH<br>Guernsey<br><br>(Until April 16, 2012)<br>Renaissance Capital Investment Management Limited<br>56 Administration Drive<br>Whickhams Cay I<br>P.O. Box 3190<br>Road Town, Tortola<br>British Virgin Islands |
| **Prime broker** | Renaissance Advisory Services Limited<br>Canon's Court<br>22 Victoria Street<br>Hamilton, HM 12<br>Bermuda |
| **Administrator, registrar, transfer agent** | Custom House Global Fund Services Ltd<br>60 Tigne Towers<br>Tigne Street<br>Sliema SLM 3172<br>Malta |
| **Secretary** | Appleby Corporate Services (BVI) Limited<br>Palm Grove House<br>PO Box 3190<br>Road Town<br>Tortola<br>British Virgin Islands |
| **Custodian** | ING Bank (Eurasia) CJSC<br>36 Krasnoproletarskaya<br>Moscow 127473<br>Russian Federation |
| **Independent Auditors** | Ernst & Young Ltd<br>Sadovnicheskaya nab.77, bld.1<br>Moscow<br>115035<br>Russian Federation |

# Company Information (continued)

| | |
|---|---|
| **General legal advisors** | |
| *United States Law* | Akin Gump Strauss Hauer & Feld<br>City Point, Level 32<br>One Ropemaker Street<br>London<br>EC 2Y 9AW<br>United Kingdom |
| *Bermuda Law* | Appleby Spurling Bailhache<br>Canon's Court<br>22 Victoria Street<br>P.O. Box HM 1179<br>Hamilton HM EX<br>Bermuda |
| *British Virgin Islands Law* | Appleby Hunter Bailhache<br>Palm Grove House<br>P.O. Box 3190<br>Road Town<br>Tortola<br>British Virgin Islands |
| **Listing sponsor** | Appleby Securities (Bermuda) Ltd.<br>Canon's Court<br>22 Victoria Street<br>PO Box HM 1179<br>Hamilton HM EX<br>Bermuda |

# Investment Manager's Report

RenFin II Limited (the "Fund") raised USD 154 million in July 2007 to capitalize on the growth opportunities in the financial sector in Russia and the Commonwealth of Independent States ("CIS"). The Fund's strategy at inception was to build a diversified portfolio comprising fast-growing banks and non-banking financial institutions with sound strategies and strong management teams looking for ways to strengthen their performance and market share ahead of an international public offering ("IPO") or a private sale.

Currently the Fund is in divestment stage. As of December 31, 2011 the Fund had eight equity investments in its portfolio representing minority equity stakes in Russian regional and Moscow-based banks with strong regional presence, an insurance company in Ukraine and a Russian debt collection agency.

2011 was not an easy year: budget deficit and downgrade of the US credit rating, sovereign debt crisis in Euro zone and rating downgrade of leading banks didn't contribute to the recovery of the global economy. In spite of improved macroeconomic indicators both problems existing in USA and Euro zone and massive capital outflow has some negative effect on recovery of business and investment activity in Russia that has became more conservative and cautious.

Despite all the difficulties Russian banking sector demonstrated very good performance: total assets grew by 23.1%, equity – by 10.8%, loan portfolio increased by 29.6% (corporate loans – by 26.0% and loans to individuals – by 35.9%), average ROA and ROE improved to 2.0% and 16.2% respectively from 1.7% and 12.1% in 2010, but still fall short of pre-crisis 3% ROA and 20% ROE. Main issue banking sector faced in second half of 2011 was liquidity deficit: access to financing worsened due to crisis in Euro zone and growth rate of population savings slowed down (from 31.2% in 2010 to 20.9%).

During 2011 the Fund managed to make a successful exit in spite of the fact that valuation multiples were still depressed and rouble significantly depreciated versus US dollar from the period of investments: Fund's stake in Vostochny Commercial Bank (OJSC Orient Express Bank) was sold at valuation that was both above NAV of the Fund and entry cost. Sale proceeds in total amount of USD 25 million were distributed to all investors in a form of capital distribution. Throughout 2011 the Fund had two negative developments:

In November 2011 Lithuanian based Snoras banking group - the main shareholder of JSC Latvijas Krajbanka – initiated the bankruptcy procedure and JSC Latvijas Krajbanka was taken under control by the Latvian government and will be liquidated due to bankruptcy of its main shareholder. As a result, fair value of the Fund's share in JSC Latvijas Krajbanka as of December 31, 2011 decreased to USD nil (2010: USD 8,535).

During the year 2011 the major shareholder of First Republic Bank fully disposed of its share in the bank without notifying the other shareholders of the bank. Such disposal contradicted the terms of the put option agreement concluded between the Fund and this shareholder. Fair value of the Fund's investment in First Republic Bank decreased to USD 4,637 (2010: USD 23,285) as a result of negative changes in the Fund's conditions of shareholding.

Besides we see the spill-over effect from the overall weakness of the global economy that on one hand affect Fund's investment and on the other hand it makes many potential investors in Russia to shy away, thus limiting our exits opportunities. We believe that the situation in the Russian banking sector will continue to improve, and therefore we remain positive about the prospects of future growth of the Fund. In 2012 Investment manager has developed new activist exit strategy for all investments in Fund's portfolio aiming to achieve portfolio divestment in near future.

**Kashtan Limited**
*Investment manager of RenFin II Limited*

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# Independent auditors' report

To the Shareholders and Board of Directors of RENFIN II LIMITED

*Introduction*

We have audited the accompanying consolidated financial statements of RENFIN II LIMITED (the "Fund") and its subsidiary Ratto Holdings Limited, which comprise the consolidated statement of financial position as of December 31, 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to shareholders and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

June 30, 2012

# Consolidated Statement of Comprehensive Income
# For the year ended December 31, 2011

*(in thousands of US Dollars)*

| | *Notes* | **2011** | **2010** |
|---|---|---|---|
| **Income** | | | |
| Dividend income, gross | | 510 | 533 |
| Interest income | | 15 | 1,653 |
| Performance fee reversal/(accrual) | 9 | 931 | (931) |
| Gains on share redemption | 10 | - | 5,578 |
| **Total income** | | **1,456** | **6,833** |
| | | | |
| **Expenses** | | | |
| Net (loss)/gain on financial instruments at fair value through profit or loss | | (29,140) | 11,347 |
| Management fee | 9 | (1,805) | (2,491) |
| Other loss | 8 | (87) | - |
| Administration fee | | (60) | (182) |
| Net foreign exchange loss | | (31) | (128) |
| Other operating expenses | 6 | (331) | (390) |
| **Total expenses** | | **(31,454)** | **8,156** |
| | | | |
| **Finance costs** | | | |
| Distributions to shareholders | 10 | (24,991) | - |
| | | | |
| **Net (loss)/income before tax** | | **(54,989)** | **14,989** |
| Income tax expense | 11 | (29) | (165) |
| **Net (loss)/income after tax** | | **(55,018)** | **14,824** |
| | | | |
| Other comprehensive income for the year | | - | - |
| **(Decrease)/increase in net assets attributable to shareholders from operations** | | **(55,018)** | **14,824** |

*The accompanying notes on pages 9 to 28 are an integral part of these consolidated financial statements.*

# Consolidated Statement of Financial Position
# As of December 31, 2011

*(in thousands of US Dollars)*

| | *Notes* | December 31, 2011 | December 31, 2010 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 2,751 | 9,003 |
| Financial assets at fair value through profit or loss | 6,7 | 47,660 | 97,397 |
| Loans receivable | 8 | 2,652 | 3,440 |
| Other assets | | 12 | 9 |
| **Total assets** | | **53,075** | **109,849** |
| | | | |
| **Liabilities** | | | |
| Management fee payable | 9 | 425 | 318 |
| Current tax liabilities | 11 | 143 | 143 |
| Accounts payable and accrued expenses | | 123 | 354 |
| Performance fee payable | 9 | - | 931 |
| Deferred income | 6 | 326 | 1,027 |
| **Total liabilities excluding net assets attributable to shareholders** | | **1,017** | **2,773** |
| | | | |
| **Net assets attributable to shareholders** | 10 | **52,058** | **107,076** |
| **Number of participating shares in issue** | 10 | **1,033,521** | **1,033,521** |
| **Net asset value per participating share (US Dollar)** | | **50.37** | **103.60** |

**Signed and authorized for release on behalf of Board of the Directors of the Fund**

John Elder
*Director*

David Blair
*Director*

June 30, 2012

*The accompanying notes on pages 9 to 28 are an integral part of these consolidated financial statements.*

# Consolidated Statement of Changes in Net Assets Attributable to Shareholders for the year ended December 31, 2011

*(in thousands of US Dollars)*

| | *Notes* | **Number of participating shares** | **Net assets attributable to shareholders** |
|---|---|---|---|
| **January 1, 2010** | | **1,252,155** | **110,917** |
| Redemption of shares | 10 | (218,634) | (18,665) |
| Increase in net assets attributable to shareholders from operations | | - | 14,824 |
| **December 31, 2010** | **10** | **1,033,521** | **107,076** |
| Decrease in net assets attributable to shareholders from operations | | - | (55,018) |
| **December 31, 2011** | **10** | **1,033,521** | **52,058** |

# Consolidated Statement of Cash Flows
# For the year ended December 31, 2011

*(in thousands of US Dollars)*

| | 2011 | 2010 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **(Decrease)/increase in net assets attributable to shareholders from operations** | **(55,018)** | **14,824** |
| *Adjustments to reconcile net (decrease)/increase resulting from operations to net cash used in operating activities:* | | |
| Distributions to shareholders | 24,991 | - |
| Less gain on shares redemption | - | (5,578) |
| **(Decrease)/increase in net assets attributable to shareholders from operations including adjustments** | **(30,027)** | **9,246** |
| *Net changes in operating assets and liabilities* | | |
| Decrease in financial assets at fair value through profit and loss | 49,737 | 363 |
| Decrease of loans receivable | 788 | 11,165 |
| Decrease of deposits with banks | - | 1,202 |
| Increase of current tax liabilities | - | 108 |
| (Decrease)/increase of accounts payable and accrued expenses | (231) | 21 |
| (Decrease)/Increase of performance fee payable | (931) | 931 |
| Increase/(decrease) of management fee payable | 107 | (454) |
| Decrease of deferred Income | (701) | (1,615) |
| Increase of other assets | (3) | (2) |
| **Net cash generated by operating activities** | **18,739** | **20,965** |
| **Cash flows from financing activity** | | |
| Distributions to shareholders | (24,991) | - |
| Share redemption | - | (13,086) |
| **Net cash used in financing activity** | **(24,991)** | **(13,086)** |
| **Net (decrease)/increase in cash and cash equivalents** | **(6,252)** | **7,879** |
| Cash and cash equivalents at the beginning of the year | 9,003 | 1,124 |
| **Cash and cash equivalents at the end of the year** | **2,751** | **9,003** |
| **Supplementary information:** | | |
| Dividend income, net | 482 | 511 |
| Interest income | 15 | 1,653 |

*The accompanying notes on pages 9 to 28 are an integral part of these consolidated financial statements.*

*(in thousands of US Dollars)*

# Notes to Consolidated Financial Statements

## 1. Corporate Information

The consolidated financial statements include the financial statements of RENFIN II LIMITED (the "Fund") and its wholly owned subsidiary Ratto Holdings Limited (the "Subsidiary").

RENFIN II LIMITED was incorporated under the laws of the British Virgin Islands on June 4, 2007, as a closed-end limited liability exempted company. The Fund is listed on the Bermuda Stock Exchange. Its registered office is at Jayla Place, VG1110, Wickhams Cay 1, Tortola, the British Virgin Islands.

The Fund makes majority of its investments through its subsidiary, Ratto Holdings Limited.

Ratto Holdings Limited was incorporated under Cyprus Companies Law, CAP.113 on April 28, 2007, as a private limited liability company.

In accordance with the Offering Memorandum the investment objective of the Fund is to achieve medium term capital growth through investments in financial institutions whose principal operations are located in Russia or other states of the Commonwealth of Independent States ("CIS") and are planning to undertake an initial public offering or a private placement of their shares. Investments may also be made in companies that derive a substantial portion of their revenue from, or have substantial assets in Russia or other states of the CIS.

The Fund appointed Kashtan Limited (the "Investment Manager"), an investment management company incorporated on Cayman Islands, to implement the investment strategy of the Fund. The Fund has also appointed an Advisor to Investment Manager, Renaissance Capital Investment Management Limited, to advise the Investment Manager on implementation of the Fund's investment strategy. On April 16, 2012 new investment advisor was appointed by the Fund – Renaissance Asset Managers (Guernsey) Limited. The Fund's custodian and administrator is ING Bank (Eurasia) CJSC (Russia) and Custom House Global Fund Services Limited (Malta), respectively.

As of December 31, 2011 the Fund had no employees (2010: nil).

In accordance with the Offering Memorandum, the Fund has a term of four years and may make investments as of the Commencement date, June 18, 2007, provided that the directors, in their sole discretion, may extend the term for up to one year. On October 28, 2010 the maturity of the Fund has been extended for the first time for one year till June 18, 2012. On September 19, 2011 the maturity of the Fund has been extended for the second time for one year till July 18, 2013.

The consolidated financial statements of the Fund for the year ended December 31, 2011 (the "consolidated financial statements") were authorised for issue in accordance with a resolution of the Board of Directors on June 30, 2012.

## 2. Basis of Preparation

### 2.1 General

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, securities at fair value through profit or loss have been measured at fair value.

The consolidated financial statements are presented in United States dollars ("US Dollars"), which is the functional and presentation currency of the Fund and its Subsidiary, as Management considers that the US Dollar reflects the economic substance of the underlying events and circumstances of the Fund.

Financial information presented in US Dollars has been rounded to the nearest thousand ("USD"), unless otherwise stated.

Preparation of the consolidated financial statements in conformity with International Financial Reporting Standards ("IFRS") requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are detailed in Note 4.

### 2.2 Statement of Compliance

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ("IFRIC"). The accounting policies applied in preparation of the consolidated financial statements and detailed below have been applied consistently to the years presented.

### 2.3 Basis of Consolidation

The consolidated financial statements comprise financial statements of RENFIN II LIMITED and its subsidiary – Ratto Holdings Ltd. The Fund owns 100% of the Subsidiary at December 31, 2011 and 2010.

*(in thousands of US Dollars)*

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Fund obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

## 3. Summary of Significant Accounting Policies

### 3.1 Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except on the following amended IFRS and IFRIC interpretations adopted by the Fund during the year:

#### IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect the related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the consolidated financial position or performance of the Fund.

#### IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the consolidated financial position or performance of the Fund because the Fund does not have these type of instruments.

#### IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The amendment has had no effect on the consolidation financial position or performance of the Fund because the Fund does not have employee benefit schemes.

#### IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

In November 2009, the IASB issued IFRIC 19 *Extinguishing Financial Liabilities with Equity*. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation has had no effect on the consolidated financial statements of the Fund.

#### Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to presentation and disclosure and to accounting policies but no impact on the consolidated financial position or performance of the Fund.

IFRS 7 *Financial Instruments – Disclosures*: The amendment was intended to simplify the disclosures provided, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

Other amendments resulting from Improvements to IFRSs to the following standards and interpretations did not have any impact on the accounting policies, consolidated financial position or performance of the Fund:

- IAS 1 *Presentation of Financial Statements* (Presentation of an analysis of each component of other comprehensive income)
- IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Statement*
- IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)

*(in thousands of US Dollars)*

### 3.2 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the consolidated financial statements are listed below. The Fund intends to adopt applicable standards when they become effective.

#### IAS 1 Financial Statement Presentation — Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income (“OCI”). Items that could be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Fund’s consolidated financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

#### IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after January 1, 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. This amendment does not affect the Fund’s consolidated financial position or performance.

#### IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Fund has no employee benefits which would be affected by these amendments. The Fund expects that these amendments will have no impact on its consolidated financial position.

#### IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. As the Fund has no subsidiaries, this amendment has no impact on the Fund’s consolidated financial position or performance. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

#### IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. As the Fund has no associates or joint venture investments, this amendment has no impact on the Fund’s consolidated financial position or performance. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

#### IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the Fund’s consolidated financial position or performance.

#### Amendments to IAS 32 Financial Instruments: Presentation (guidance on offsetting financial assets and liabilities), and amendments to IFRS 7 Financial Instruments: Disclosures (disclosures on offsetting financial assets and liabilities).

In December 2011, the IASB issued amendments to its current guidance in IAS 32 on offsetting financial assets and liabilities and has introduced new disclosure requirements in IFRS 7. The amendments to IFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013 and the amendments to IAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The amendments to IAS 32 now clarify that rights to set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default, bankruptcy or insolvency of all the counterparties to the contract. The amendments to IAS 32 also clarify that rights of set-off must not be contingent on a future event. The amendments to IAS 32 also clarify the offsetting criteria that the reporting entity is required to intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IFRS 7 require the reporting entity to disclose information about rights of set-off and related arrangements for all recognized financial instruments that are set off in accordance with IAS 32. The Fund now evaluates the impact of the adoption of new amendments and considers the initial application date.

*(in thousands of US Dollars)*

### IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial asset. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Fund's financial assets but will potentially have no impact on classification and measurements of financial liabilities. The Fund will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

### IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also replaces SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require Management to exercise significant judgement to determine which entities are controlled, and therefore required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013. This amendment has no impact on the Fund's consolidated financial position or performance.

### IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the consolidated financial position of the Fund. This standard becomes effective for annual periods beginning on or after January 1, 2013.

### IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013. Adoption of the standard will have no impact on the Fund's consolidated financial position or performance.

### IFRS 13 Fair Value measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Fund is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

As of the date of these financial statements only the amendments to IFRS 7 had been adopted by the EU. All other standards, amendments and interpretations listed above have not been adopted by the EU as of the date of these financial statements.

## 3.3 Significant Accounting Policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

### (A) Financial Instruments

### (i) Classification

The Fund classifies its financial assets and financial liabilities into the categories below in accordance with IAS 39. The Fund determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

#### *Financial Assets and Liabilities at Fair Value through Profit or Loss*

The category of financial assets and liabilities at fair value through the profit or loss is sub-divided into:

#### *Financial Instruments Held for Trading*

Financial assets and liabilities at fair value are classified as held for trading if they are acquired or incurred for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading. The financial assets and liabilities at fair value held for trading are measured at fair value. Gains or losses on financial assets and liabilities at fair value held for trading are recognized in the consolidated statement of comprehensive income.

*(in thousands of US Dollars)*

*Financial Instruments as at Fair Value through Profit or Loss upon Initial Recognition*

These include equity securities and debt instruments that are not held for trading. These financial assets are on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund. The financial information about these financial assets is provided internally on that basis to the Directors.

***Loans and Receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund includes in this category amounts relating to loans, reverse repurchase agreements, cash collateral on securities borrowed and other short-term receivables.

**(ii) Recognition**

The Fund recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

**(iii) Derecognition**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and
- Either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund’s continuing involvement in the asset.

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

**(iv) Initial Measurement**

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. All transaction costs for such instruments are recognised directly in the consolidated statement of comprehensive income. Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself classified as held for trading or as at fair value through profit or loss. Embedded derivatives separated from the host contract are carried at fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

Loans and receivables and financial liabilities are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

**(v) Subsequent Measurement**

After initial measurement, the Fund measures financial instruments which are classified as at fair value through profit or loss at fair value.

Subsequent changes in the fair value of those financial instruments are recorded in “Net (loss)/gain on financial instruments at fair value through profit or loss”. Interest earned and dividend revenue elements of such instruments are recorded separately in “Interest income” and “Dividend income”, respectively.

Loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortization process.

Financial liabilities, other than those classified as at fair value through profit or loss, are measured at amortised cost using the effective interest method. Gains and losses are recognised in consolidated statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

*(in thousands of US Dollars)*

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

### (B) Determination of Fair Value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value for financial instruments traded in an active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Where the Fund has assets and liabilities with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the bid or asking price to the net open position as appropriate.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible.

An analysis of fair values of financial instruments and further details how they are measured are provided in Note 7.

### (C) Impairment of Financial Assets

At each reporting date the Fund assesses whether a financial asset or group of financial assets classified as loans and receivables is impaired. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate.

Impaired debts together with the associated impairment are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the impairment account.

Interest revenue on impaired financial asset is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### (D) Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

### (E) Foreign Currency Translations

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in the consolidated statement of comprehensive income as part of the "Net gain or loss on financial instruments at fair value through profit or loss". Foreign exchange differences on other financial instruments are included in the consolidated statement of comprehensive income as "Net foreign exchange gain/ (loss)".

*(in thousands of US Dollars)*

### (F) Due from and Due to Brokers

Amounts due from brokers include positive balances on brokerage accounts and margin accounts. Margin accounts represent cash deposits held with broker as collateral against open forwards contracts. Interest on positive brokerage account balances is recognised as interest income in the consolidated statement of comprehensive income as it is accrued.

Amounts due to brokers are negative balances on brokerage accounts. Interest on negative brokerage account balances is recognised as interest expense in the consolidated statement of comprehensive income as it is accrued.

### (G) Participating Shares

The shares are not participating at the option of the shareholders but may be repurchased at the option of the Fund. In case of winding-up of the Fund the shares carry a right to a return of the nominal amount paid up in respect of such shares and surplus assets remaining.

Shares are classified as financial liabilities according to IAS 32. The Fund has issued one class of non-voting participating shares and one class of Management shares. The Management shares are subordinate to all other classes of instruments and as such the non-voting participating shares do not meet the criteria of an equity instrument under IAS 32 and are classified as a financial liability.

The liabilities arising from the Participating shares are carried at the redemption amount being the net asset value calculated in accordance with IFRS.

Net assets attributable to shareholders are calculated in accordance with the Fund's offering memorandum. Valuation of net assets attributable to shareholders as reported to shareholders is different from the IFRS valuation requirements. The difference between the two valuations is reported in Note 10.

The Fund's net asset value per share is calculated by dividing the net assets attributable to shareholders by the number of shares in issue.

### (H) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand, demand deposits, short-term deposits in banks with original maturities of three months or less and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as "cash and cash equivalents".

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### (I) Interest Income and Interest Expense

Interest income and expense are recognised in the consolidated statement of comprehensive income for all interest-bearing financial instruments using the effective interest method.

### (J) Dividend Income

Dividend income is recognised when the Fund's right to receive the payment is established. Dividend income is presented gross of any non-recoverable withholding taxes.

### (K) Fees and Commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accrual basis. Legal and audit fees are included within "Other operating expenses".

### (L) Net gain (loss) on Financial Instruments at Fair Value through Profit or Loss

This item includes changes in the fair value of financial assets and liabilities held for trading or upon initial recognition as "held at fair value through profit or loss" and excludes interest and dividend income and expense.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealised gains and losses for financial instruments which were realised in the reporting period.

Realised gains and losses on disposals of financial instruments classified as "at fair value through profit or loss" are calculated using the First-In, First-Out (FIFO) method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

*(in thousands of US Dollars)*

### (M) Income Taxes

There are no taxes on income, profits or capital gains in the British Virgin Islands. Income tax is provided for in accordance with Cyprus income tax regulations.

The Fund is liable for income tax in Cyprus on its taxable income (which excludes capital gains on trading of securities either of a revenue or capital nature) at a flat rate of 10%. All expenses wholly and exclusively incurred in the production of taxable income are deductible for Cypriot tax purposes (expenses relating to the trading of securities will not be allowed for tax purposes).

## 4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Fund's consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the amounts recognised in the consolidated financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

In the process of applying the Fund's accounting policies, Management has made the following judgements and estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements.

### 4.1 Going Concern

The Fund's Management has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

### 4.2 Functional Currency

The primary objective of the Fund is to generate returns in US dollars, its capital-raising currency. The liquidity of the Fund is managed on a day-to-day basis in US dollars in order to handle the issue, acquisition and resale of the Fund's participating shares. The Fund's performance is evaluated in US dollars. Therefore, the Management considers the US dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

### 4.3 Fair Value of Financial Instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The models are calibrated regularly and tested for validity using prices from any observable current market transactions in the same instrument (without modification or repackaging) or based on any available observable market data.

IFRS 7 requires disclosures relating to fair value measurements using a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, then that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. To assess the significance of a particular input to the entire measurement, the Fund performs sensitivity analysis or stress testing techniques.

### 4.4 Deferred Tax Asset

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Fund recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and defense tax provisions in the period in which such determination is made.

*(in thousands of US Dollars)*

### 4.5 Impairment of Financial Assets

The Fund regularly reviews its loans and receivables to assess impairment. The Fund uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Fund estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Fund uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

## 5. Cash and Cash Equivalents

Outstanding balances of Cash and cash equivalents as of December 31, 2011 and 2010 are represented by current bank accounts in CJSC Raiffeisenbank (Russia) and JP Morgan Chase Bank (USA) in the total amount of USD 2,751 (2010: USD 9,003). There are no amounts of restricted cash as of December 31, 2011 and 2010.

## 6. Financial Assets at Fair Value through Profit or Loss

At December 31, 2011 and 2010 financial assets at fair value through profit or loss comprised of the following non-traded ordinary shares:

| | December 31, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | **Percentage of ownership, %** | **Cost** | **Fair value** | **Percentage of ownership, %** | **Cost** | **Fair value** |
| Chelindbank OJSC | 5.6% | 15,975 | 12,444 | 5.6% | 15,975 | 11,282 |
| Levoberezhny Bank OJSC | 10.0% | 12,275 | 10,901 | 10.0% | 12,275 | 10,568 |
| Rosevrobank OJSC | 1.4% | 10,067 | 8,479 | 1.5% | 10,067 | 8,169 |
| CB Hlynov OJSC (Unquoted equity participation note) | - | 1,919 | 6,466 | - | 1,919 | 7,153 |
| First Republic Bank OJSC | 20.0% | 18,064 | 4,637 | 20.0% | 18,064 | 23,285 |
| First Collection Bureau LLC | 15.0% | 1,800 | 4,226 | 15.0% | 1,800 | 8,424 |
| Insurance Company Universalna PJSC | 4.2% | 15,000 | 507 | 5.6% | 15,000 | 1,714 |
| Latvijas Krajbanka JSC | 4.7% | 12,923 | - | 4.7% | 12,923 | 8,535 |
| Vostochny Commercial Bank (Orient Express Bank OJSC) | - | - | - | 3.5% | 18,149 | 18,267 |
| | | **88,023** | **47,660** | | **106,172** | **97,397** |

In November 2011 Lithuanian based Snoras banking group - the main shareholder of JSC Latvijas Krajbanka – initiated the bankruptcy procedure and JSC Latvijas Krajbanka was taken under control by the Latvian government and will be liquidated due to bankruptcy of its main shareholder. As a result, fair value of the Fund’s share in JSC Latvijas Krajbanka as of December 31, 2011 decreased to USD nil (2010: USD 8,535).

During the year 2011 the major shareholder of First Republic Bank fully disposed of its stake in the bank without notifying the other shareholders of the bank. Such disposal contradicted the terms of the put option agreement concluded between the Fund and this shareholder. Fair value of the Fund’s investment in First Republic Bank decreased to USD 4,637 (2010: USD 23,285) as a result of negative changes in the Fund’s conditions of shareholding.

In March 2011 the Fund sold its share in Vostochny Commercial Bank (OJSC Orient Express Bank). Net realized gain from disposal of securities in the statements of comprehensive income comprised USD 1,630. The amount of fee, paid in connection to sale of OJSC Orient Express Bank shares composed USD 351, which is included in Other operating expenses totalling to USD 331 for the year ended December 31, 2011 (2010: USD 390).

In May 2009 the Fund purchased a note issued by Quest Advisory Restructuring Limited with the sole purpose to acquire 1,129,049 of issued ordinary voting shares representing approximately 9.33% of the ordinary voting shares of OJSC CB Hlynov. On the same date the shares of OJSC CB Hlynov acquired by Quest Advisory Restructuring Limited were pledged to the Fund. Under the note’s terms, the Fund retains the right to receive any dividends and other distributions arising from the shares of OJSC CB Hlynov and the right to receive any proceeds resulting from the disposal of those shares by Quest Advisory Restructuring Limited. In the consolidated financial statements the equity participation note was recognized at fair value of the underlying asset. The profit recognized at initial recognition of USD 3,792 (the “Day 1 profit”) has been deferred and is amortised until the maturity at origination date of the Fund in June 2011 (the maturity was prolonged till July 2013). For the year 2011, an amount of USD 701 (2010: USD 1,615), which is a proportion of deferred income for the year, has been recognized in the consolidated statement of comprehensive income as a part of net gain/(loss) on financial instruments at fair value through profit and loss. As a result, the amount of deferred income in the consolidated statement of financial position as of December 31, 2011 comprised USD 326 (2010: USD 1,027).

*(in thousands of US Dollars)*

Refer to Note 7 for detailed disclosures on fair value of investment securities at fair value through profit or loss.

## 7. Fair Values of Financial Instruments

As of December 31, 2011 and 2010 fair value of the financial assets at fair value through profit and loss which are traded on a non-active market was estimated using valuation models or based on the over-the-counter ("OTC") transactions information. The combinations of observable and non-observable inputs, which may vary according to the specific industry that the Fund operates in at the reporting date, were used for fair value determination. Therefore, all investments are classified as level 3 investments.

The following table shows a reconciliation of all movements in the fair value of financial instruments categorized within Level 3 between the beginning and the end of the reporting period.

| | **2011** | **2010** |
|---|---|---|
| **Opening balance** | **97,397** | **97,760** |
| Total gains less losses recognised in consolidated statement of comprehensive income | (29,841) | 9,732 |
| Sale proceeds | (19,896) | (10,095) |
| **Closing balance** | **47,660** | **97,397** |
| **Total (losses)/gain for the year included in profit or loss for assets held at the end of the reporting year** | **(31,471)** | **14,635** |

In 2011 fair value of investments in banks, except OJSC First Republic Bank, was calculated using transaction multiples method (2010: transaction multiplies method and prices of recent transactions). The most significant key assumptions used in estimating fair value of investments in banks using pricing models were P/NA (price to net assets) multiple and control premium (2010: P/TA (price to total assets) multiple, P/NA multiple and control premium; fair value of investments were based on the average price to P/TA and P/NA multiples).

Increase or decrease of control premium by 10%, which is considered a reasonable possible alternative assumption, will cause respective change in fair value amounting to USD 1,977 (2010: USD 3,783).

Multiplies used are presented below:

| | **2011** | **2010** |
|---|---|---|
| P/TA | n/a | 0.17 |
| P/NA | 1.20 | 1.47 |
| Control premium | 30% | 30% |

In 2011 fair value of the investment in OJSC First Republic Bank was calculated using 50% discount to the net assets value (2010: transaction multiplies method). Increase or decrease of the discount by 10%, which is considered a reasonable possible alternative assumption, will cause respective change in fair value of First Republic Bank shares by USD 957.

In 2011 fair value of the investment in PJSC Insurance Company Universalna was determined based on trading multiplies. In 2010 fair value was determined as an average of values applying trading and transactions P/GWP multiples. The most significant assumptions also included discount for lack of marketability applied to trading multiples (15%) (2010: discount for lack of marketability applied to trading multiples (15%) and discount for lack of control applied to transaction multiples (30%)).

Increase or decrease of liquidity discount by 10%, which is considered a reasonable possible alternative assumption, caused respective change in fair value of USD 70 (2010: USD 85). Increase or decrease of control discount by 10%, which is considered a reasonable possible alternative assumption, would have caused respective change in fair value of USD 75 as of December 31, 2010.

As of December 31, 2011 and 2010 investment in First Collection Bureau LLC was valued based on discounted cash flow model. The main assumption applied to fair value calculation in 2011 was cash flow from disposal of investment. In 2010 the estimated future cash flows were based on Management's best estimates which were discounted to arrive at the present value of the cash flows as of December 31, 2010 and the discount rate was calculated using the Weighted Average Cost of Capital method. Lack of marketability and lack of control discounts were not applied for valuation of investment in First Collection Bureau LLC as of December 31, 2011.

*(in thousands of US Dollars)*

Application of lack marketability (20%) and lack of control (23%) discounts, which are considered reasonable possible alternative assumptions, would lead to increase or decrease in fair value by 845 USD and 972 USD respectively. The most significant assumptions and analysis of fair value sensitivity to their changes applied as of December 31, 2010 are presented below:

| **Assumption** | | **Possible change** | **Effect on fair value, December 31, 2010** |
|---|---|---|---|
| | | 5% | (4,599) |
| WACC | 18.3% | -5% | 14,765 |
| | | 10% | (1,124) |
| Lack of marketability | 20% | -10% | 1,124 |
| | | 10% | -1,168 |
| Lack of control | 23% | -10% | 1,168 |

As of December 31, 2011 and 2010 the Fund has entered into a number of put option agreements related to financial assets at fair value through profit or loss. In accordance with terms of these contracts, the Fund has a right to dispose the shares at a fixed or determinable price in case of certain financial or non-financial conditions are not met either by the investee or by other shareholders of the investee. The fair value of these options approximates zero as of December 31, 2011 and 2010.

## 8. Loans Receivable

As of December 31, 2011 the Fund granted the following loans:

| **Borrower** | **Maturity** | **Interest rate** | **2011** |
|---|---|---|---|
| Asental Investments Limited (Cyprus) | December 31, 2012 | 25% | 2,652 |
| | | | **2,652** |

As of December 31, 2010 the Fund granted the following loans:

| **Borrower** | **Maturity** | **Interest rate** | **2010** |
|---|---|---|---|
| Asental Investments Limited (Cyprus) | September 1, 2011 | 25% | 3,440 |
| | | | **3,440** |

In 2008 the Fund in syndication with Renaissance Russia Distressed Assets Limited (BVI) (a related party to the Fund) has granted a loan to Marbin Investments Limited with maturity on January 1, 2009 for total amount of USD 15,339 (the Fund's exposure amounted to USD 7,500) secured by real estate property – office and warehouse building located in Moscow. The borrower failed to meet its obligation to the Fund and the related party.

As a result in March 2009 the Fund repossessed the real estate property pledged under this loan by taking over 50% share in Asental Investment Limited (Cyprus), the sole owner of this property. Based on the shareholders agreement between the Fund and the related party, which also received 50% shares of Asental Investments Limited, control over this company is executed by the related party, and the Fund is entitled for share of proceeds received from disposal of the real estate, which was initially limited to USD 11,000 (as of the date of shareholders agreement).

The only purpose of Asental Investments Limited is the disposal of repossessed commercial real estate and distribution of respective cash proceeds to original lenders of syndicated loan.

During 2011 certain real estate objects were sold by Asental Investments Limited and amount of USD 788 (2010: USD 1,848) was repaid to the Fund.

In 2011 the Fund incurred loss of USD 87 related to the negotiation of the maturity date of the loan to Asental Investments Limited until December 31, 2012.

## 9. Performance and Management Fees

In accordance with the Investment Management Agreement the Fund pays the Investment Manager a performance fee equal to 20% of all amounts otherwise distributable to the shareholders of participating shares (whether as dividends, distributions or upon liquidation) in excess of the aggregate issue price for the participating shares. Pursuant to a resolution of the Board of Directors of the Fund dated June 9, 2011 scheme of performance fee calculation was changed and hurdle amount of US Dollar 75.82 (the "revised reference value") resolved to be applied in calculations instead of the aggregate issue price for the participating shares. The change came into effect from July 1, 2011.

*(in thousands of US Dollars)*

Such performance fee, if owed, will be payable within 30 days of the date of any distribution. At July 1, 2011, the date of distributions to shareholders, the revised reference value was not fully returned to the shareholders, therefore no performance fees were owed and paid at the date of distributions.

As of December 31, 2011 the Fund's net assets value per share (before deduction of management and performance fees) were under revised reference value by US Dollar 26 (2010: exceeded by US Dollar 4.5). Accordingly the Fund recovered the total amount of performance fee accrued in 2010 of USD 931 (2010: accrual of USD 931). As of December 31, 2011 the amount of performance fee payable amounted to USD nil (2010: USD 931).

The Fund pays the Investment Manager a management fee equal to 2% per annum of the total capital invested, provided that such fees will not exceed 2% of the aggregate issue price for the Participating shares. Management fees are generally paid quarterly in arrears or at such other times as the Directors, with the consent of the Investment Manager, may determine.

As of December 31, 2011 the amount of management fee comprised USD 425 (2010: USD 318). The amount of management fee accrued for the year amounted to USD 1,805 (2010: USD 2,491).

## 10. Net Assets Attributable to Shareholders

The Fund is authorized to issue 100 non-participating voting Management shares of US Dollar 0.01 each and 4,999,900 profit participating non-voting participating shares of US Dollar 0.01 each.

The Investment Manager owns 100% of the Management shares.

As of December 31, 2011 and 2010 100 Management shares have been issued at US Dollar 0.01 each and 1,033,521 (2010: 1,033,521) profit participating, non-voting redeemable shares have been issued at US Dollar 0.01 each.

As the result of the Tender Offer held on December 20, 2010 the 218,634 ordinary shares of the Fund were redeemed at cash consideration amounting to USD 13,086 (US Dollar 60 per share). Redeemed shares were cancelled. The difference between the redemption amount, being the net assets value calculated in accordance with IFRS at the date of redemption, and the consideration paid was recognized in consolidated income statement amounting to USD 5,578. Thus the total amount of shares redemption as of December 31, 2010 comprised USD 18,665.

Quantitative information about the Fund's capital is also provided in the statement of changes in net assets attributable to shareholders.

### *Rights of the Management Shares*

The Management shares carry one vote each at annual and general meetings of the Fund and have no rights to any dividends. On liquidation of the Fund the nominal amount paid up on them will be returned after the return of the nominal amount paid up on the Management shares.

### *Rights of the Participating Shares*

The Participating shares have no voting rights, are not redeemable at the option of the shareholder. The Fund's Directors may declare and pay dividends on the Pbarticipating shares, at their sole discretion.

### *Winding up*

The Participating shares carry a right to a return on the nominal amount paid up in respect of such shares in priority to any return of the nominal amount paid up in respect of Management shares, and an exclusive right to share in surplus assets remaining after the return of the nominal amount paid up on the Participating shares and Management shares.

### *Distributions*

Distributions from the Fund may be made at any time as determined by the Directors. The Fund is not required to distribute the net proceeds of investments disposed of by the Fund and may reinvest all or a part of such net proceeds in new investments. The Fund will be entitled to withhold from any distributions amounts necessary to create, in its discretion, appropriate reserves for expenses and liabilities of the Fund as well as for any required tax withholdings.

All distributions will be paid out to the shareholders pro rata in proportion to their shareholding. The Directors may determine whether and to what extent a distribution will be made in the form of dividends, capital distribution or as a partial voluntary redemption of shares.

During 2011 the Fund performed distributions to its shareholders for the total amount of USD 24,991 (2010: USD nil). Distributions per share comprised USD 24.18 (2010: USD nil).

*(in thousands of US Dollars)*

### *Capital management*

The Fund is not subject to externally imposed capital requirements and has no restrictions on the issue and redemption of shares.

As of 31 December 2011 and 2010, the Fund's operations were funded by issued Participating non-voting shares.

The Fund's objectives for managing capital are:

- To invest the capital in investments meeting the description, risk exposure and expected return indicated in the Fund's Offering Memorandum;
- To achieve consistent returns while safeguarding capital by investing in diversified portfolio;
- To maintain sufficient liquidity to meet the expenses of the Fund as they arise;
- To maintain sufficient size to make the operation of the Fund cost-efficient.

Refer to Financial risk management objectives and policies (Note 13) for the policies and processes applied by the Fund in managing its capital.

### *Reconciliation between Audited Net Assets and Net Assets as Reported to the Shareholders*

In accordance with the terms of its offering documents the Fund reports its net assets attributable to shareholders of Participating shares on a daily basis. As a result of the preparation of these consolidated financial statements certain adjustments have been recorded to the net assets attributable to shareholders as previously reported in order to comply with IFRS. These differences are:

- A net unrealized loss on unquoted financial assets at fair value resulted from the revaluation of the fair value of these financial assets;
- An accrual for performance fee has been recognised; and
- Other adjustments for expense accruals have been recorded.

The table below provides a reconciliation of the net assets attributable to shareholders as previously reported to the net assets attributable to holders of participating shares as disclosed in these consolidated financial statements.

| | 2011 | 2010 |
|---|---|---|
| **Net assets attributable to shareholders as reported to shareholders** | **71,414** | **99,869** |
| Unrealised (loss)/gain on financial assets at fair value | (18,865) | 9,233 |
| Accrual of performance fee | - | (931) |
| Income tax accrual | 27 | (143) |
| Accrual of deferred income | (326) | (1,027) |
| Other adjustments | (192) | 75 |
| **Adjusted net assets attributable to shareholders per consolidated financial statements** | **52,058** | **107,076** |
| | | |
| Net asset value per Participating share as reported to shareholders (in US dollars) | 69.10 | 96.63 |
| Adjustments per Participating share (in US dollars) | (18.73) | 6.97 |
| **Net asset value per Participating share per these consolidated financial statements (in US dollars)** | **50.37** | **103.60** |

## 11. Income Tax Expense

### *British Virgin Islands*

At present the British Virgin Islands impose no taxes on income, profits, capital gains or appreciations in value of the Fund. There are also no taxes currently imposed in the British Virgin Islands on income, profits, capital gains or appreciation in the value of the participating shares, nor any taxes on the shareholders in the nature of estate duty, inheritance or capital transfer tax.

### *Cyprus*

Income tax is provided for in accordance with Cyprus income tax regulations. The Fund is liable for income tax in Cyprus on it's taxable income, which excludes capital gains on trading of securities either of a revenue or capital nature, at a flat rate of 10%. All expenses wholly and exclusively incurred in the production of taxable income are deductible for Cypriot tax purposes (expenses relating to the trading of securities will not be allowed for tax purposes).

*(in thousands of US Dollars)*

Under certain conditions interest income may be subject to defence contributions at the rate of 15% (10% up to April 30, 2011). In such cases 50% of this interest will be exempt from corporation tax. Dividends received from abroad are subject to defence contribution at the rate of 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter (in 2011 the rate was 15% up to August 30, 2011 and 17% thereafter), if the interest of shareholding in the company from which dividends are received is less than 1%.

Investment income is subject to withholding tax in Russian Federation at an average applicable withholding tax rate of 5%.

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Fund's effective income tax rate is as follows:

| | **2011** | **2010** |
|---|---|---|
| **Accounting (loss)/income before tax** | **(54,989)** | **14,989** |
| Theoretical tax expense calculated at the Fund's statutory tax rate (0%) | - | - |
| Tax effect of subsidiary's result calculated at other tax rates | (2,907) | 1,380 |
| Tax effect of non deductible expense less tax exempt income | 2,905 | (1,233) |
| **Income tax (benefit)/expense** | **(2)** | **147** |
| Tax effect of tax losses carried forward | 2 | - |
| Utilization of tax losses brought forward | - | (17) |
| Additional tax | - | 13 |
| Withholding tax | 29 | 22 |
| **Income tax expense** | **29** | **165** |

As of December 31, 2011 the amount of tax losses to be carried forward comprised USD 23 (2010: USD nil).

As of December 31, 2011 and 2010 current tax liabilities amounted to USD 143 and represented the amount of current income tax accrued in 2010.

## 12. Commitments and Contingencies

### Operating Environment

As previously noted, the Fund's activity is mainly focused on investments in entities in the financial sector of the Russian Federation.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been affected by the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Fund's future financial position, results of operations and business prospects.

Also, factors including increased unemployment in Russia, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Fund's borrowers' ability to repay the amounts due to the Fund. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Fund has reflected revised estimates of expected future cash flows in its impairment assessment.

While Management believes it is taking appropriate measures to support the sustainability of the Fund's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Fund's results and financial position in a manner not currently determinable.

### Legal

In the ordinary course of business, the Fund is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Fund.

The Management is unaware of any significant actual, pending or threatened claims against the Fund.

*(in thousands of US Dollars)*

## 13. Financial Risk Management

The Fund is subject to all risk management policies and procedures implemented by the Investment Manager and other parties and bodies involved in managing the Fund's risk.

Risk is inherent in the Fund's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Fund's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Fund is exposed are market risk, credit risk and liquidity risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Fund's strategic planning process.

According to its initial investment strategy the Fund invested in financial institutions (banks, insurance companies, and other companies) providing financial services that are located in Russia or other states of the CIS, and which were planning to undertake an initial public offering or a private placement of their shares in the next two or three years.

Investments in financial institutions may take the form of unlisted equity, equity-related securities or other instruments. Investments may also be made in companies that derive a substantial portion of their revenue from, or have substantial assets in, the Russia or other states of the CIS.

The Fund initially pursued the following strategies:

- Investment in Financial Institutions Planning an Initial Public Offer;
- Investment in Banks and Financial Institutions in Preparation for a Private Sale;
- Mergers and Acquisitions, Start-ups and Assets Buyouts.

Initially the Fund intended to hold such investments until disposed of via a private transaction with one or more investors or in or following an initial public offering. However, considering the short term of its maturity, the Fund will not make any new investments. Currently the Fund is in process of negotiation with possible investors to dispose of its investment portfolio.

The Fund may also be engaged in repurchase transactions, stock borrowing, lending and other similar transactions. The Fund may also occasionally invest in government and corporate debt and equity instruments, when deemed appropriate and as a substitute for cash positions.

Asset allocation is determined by the Investment Manager who manages the distribution of the assets to achieve the investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored by the Compliance Controller of the Investment Manager.

The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed by the Fund are discussed below.

### 13.1 Credit Risk

Credit risk represents the potential loss that the Fund would incur if counterparty to a financial instrument failed to perform pursuant to the terms of their obligations to the Fund.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

| | **Maximum exposure 2011** | **Maximum exposure 2010** |
|---|---|---|
| Cash and cash equivalents | 2,751 | 9,003 |
| Loans receivable | 2,652 | 3,440 |
| Other assets | 12 | 9 |
| **Total credit risk exposure** | **5,415** | **12,452** |

The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. This relates also to financial assets carried at amortised cost, as they have a short-term maturity.

*(in thousands of US Dollars)*

### Credit Quality per Class of Financial Assets

The credit quality of financial assets is managed based on international credit ratings of counterparties, determined by Standard and Poor's, Moody's or Fitch. The table below shows the credit quality by class of assets based on the Fund's credit risk monitoring approach.

| As of December 31, 2011 | A+/A-1 | Aaa.ru | Not rated | Total |
|---|---|---|---|---|
| Cash and cash equivalent | 482 | 2,269 | - | 2,751 |
| Loans receivable | - | - | 2,652 | 2,652 |
| Other assets | - | - | 12 | 12 |
| **Total** | **482** | **2,269** | **2,664** | **5,415** |

| As of December 31, 2010 | A+/A-1 | Aaa.ru | Not rated | Total |
|---|---|---|---|---|
| Cash and cash equivalent | 484 | 8,519 | - | 9,003 |
| Loans receivable | - | - | 3,440 | 3,440 |
| Other assets | - | - | 9 | 9 |
| **Total** | **484** | **8,519** | **3,449** | **12,452** |

As of December 31, 2011 and 2010 the Fund had neither past due financial assets, nor individually impaired assets.

Counterparty credit risk is managed through the internal developed system of counterparty limits. The counterparty limits are established by the Investment Manager. Adherence to those limits is monitored by Investment Manager on a daily basis. Counterparty limits bound the maximum amount of all unsettled trades (exposure) for all products with each respective counterparty.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Non-delivery risk, prepayment risk and pre-settlement risk, incurred in non-exchange-settled transaction, are subject to monitoring. The risks are aggregated and utilised against counterparty limit. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Prime broker of the Fund is Renaissance Advisory Services Limited. The Fund monitors the credit ratings and financial positions of the brokers used to further mitigate this risk. At the reporting date no any unsettled transactions were in place.

Substantially majority of the investments of the Fund are held by ING Bank (Eurasia, Russia) CJSC. Bankruptcy or insolvency of the custodian may cause the Fund's rights with respect to securities held by the custodian to be delayed or limited. The Fund monitors its risk by monitoring the credit quality and financial position of the custodian the Fund uses.

Substantially all of the cash held by the Fund is held by JP Morgan Chase Bank (New York) and CJSC Raiffeisenbank (Russia) to facilitate redemption payments. Bankruptcy or insolvency of the Banks may cause the Fund's rights with respect to the cash held by the Banks to be delayed or limited. The Fund monitors its risk by monitoring the credit quality and financial position of the Banks.

### 13.2 Liquidity Risk and Funding Management

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected.

The Fund has a term of four years and may extend the term by up to one year. Prior to the expiration of the Fund's term, shareholders may not redeem their shares. The Fund is currently extended for the second time till July 18, 2013.

The Fund's shares could not be redeemed at the will of shareholders before the Fund's liquidation date and it is therefore not exposed to the liquidity risk of meeting shareholder redemptions upon the expiration of the Funds' term.

The majority of the Fund's investments are unlisted and can be illiquid, thereby making it difficult to acquire or dispose of investments at values stated in the current financial statements. The Fund intends to hold its investments until disposed of via a private transaction with one or more investors or in or following an IPO.

The current liquidity requirements including payments of operating expenses and fees are managed in accordance with policies and procedures in place. The Fund uses detailed cash flow forecasting, which allows controlling and managing its liquidity and undertaking proper measures if liquidity shortages or excessive liquidity are anticipated.

*(in thousands of US Dollars)*

### a) Analysis of Financial Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the Fund's financial liabilities at December 31, 2011 and 2010 based on contractual undiscounted repayment obligations.

| | December 31, 2011 | | | | December 31, 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Less than 3 months** | **3 month – 1year** | **Over 1 year** | **Total** | **Less than 3 months** | **3 month – 1 year** | **Over 1 year** | **Total** |
| Management fee payable | 425 | - | - | 425 | 318 | - | | 318 |
| Current tax liabilities | 143 | - | - | 143 | 143 | - | - | 143 |
| Accounts payable and accrued expenses | 123 | - | - | 123 | 354 | - | - | 354 |
| Performance fee payable | - | - | - | - | - | - | 931 | 931 |
| Deferred income | - | 326 | - | 326 | - | 1,027 | - | 1,027 |
| **Total undiscounted financial liabilities** | **691** | **326** | **-** | **1,017** | **815** | **1,027** | **931** | **2,773** |

The net assets attributable to holders of non-voting participating shares are excluded from the table above as they are not subject to liquidity risk.

### 13.3 Market Risk

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and price risk.

The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The investment objective of the Fund is to achieve medium term capital growth through investments in listed and unlisted equity and equity-related securities and other instruments of, primarily, banks but also insurance companies and other companies providing financial services that are located in Russia or other states of the CIS and which are planning to undertake an initial public offering or a private placement of their shares in the next two to three years. Investments may also be made in companies that derive a substantial portion of their revenue from, or have substantial assets in Russia or other states of the CIS.

### 13.4 Other Price Risk

Other price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Fund's financial instruments are carried at fair value with fair value changes recognised in the consolidated statement of comprehensive income, all changes in market conditions will directly affect Net gain/(loss) on financial instruments at fair value through profit or loss.

Price risk is managed by the Fund's Investment Manager by diversifying the portfolio and measured using value-at-risk analysis. The Fund's overall price risk exposure is monitored by Investment Manager on a daily basis.

At December 31, 2011 and 2010 no investments in any single instrument exceeded the set limits.

### 13.5 Value-at-risk ("VaR")

The market risk of the Fund's financial asset and liability positions is monitored by the Investment Manager using VaR analysis. VaR analysis reflects the interdependencies between risk variables, unlike a traditional sensitivity analysis. VaR represents the potential losses from adverse changes in market factors for a specified time period and confidence level.

For closed-end funds the approach to VaR calculation is as following. VaR is derived using standard deviation of the fund share return calculated using 2-year history. Thus fund share daily VaR is calculated using 95% (2010: 95%) confidence interval. Then VaR figure is interpolated to the fund portfolio which allows calculating value at risk in US Dollar.

VaR exposure is reported to top Management and the Executive Director of the Fund on a daily basis.

*(in thousands of US Dollars)*

Limitations of the used VaR calculation approach are the following:

- Historical data usage does not cover all possible scenarios in the future, especially those which are extraordinary by nature;
- Usage of the 95% (2010: 95%) confidence level does not take into account potential loss which can occur out of that interval. Actual loss can exceed calculated VaR value with the probability of 5%.

At December 31, 2011 and 2010, the Fund's overall market VaR is set out below:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| VAR of the portfolio | 12,633 | 2,446 |
| VaR/NAV ratio | 24.27% | 2.28% |

### 13.6 Currency Risk

The Fund may invest in financial instruments denominated in currencies other than its functional currency. According to the Fund's investment policy, it may invest in securities and other instruments that are principally denominated in Russian roubles. Consequently, the Fund may be exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than US Dollar, notwithstanding any efforts made to hedge such fluctuations.

Normally, any cash balances or proceeds in Russian roubles and other non-US Dollar currencies are immediately converted into US Dollars.

The securities in which the Fund invests may be denominated in Russian roubles or other currencies. At the year end, the major part of investments was denominated mainly in Russian roubles.

Currency risk for equity investments is measured using VaR, therefore it is not included in the sensitivity analysis.

The table below indicates the currencies to which the Fund had significant exposure at December 31, 2011 and 2010 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US Dollars, with all other variables held constant on the consolidated statement of comprehensive income. A negative amount in the table reflects a potential net reduction in the consolidated statement of comprehensive income or net assets attributable to holders of Participating shares, while a positive amount reflects a net potential increase.

| Currency | Change in currency rate in % 2011 | Effect on change of net assets attributable to shareholders (before tax) 2011 | Change in currency rate in % 2010 | Effect on change of net assets attributable to shareholders (before tax) 2010 |
|---|---|---|---|---|
| Russian Ruble (upper border) | 12.50% | (9) | 10.6% | (107) |
| Russian Ruble (lower border) | (12.50)% | 9 | (10.6)% | 107 |

### 13.7 Interest Rate Risk

Cash and cash equivalents are represented by the current bank deposits and current accounts not exposed to interest rate risk. The Fund primarily invests in equity securities, which are not exposed to interest rate risk.

The Fund's placements represented by loans and receivables are at fixed rates, the expectation of re-pricing is low. Therefore, the Fund has limited exposure to interest rate fluctuations and does not have specific policies and procedures for managing interest rate risk.

*(in thousands of US Dollars)*

The geographical concentration of Fund's assets and liabilities is set out below:

| | | | | 2011 | | | | 2010 |
|---|---|---|---|---|---|---|---|---|
| | Russia and CIS | Cyprus | Other | Total | Russia and CIS | Cyprus | Other | Total |
| **Assets:** | | | | | | | | |
| Cash and cash equivalents | 482 | - | 2,269 | 2,751 | 484 | - | 8,519 | 9,003 |
| Financial assets at fair value through profit or loss | 47,660 | - | - | 47,660 | 88,862 | - | 8,535 | 97,397 |
| Loans receivable | 2,652 | - | - | 2,652 | 3,440 | | - | 3,440 |
| Other assets | 12 | - | - | 12 | 9 | - | - | 9 |
| | **50,806** | **-** | **2,269** | **53,075** | **92,795** | **-** | **17,054** | **109,849** |
| **Liabilities:** | | | | | | | | |
| Management fee payable | - | - | 425 | 425 | - | - | 318 | 318 |
| Current tax liabilities | - | 143 | - | 143 | - | 143 | - | 143 |
| Accounts payable and accrued expenses | 56 | 67 | - | 123 | 153 | 201 | - | 354 |
| Performance fee payable | - | - | - | - | - | - | 931 | 931 |
| Deferred income | 326 | - | - | 326 | 1,027 | - | - | 1,027 |
| | **382** | **210** | **425** | **1,017** | **1,180** | **344** | **1,249** | **2,773** |
| **Net position** | **50,424** | **(210)** | **1,844** | **52,058** | **91,615** | **(344)** | **15,805** | **107,076** |

Geographic classification of financial assets is tied to place of cash and cash equivalents as well as place of principal business of counterparties having due to the Fund. Geographic classification of financial liabilities is tied to place of principal business of trade counterparties and other counterparties to which the Fund was due.

## 14. Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 13 "Financial risk management" for the Fund's contractual undiscounted repayment obligations.

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected.

The Fund has a term of four years and may extend the term by up to one year. Prior to the expiration of the Fund's term, shareholders may not redeem their shares. The Fund is currently extended for the second time till July 18, 2013.

The Fund's Offering Memorandum does not allow shareholders to redeem their shares and it is therefore not exposed to the liquidity risk of meeting shareholder redemptions upon the expiration of the Fund's term.

The net assets attributable to shareholders are excluded from the table below as they are not subject to liquidity risk.

| | | | 2011 | | | 2010 |
|---|---|---|---|---|---|---|
| | Within one year | More than one year | Total | Within one year | More than one year | Total |
| Cash and cash equivalents | 2,751 | - | 2,751 | 9,003 | - | 9,003 |
| Financial assets at fair value through profit or loss | - | 47,660 | 47,660 | - | 97,397 | 97,397 |
| Loans and receivables | 2,652 | - | 2,652 | 3,440 | - | 3,440 |
| Other assets | 12 | - | 12 | 9 | - | 9 |
| **Total** | **5,415** | **47,660** | **53,075** | **12,452** | **97,397** | **109,849** |
| Management fee payable | 425 | - | 425 | 318 | - | 318 |
| Current tax liabilities | 143 | - | 143 | 143 | - | 143 |
| Accounts payable and accrued expenses | 123 | - | 123 | 354 | - | 354 |
| Performance fee payable | - | - | - | - | 931 | 931 |
| Deferred income | - | 326 | 326 | - | 1,027 | 1,027 |
| **Total** | **691** | **326** | **1,017** | **815** | **1,958** | **2,773** |
| **Net position** | **4,724** | **47,334** | **52,058** | **11,637** | **95,439** | **107,076** |

*(in thousands of US Dollars)*

## 15. Related Party Transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Fund's related party transactions were made on terms equivalent to those that prevail in arm's length transactions in 2011 and 2010.

During the years ended December 31, 2011 and 2010 the Fund was involved in transactions with related parties under common control of Renaissance Group Holdings Limited (Bermuda), which is also the ultimate parent company of the Investment Manager.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| | **Investment manager** | **Entities under common control** | **Investment manager** | **Entities under common control** |
| Management fee payable at January 1 | 318 | - | 772 | - |
| Management fee accrued | 1,805 | - | 2,491 | - |
| Management fee paid | (1,698) | - | (2,495) | - |
| Management fee payable at December 31 | 425 | - | 318 | - |
| Performance fee payable at January 1 | 931 | - | - | - |
| Performance fee (reversed)/accrued | (931) | - | 931 | - |
| Performance fee payable at December 31 | - | - | 931 | - |
| Loans and receivables | - | 2,652 | - | 3,440 |
| Accounts payable and accrued expenses | - | - | - | 5 |

In 2011 and 2010 the Fund had no significant transactions with its Directors, except for directors fees accrued during the year 2011 in amount of USD 23 (2010: USD 54).

## 16. Events after the Reporting Date

There were no significant events after the reporting date.