RENFIN II LIMITED

Consolidated Financial Statements 2013
International Financial Reporting Standards

Consolidated Financial Statements and Report of the Independent Auditors for the year ended December 31, 2013

Contents

Company information

Directors	David Blair (appointed on June 13, 2007) James Keyes (appointed on July 9, 2009) John Elder (appointed September 22, 2010)
Registered office	Jayla Place Wickhams Cay 1 Road Town Tortola VG1110 British Virgin Islands
Investment manager	Kashtan Limited Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108
Advisor to Investment manager	(From November 12, 2013) Renaissance Managers Limited 190 Elgin Avenue George Town Grand Cayman KY1-9005 Cayman Islands (Before November 12, 2013) Renaissance Asset Managers (Guernsey) Limited Hirzel Court St Peter Port Block F GY1 2NH Guernsey
Administrator, registrar, transfer agent	TMF Custom House Global Fund Services Limited Smartcity Malta, SCM 01, Floor 4, Ricasoli, SCM 1001, Malta
Secretary	Appleby Corporate Services (BVI) Limited Palm Grove House PO Box 3190 Road Town Tortola British Virgin Islands
Custodian	(From December 31, 2013) Citibank CJSC 8-10 bld. 1 Gasheka Street Moscow 125047 Russia (Before December 31, 2013) ING Bank (Eurasia, Russia) CJSC 36 Krasnoproletarskaya Moscow 127473 Russia
Independent auditors	Ernst & Young LLC Sadovnicheskaya nab.77, bld.1 Moscow 115035 Russian Federation

Company information (continued)

General legal advisors

Bermuda Law	Appleby Spurling Bailhache Canon's Court 22 Victoria Street P.O. Box HM 1179 Hamilton HM EX Bermuda
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Listing sponsor	Appleby Securities (Bermuda) Ltd. Canon's Court 22 Victoria Street PO Box HM 1179 Hamilton HM EX Bermuda

Investment manager's report

RenFin Fund 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 IPO or a private sale. Currently the Fund is in divestment stage. As of December 31, 2013 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.

Overall, 2013 was a mixed year for the global asset classes that we track; with the MSCI World Index up +24.10%, the MSCI Emerging Markets Index down -4.98% and the JPM Aggregate Bond Index down -2.62%. Along with other emerging markets Russia had a difficult year, as of the end of 2013 the Russian market (RTS) was down -5.52% and the MICEX financials index (rebased into USD) was down some -6.15%. From a macroeconomics perspective this was a result of both the loss of appetite for emerging markets alongside Russia specific concerns of rising inflation, lack of structural reforms and falling reserves.

In addition to the broad macroeconomic factors Russia specific factors included the political and economic turmoil witnessed in the region in late 2013 and early 2014. The developments in Ukraine that continue to have a negative impact on the Russian economy, including weakening of the Russian rouble and making it harder to raise international funding. At present, there is an ongoing threat of further sanctions against Russia and Russian officials the impact of which, if they were to be implemented, is at this stage difficult to determine. In 2013 and currently in 2014 none of the Fund's investee banks and companies, or their majority shareholders have been included in the sanctions list. The financial markets are uncertain and volatile, these and other events may have a significant impact on Russian banking sector's operations and financial position, which is not currently determinable.

The Russian banking sector demonstrated lower profitability than the previous year: the profits decreased by 1.8% from the record-high 1 trillion roubles in 2012 to 994 billion roubles in 2013. The ROA and ROE fell from 2.3% to 1.9% and from 18.2% to 15.2% respectively. The equity growth rate slowed from 16.6% to 15.6%, the average capital adequacy ratio decreased from 13.7% to 13.5%. For some large private banks the adequacy ratio has reached 11% from above (the minimal limit set by the Central Bank is 10%). This is principally due to the Russian consumer sector declining as a result of declining growth and rising inflation in the Russian economy.

Additionally the appointment of a new Head of the Russian Central Bank who has increased the regulatory oversight on the Russian banking sector has seen the number of banks losing licenses increase over previous years. In 2013, no position in the Fund had their license revoked; however, in 2014 First Republic bank did suffer this fate. The Fund valued this position at zero at December 31, 2013, after significantly reducing the carrying value of this investment in prior periods.

As of the end of 2013, the retail loan growth slowed from 40% to 27%, the corporate sector loans growth stayed on the same level. The quality of retail loan portfolios worsened as the amount of impaired loans rose from 4.5% to 5.2%, corporate loans impairment stayed the same as in 2012 (4%), but for some large banks, it has exceeded 10%.

The high concentration of the banking sector hinders the development of medium-sized players. Top-20 banks form more than 70% of the assets, where 60% are the state-owned banks. The situation on the Russian equity market is still difficult and volatile. Shares of the financial institutions continue to be traded with significant discount to book equity and at a higher discount to other emerging markets.

The worsening economic situation had a direct influence on the sector and the Funds ability to exit positions. During 2013, the Fund was actively seeking buyers for a number of assets and these discussions were proceeding as previously communicated to investors.

Overall, the divestment process is significantly hampered by the decline in M&A activity seen in Russia because of the situation described above. This drop in deal flow is specifically apparent in non-Russian corporates taking or increasing their exposure to Russia and as such, the potential universe of buyers significantly reduced.

Kashtan Limited
Investment manager of RenFin II Limited

Совершенствуя бизнес,
улучшаем мир

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Independent auditors' report

To the Shareholders and Board of Directors of RENFIN LIMITED

Introduction

We have audited the accompanying consolidated financial statements of RENFIN II LIMITED (the "Fund"), which comprise the consolidated statement of financial position as of December 31, 2013, and the consolidated statement of comprehensive income, statement of changes in net assets attributable to shareholders and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 the fairness of 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 at December 31, 2013, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

September 1, 2014

Consolidated statement of comprehensive income for the year ended December 31, 2013

(in thousands of US Dollars)

	Notes	**2013**	**2012**
Income			
Net gain/(loss) on financial instruments at fair value through profit or loss	6, 7	3,074	(815)
Dividend income		646	699
Interest income	8	512	73
Total income		**4,232**	**(43)**
Expenses			
Management fee	9	(1,309)	(1,354)
Administration fee		(30)	(38)
Net foreign exchange loss		(19)	(61)
Other gain	8	–	35
Other operating expenses		(161)	(112)
Total expenses		**(1,519)**	**(1,530)**
Net profit/(loss) before tax		**2,713**	**(1,573)**
Income tax expense	11	(26)	(36)
Net profit/(loss) after tax		**2,687**	**(1,609)**
Other comprehensive income for the year		–	–
Increase/(decrease) in net assets from operations attributable to shareholders		**2,687**	**(1,609)**

The accompanying notes on pages 9 to 27 are an integral part of these consolidated financial statements.

Consolidated statement of financial position as of December 31, 2013

(in thousands of US Dollars)

	Notes	December 31, 2013	December 31, 2012
Assets			
Cash and cash equivalents	5	782	1,690
Financial assets at fair value through profit or loss	6, 7	49,755	46,713
Loans receivable	8	3,200	2,708
Other assets		14	10
Total assets		**53,751**	**51,121**
Liabilities			
Management fee payable	9	381	388
Accounts payable and accrued expenses		72	90
Deferred income	6	162	194
Total liabilities excluding net assets attributable to shareholders		**615**	**672**
Net assets attributable to shareholders	10	**53,136**	**50,449**
Number of participating shares in issue	10	1,033,521	1,033,521
Net asset value per participating share (US Dollar)		**51.41**	**48.81**

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

John Elder
Director

David Blair
Director

August 29, 2014

The accompanying notes on pages 9 to 27 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, 2013

(in thousands of US Dollars)

	Notes	**Number of participating shares**	**Net assets attributable to shareholders**
January 1, 2012		**1,033,521**	**52,058**
Decrease in net assets attributable to shareholders from operations		–	(1,609)
December 31, 2012	10	**1,033,521**	**50,449**
Increase in net assets attributable to shareholders from operations		–	2,687
December 31, 2013	10	**1,033,521**	**53,136**

The accompanying notes on pages 9 to 27 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended December 31, 2013

(in thousands of US Dollars)

	2013	2012
Cash flows from operating activities		
Increase/(decrease) in net assets from operations attributable to shareholders	**2,687**	**(1,609)**
Net changes in operating assets and liabilities		
(Increase)/decrease in financial assets at fair value through profit and loss	(3,042)	947
Increase of loans receivable	(492)	(56)
Decrease of accounts payable and accrued expenses	(18)	(33)
Decrease of management fee payable	(7)	(37)
Decrease of deferred Income	(32)	(132)
(Increase)/decrease of other assets	(4)	2
Income tax paid	**–**	**(143)**
Net cash (used in)/generated by operating activities	**(908)**	**(1,061)**
Net decrease in cash and cash equivalents	**(908)**	**(1,061)**
Cash and cash equivalents at the beginning of the year	**1,690**	**2,751**
Cash and cash equivalents at the end of the year	**782**	**1,690**
Supplementary information to operating activities:		
Dividend income, net of withholding tax	620	664
Interest received	20	73

The accompanying notes on pages 9 to 27 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 the Subsidiary.

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 initial 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 might 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. Up to November 12, 2013 the Advisor to Investment Manager was Renaissance Asset Managers (Guernsey) Limited. On that date a new investment manager was appointed by the Fund − Renaissance Managers Limited (Cayman Islands).

As of December 31, 2013 the Fund had no employees (2012: nil).

In accordance with the Offering Memorandum the Fund has a term of four years from the commencement date of June 18, 2007, provided that the Directors might extend the term of the Fund for one year. On October 28, 2010 the maturity of the Fund has been extended for one year till June 18, 2012.

All succeeding extensions were made by amendments of the Offering Memorandum and Articles of Association in accordance with resolutions of the Board of Directors, and dated:

- September 19, 2011, establishing a new term of July 18, 2013;
- June 17, 2013, establishing a new term of July 18, 2014.

The latest extension was made on July 18, 2014 amending the Fund’s term to December 31, 2018.

The consolidated financial statements of the Fund as at and for the year ended December 31, 2013 (the “consolidated financial statements”) were authorized for issue on August 29, 2014.

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, financial assets at fair value through profit or loss have been measured at fair value.

The consolidated financial statements are presented of United States dollars (“US Dollar”) unless otherwise stated. This is the functional and presentation currency of the Fund, as this is the Fund’s capital raising currency and its performance is evaluated and its liquidity is managed in US Dollars.

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.

(in thousands of US Dollars)

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 Fund owns 100% of the Subsidiary at December 31, 2013 and 2012.

Subsidiaries, which are those entities in which the Fund has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Fund and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries are changed to ensure consistency with the policies adopted by the Fund.

3. Summary of 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 *Financial Instruments: Recognition and Measurement* ("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. The financial assets and liabilities at fair value held for trading are measured at fair value. These financial instruments are acquired principally for the purposes of generating profit from short-term fluctuation in price. Gains or losses on financial assets and liabilities at fair value held for trading are recognized in the consolidated statement of comprehensive income. Hedge accounting is not applied by the Fund.

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 Fund's 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 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) Initial Measurement

Financial assets and financial liabilities at fair value through profit or loss are recognised initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and liabilities are recognised on the date they are originated.

(in thousands of US Dollars)

Financial assets and financial liabilities at fair value through profit or loss are measured initially at fair value, with transaction costs recognised in the statement of comprehensive income. Loans and receivables and other financial liabilities are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue.

(IV) 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.

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.

(V) 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.

(B) Fair Value Measurement Principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability or;
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations, without any deduction for transaction costs.

(in thousands of US Dollars)

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. 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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the beginning of each reporting period.

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

Transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

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)".

The exchange differences arising on the translation are taken directly to a separate component of net assets.

(in thousands of US Dollars)

(F) Participating Shares

The shares are not redeemable 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.

(G) 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.

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 when applicable.

(H) 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.

(I) 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, which are disclosed separately in consolidated statement of comprehensive income.

(J) 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".

(K) 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 "at fair value through profit or loss" and exclude 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 method. They represent the difference between an instrument's initial carrying amount and disposal amount.

(L) Income Taxes

The Fund is exempt from all forms of taxation as there are no taxes on income, profits or capital gains in the British Virgin Islands. However, the Subsidiary 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 12.5% (2012: 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).

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted at the reporting date.

(in thousands of US Dollars)

(M) Segment Information

For management purposes, the Fund is organised into one main operating segment, which invests in equity securities, debt instruments. All of the Fund's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Fund as one segment. The financial results from this segment are equivalent to the financial statements of the Fund as a whole.

(N) Changes in Accounting Policies and Disclosures

New and Amended Standards and Interpretations

During the current period the Fund adopted all the new and revised accounting standards that are relevant to its operations and are effective for the accounting year beginning on January 1, 2013. The nature and the impact of each new standards and amendments are described below:

Presentation of Items of Other Comprehensive Income − Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) upon would be presented separately from items that will not be reclassified. The amendments have not impacted the consolidated financial statements of the Fund.

IAS 1 Clarification of the Requirement for Comparative Information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments have no impact on the Fund's consolidated financial position or performance.

Amendments to IFRS 7 Disclosures − Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. As the Fund is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Fund.

IFRS 10 Consolidated Financial statements and Investment Entities Amendments

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* ("IAS 27") that dealt with consolidated financial statements and SIC-12 *Consolidation − Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of the Subsidiary held by the Fund.

IFRS 11 Joint Arrangements

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces IAS 31 *Interests in Joint Ventures* ("IAS 31") and SIC-13 *Jointly-controlled Entities − Non-monetary Contributions by Ventures*. 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. This standard has not impacted the consolidated financial statements of the Fund as the Fund has no such arrangements.

IFRS 12 Disclosures of Interest in Other Entities

IFRS 12 *Disclosures of Interest in Other Entities* ("IFRS 12") sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements. The amendments affect presentation only and have no impact on the Fund's consolidated financial position or performance.

(in thousands of US Dollars)

IFRS 13 Fair Value Measurement

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 application of IFRS 13 has not materially impacted the fair value measurements carried out by the Fund.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7"). The Fund provides these disclosures in Note 7.

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 *Employee Benefits* ("IAS 19"), effective for annual periods beginning on or after January 1, 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Fund's financial position.

IAS 27 Separate Financial Statements (revised)

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. This standard has not impacted the consolidated financial statements of the Fund.

IAS 28 Investments in Associates and Joint Ventures (revised)

Following the adoption of IFRS 11 and IFRS 12, IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") explains how to apply the equity method to investments in joint ventures in addition to associates. This revision to IAS 28 has not impacted the consolidated financial statements of the Fund.

Recoverable Amount Disclosures for Non-financial Assets − Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 *Impairment of Assets* ("IAS 36"). In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units ("CGUs") for which an impairment loss has been recognised or reversed during the period. This amendment has not impacted the financial statements of the Fund.

(O) Standards Issued but not yet Effective

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

IFRS 9 Financial Instruments − Classification and Measurement

IFRS 9 *Financial Instruments* ("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 was initially effective for annual periods beginning on or after January 1, 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to January 1, 2015. The Fund does not expect that the adoption of IFRS 9 will have material financial impact in future financial statements.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after January 1, 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The Fund now evaluates the impact of the adoption of the amendments.

Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

The amendments clarify the meaning of "currently has a legally enforceable right to set off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to impact the Fund's financial position or performance and are effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to be relevant to the Fund, since there are no such arrangements.

(in thousands of US Dollars)

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to be relevant to the Fund.

Novation of Derivatives and Continuation of Hedge Accounting − Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014 are not expected to be relevant to the Fund.

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 judgments 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 term of the Fund is limited and thus its liquidity is managed on a regular basis in US Dollars in order to handle the acquisition of its shares at the end of the Fund's term. 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, selection of peer companies and appropriate valuation multiples and model inputs, such as control premium and other adjustments. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

IFRS 13 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 judgment, considering factors specific to the asset or liability.

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, 2013 and 2012 are represented by current bank accounts in Raiffeisenbank CJSC (Russia) and JP Morgan Chase Bank (USA) in the total amount of USD 782 (2012: USD 1,690). There are no amounts of restricted cash as of December 31, 2013 and 2012.

6. Financial Assets at Fair Value through Profit or Loss

At December 31, 2013 and 2012 financial assets at fair value through profit or loss comprised of the following non-traded ordinary shares:

	December 31, 2013			December 31, 2012		
	Percentage of ownership, %	**Cost**	**Fair value**	**Percentage of ownership, %**	**Cost**	**Fair value**
Chelindbank OJSC	5.60%	15,975	12,848	5.60%	15,975	11,643
Levoberezhny Bank OJSC	10.00%	12,275	12,312	10.00%	12,275	10,663
First Collection Bureau LLC	9.08%	1,800	9,731	9.08%	1,800	7,400
Rosevrobank OJSC	1.40%	10,067	8,233	1.40%	10,067	7,314
CB Hlynov OJSC (Unquoted equity participation note)		1,919	6,038		1,919	5,635
Insurance Company Universalna PJSC	4.20%	15,000	593	4.20%	15,000	634
First Republic Bank OJSC	20.00%	18,064	–	20.00%	18,064	3,424
Latvijas Kraibanka JSC	4.70%	12,923	–	4.70%	12,923	–
		88,023	**49,755**		**88,023**	**46,713**

In May 2009 the Fund purchased a note issued by Quest Advisory Restructuring Limited with the sole purpose to acquire 1,129,049 ordinary shares representing approximately 9.33% stake in CB Hlynov OJSC. On the same date the shares of CB Hlynov OJSC 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 CB Hlynov OJSC 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 on the participation note in amount of USD 3,792 (the "Day 1 profit"), has been deferred and amortized until the original maturity of the Fund. The Fund's term was extended until December 31, 2018, and deferred income was recalculated respectively. As of December 31, 2013, outstanding part of deferred income was USD 162 (2012: USD 194). During 2013 the amount of deferred income recognized in consolidated statement of comprehensive income amounted to USD 32 (2012: USD 132).

In November 2011 Lithuanian based Snoras banking group − the main shareholder of Latvijas Krajbanka JSC − initiated the bankruptcy procedure, which was in process during 2012, and Latvijas Krajbanka JSC was taken under control by the Latvian government. As a result, fair value of the Fund's share in Latvijas Krajbanka JSC was USD nil as of December 31, 2012 and did not change as of December 31, 2013.

In May 2013 the Central Bank of the Russian Federation revoked the banking license of First Republic Bank OJSC. As a result, fair value of the Fund's share decreased to USD nill as of December 31, 2013 (2012: USD 3,424).

(in thousands of US Dollars)

As of December 31, 2013 the Fund entered into a number of put option agreements related to investment securities available-for-sale. In accordance with terms of these contracts, the Fund has a right to dispose of 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 approximated zero as of December 31, 2013. At this date the Fund hasn't entered into any other put option agreements, for instance, related to investment securities available-for-sale.

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

Financial Instruments Recorded at Fair Value

As of December 31, 2013 and 2012 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. There were no transfers between the levels of the fair value hierarchy during 2013 and 2012.

December 31, 2013	**Level 3**
Assets	
Financial assets at fair value through profit or loss	49,755
Total	**49,755**

December 31, 2012	**Level 3**
Assets	
Financial assets at fair value through profit or loss	46,713
Total	**46,713**

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.

	2013	**2012**
Opening balance	**46,713**	**47,660**
Total gains less losses recognised in consolidated statement of comprehensive income	3,042	(947)
Closing balance	**49,755**	**46,713**
Total gain/(loss) for the year included in profit or loss for assets held at the end of the reporting year	**3,042**	**(947)**

Unrealized gain for the year ended December 31, 2013 is mainly attributable to improvement of the banks' financial position.

The valuation of financial instruments is performed annually by the Investment Manager and reviewed by the Directors of the Fund. The valuations are subject to quality assurance procedures. The Investment Manager verifies the major inputs applied in the valuation by agreeing the information in the valuation computation to relevant documents and market information, reviews inputs for significant changes, and consults with external appraisers if considered appropriate. In addition, the accuracy of the computation is tested. The latest valuation is also compared with the valuations in the preceding periods, if fair value changes (positive or negative) are significant, reasons for the changes are further considered. After the checks above have been performed the Investment Manager presents the valuation results to the Directors of the Fund for their review and approval.

Investments in Banks

In 2013 and 2012 fair value of the Fund's investments in banks was calculated using guideline companies method under market approach based on transaction multiples. The most significant key assumptions used in estimating of fair value were the following:

	2013	**2012**
Price to net assets multiple	1.02	0.95
Premium for additional shareholders rights	–	10%
Discount for lack of control	23%	23%
Discount for specific circumstances	–	80%

(in thousands of US Dollars)

As of December 31, 2013 increase or decrease by 15% in the discount for lack of control (23%) applied in the price to net assets multiple, which is considered a reasonably possible alternative assumption, would have caused a respective decrease or increase in fair value by USD 514 or USD 4,340.

Investment in Insurance Company

In 2013 and 2012 fair value of the investment in Insurance Company Universalna PJSC was determined based on guideline companies method under market approach based on trading multiples. The most significant assumption was price to gross written premium multiple amounted to 0.63 (2012: 0.42).

As of December 31, 2013 increase or decrease in the discount for lack of marketability (23%) applied to gross written premium multiple by 15%, which is considered a reasonably possible alternative assumption, would have caused a respective decrease or increase in fair value by USD 116.

As of December 31, 2012 increase or decrease in the discount for lack of marketability (23%) applied to gross written premium multiple by 10%, which was considered a reasonably possible alternative assumption, would have caused a respective decrease or increase in fair value of USD 82.

Investment in Collection Bureau

In 2013 and 2012 fair value of the investment in First Collection Bureau LLC was determined based on a recent transaction price. As of December 31, 2012 fair value of investment was estimated in accordance with the offer price, at which one of shareholders was selling his share. The transaction was closed in January, 2014 at the price initially offered. Increase or decrease of the offer price by 10%, which is considered the reasonably possible alternative assumption, would have caused a respective increase or decrease in fair value of First Collection Bureau LLC by USD 973 (2012: USD 740).

Financial Assets and Liabilities Not Carried at Fair Value

Cash and cash equivalents, loan receivable and accounts payable are liquid or have a short term maturity (less than three months), therefore it is assumed that the carrying amounts of these financial assets and liabilities approximate to their fair value.

8. Loans Receivable

As of December 31, 2013 the Fund granted the following loans:

Borrower	Maturity	Interest rate	2013
Asental Investments Limited (Cyprus)	No stated maturity	25%	3,200
			3,200

As of December 31, 2012 the Fund granted the following loans:

Borrower	Maturity	Interest rate	2012
Asental Investments Limited (Cyprus)	No stated maturity	25%	2,708
			2,708

As of December 31, 2013 and 2012 loans receivable are represented by loan to related party − Asental Investments Limited (Cyprus), where the Fund owns 50% share. In accordance with the shareholders agreement concluded between the Fund and another shareholder of the company (a related party), the Fund’s participation is limited to receipt of certain amount payable by Asental Investments Limited from proceeds arising on disposal of real estate held by the company.

As of December 31, 2013 and 2012 the Fund does not execute control over the company as defined by IFRS 10 or significant influence as defined by IAS 28. The only purpose of Asental Investments Limited is the disposal of real estate and distribution of respective cash proceeds to its shareholders. Thus maturity of the loan directly depends on timelines of respective disposals that are not stated.

During 2013 the Fund recognized interest income in total amount of USD 492. During 2012 the Fund recognized interest income in total amount of USD 56 and adjustment related to effect of change in estimations of future cash flows expected from disposal of real estate in total amount of USD 35 accounted within “Other gain”.

In January 2014 the Fund received contractual proceeds in amount of USD 3,200 as the real estate was sold.

(in thousands of US Dollars)

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 holders 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.

Such performance fee, if owed, will be payable within 30 days of the date of any distribution.

As of December 31, 2013 and 2012 the Fund’s net assets value per share (before deduction of management and performance fees) were below revised reference value, thus no performance fees were accrued.

As of December 31, 2013 the amount of performance fee payable amounted to USD nil (2012: USD nil).

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.

Aggregate issued price was lower than total capital invested and was used as a basis for Management Fees accrual in 2013 and 2012. For the year ended December 31, 2013 the amount of Management fee expense amounted to USD 1,309 (2012: USD 1,354). The amount of management fee payable was equal to USD 381 as of December 31, 2013 (2012: USD 388).

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 shares of US Dollar 0.01 each.

The Investment Manager owns 100% of the Management shares.

As of December 31, 2013 and 2012 100 Management shares have been issued at US Dollar 0.01 each and 1,033,521 profit participating, non-voting shares have been issued at US Dollar 0.01 each.

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.

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

The Fund’s Directors may declare and pay distributions on the participating shares, at their sole discretion.

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 2013 and 2012 there were no distributions to the holders of participating shares.

(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 December 31, 2013 and 2012, the Fund's operations were funded by issued non-voting participating 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 for the policies and processes applied by the Fund in managing its capital (Note 13).

Reconciliation Between Audited Net Assets and Net Assets as Reported to the Shareholders

In accordance with the terms of its Offering Memorandum the Fund reports its net assets attributable to shareholders of participating shares on a monthly 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;
- 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.

	2013	2012
Net assets attributable to shareholders as reported to shareholders	**50,297**	**51,783**
Unrealised gain/(loss) on financial assets at fair value	3,042	(947)
Adjustment of loans receivable	–	(151)
Income tax reversal	53	27
Accrual of deferred income	(162)	(194)
Other adjustments	(94)	(69)
Adjusted net assets attributable to shareholders per consolidated financial statements	**53,136**	**50,449**
Net asset value per participating share as reported to shareholders (in US dollars)	48.67	50.10
Adjustments per participating share (in US dollars)	2.75	(1.29)
Net asset value per participating share per consolidated financial statements (in US dollars)	**51.41**	**48.81**

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 its taxable income, which excludes capital gains on trading of securities either of a revenue or capital nature, at a flat rate of 12.5% (2012: 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%. 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, 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:

	2013	2012
Accounting profit/(loss) before tax	**2,713**	**(1,573)**
Theoretical tax expense calculated at the Fund's statutory tax rate (0%)	–	–
Tax effect of the Subsidiary's result calculated at other tax rates	(458)	(21)
Tax effect of non deductible expense less tax exempt income	458	17
Income tax benefit	**–**	**(4)**
Unrecognised deferred tax asset on losses carried forward	–	4
Withholding tax	26	36
Income tax expense	**26**	**36**

As of December 31, 2013 the amount of accumulated tax losses to be carried forward comprised USD 70 (2012: USD 69).

As of December 31, 2013 current tax liabilities amounted to USD nil (2012: USD nil).

12. Commitments and Contingencies

Operating Environment

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 is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Fund's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Fund's business in the current circumstances.

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.

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.

(in thousands of US Dollars)

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	Maximum exposure
	2013	**2012**
Cash and cash equivalents	782	1,690
Loans receivable	3,200	2,708
Total credit risk exposure	**3,982**	**4,398**

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, 2012	**A+/A-**	**Not rated**	**Total**
Cash and cash equivalent	782	–	782
Loans receivable	–	3,200	3,200
Total	**782**	**3200**	**3,982**

As of December 31, 2012	**A+/A-**	**BBB**	**Not rated**	**Total**
Cash and cash equivalent	599	1,091	–	1,690
Loans receivable	–	–	2,708	2,708
Total	**599**	**1,091**	**2,708**	**4,398**

As of December 31, 2013 and 2012 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 the Investment Manager on a daily basis.

(in thousands of US Dollars)

Substantially all of the investments of the Fund are held by Citibank CJSC (before December 31, 2013 − 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) (2012: JP Morgan Chase Bank (New York) and Raiffeisenbank CJSC (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'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.

Analysis of Financial Liabilities by Remaining Maturities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. The Fund's contractual undiscounted repayment obligations are approximated by the carrying values of respective liabilities.

	2013				2012			
	Less than 1 year	**More than 1 year**	**No stated maturity**	**Total**	**Less than 1 year**	**More than 1 year**	**No stated maturity**	**Total**
Assets								
Cash and cash equivalents	782	−	−	782	1,690	−	−	1,690
Financial assets designated at fair value through profit or loss	−	−	49,755	49,755	−	−	46,713	46,713
Loans receivable	3,200	−	−	3,200	2,708	−	−	2,708
Other assets	14	−	−	14	10	−	−	10
	3,996	**−**	**49,755**	**53,751**	**4,408**	**−**	**46,713**	**51,121**
Liabilities								
Management fee payable	381	−	−	381	388	−	−	388
Accounts payable and accrued expenses	72	−	−	72	90	−	−	90
Deferred income	−	−	162	162	−	−	194	194
	453	**−**	**162**	**615**	**478**	**−**	**194**	**672**

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.

(in thousands of US Dollars)

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. The Fund's overall price risk exposure is monitored by Investment Manager on a regular basis.

At December 31, 2013 and 2012 no investments in any single instrument exceeded the set limits.

13.5 Sensitivity analysis

Equity price risk is the risk of unfavourable changes in the fair values of equities as the result of changes in the levels of value of individual shares. The equity price risk exposure arises from the Fund's investments in equity securities. The Fund manages this risk by investing in a variety of entities.

Management's best estimate of the effect on the profit or loss for a year due to a reasonably possible change in equity securities, with all other variables held constant is indicated in the table below. There is no effect on "Other comprehensive income" as the Fund has no assets classified as "available-for-sale" or designated hedging instruments. In practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material. An equivalent decrease in fair value of each of the securities shown below would have resulted in an equivalent, but opposite, impact.

	Effect on the net assets attributable to shareholders and on the change in net assets attributable to shareholders from operations for the year	
	2013	**2012**
Change in fair value of investments by 15% (2012: 10%)	7,463	4,671

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 effect 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.

As of December 31, 2013 and 2012 the monetary assets and liabilities, subject to currency risk, were not significant.

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:

	2013				2012			
	Russia and CIS	**Cyprus**	**Other**	**Total**	**Russia and CIS**	**Cyprus**	**Other**	**Total**
Assets								
Cash and cash equivalents	739	–	43	782	1,091	–	599	1,690
Financial assets designated at fair value through profit or loss	49,755	–	–	49,755	46,713	–	–	46,713
Loans receivable	3,200	–	–	3,200	2,708	–	–	2,708
Other assets	–	8	6	14	–	4	6	10
	53,694	**8**	**49**	**53,751**	**50,512**	**4**	**605**	**51,121**
Liabilities								
Management fee payable	–	–	(381)	(381)	–	–	(388)	(388)
Accounts payable and accrued expenses	(46)	(21)	(5)	(72)	(43)	(34)	(13)	(90)
Deferred income	(162)	–	–	(162)	(194)	–	–	(194)
	(208)	**(21)**	**(386)**	**(615)**	**(237)**	**(34)**	**(401)**	**(672)**
Net position	**52,486**	**(13)**	**(337)**	**53,136**	**50,275**	**(30)**	**204**	**50,449**

Geographic classification of assets and liabilities is tied to country of incorporation of banks, investee or counterparty.

14. 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 2013 and 2012.

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

	2013		2012	
	Investment Manager	**Entities under common control**	**Investment Manager**	**Entities under common control**
Management fee payable at January 1	**388**	**–**	**425**	**–**
Management fee accrued	1,309	–	1,354	–
Management fee paid	(1,316)	–	(1,391)	–
Management fee payable at December 31	**381**	**–**	**388**	**–**
Loans and receivables (Note 8)	–	3,200	–	2,708

In 2013 and 2012 the Fund had no significant transactions with its Directors, except for directors fees accrued during the year 2013 in amount of USD 21 (2012: USD 28).

15. Events after the Reporting Date

In January 2014 the Fund purchased 2,763 shares or 1.42% of First Collection Bureau LLC for the consideration USD 1,523.

As well as, in January 2014 the loan receivable in amount of USD 3,200 was repaid. Asental Investments Limited disposed the real estate property and distributed respective cash proceeds to its shareholders.

(in thousands of US Dollars)

The Fund’s operations are concentrated in the Russian Federation. As a result of the political tensions over the crisis in Ukraine, subsequent to December 31, 2013 the European Union, the United States and certain other countries have imposed sanctions against Russia, including sanctions on the Russian financial sector. The largest Russian state-owned banks were cut from US and EU’s debt and capital markets. In April 2014 the rating agency Standard & Poor's downgraded Russia’s sovereign debt rating to the lowest investment grade with a negative outlook.

Russian Ruble has weakened significantly. The United States dollar / Russian ruble official exchange rate dropped from 32.66 as at January 1, 2014 to 36.31 as at the date of the consolidated financial statements.

At present, there is an uncertainty regarding introduction of further sanctions, their effect on economic growth in Russia and on the stability and profitability of the Russian financial sector. This uncertainty might have a significant effect on the valuation of the Fund’s investments, which is not currently determinable.