RENFIN II LIMITED

Consolidated financial statements

For the year ended December 31, 2009

Contents

Company information

Directors	David Blair (appointed on June 13, 2007) Sarah Moule (resigned on July 9, 2009) Andrey Movchan (resigned on March 26, 2009) Rod Barker (appointed on March 26, 2009, resigned on May 31, 2009) Igor Stychinsky (appointed on June 9, 2009) James Keyes (appointed on July 9, 2009)
Registered office	Palm Grove House P.O. Box 3190 Road Town Tortola British Virgin Islands
Investment manager	Kashtan Limited Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108
Advisor to Investment manager	Renaissance Capital Investment Management Limited 56 Administration Drive Whickhams Cay I P.O. Box 3190 Road Town, Tortola British Virgin Islands
Prime broker	Renaissance Advisory Services Limited Canon's Court 22 Victoria Street Hamilton, HM 12 Bermuda
Administrator, registrar, transfer agent	Custom House Administration and Corporate Services Ltd 25 Eden Quay Dublin 1 Ireland
Secretary	Appleby Corporate Services (BVI) Limited Palm Grove House PO Box 3190 Road Town Tortola British Virgin Islands
Custodian	ING Bank (Eurasia) ZAO 36 Krasnoproletarskaya Moscow 127473 Russian Federation
Independent auditors	Ernst & Young Ltd Sadovnicheskaya nab.77, bld.1 Moscow 115035 Russia

Company information (continued)

General legal advisors

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Bermuda Law	Appleby Spurling Bailhache Canon's Court 22 Victoria Street P.O. Box HM 1179 Hamilton HM EX Bermuda
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Independent auditors' report

To the Shareholder and Board of Directors of RENFIN II 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 at December 31, 2009 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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, 2009, 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, 2010

Consolidated statement of financial position

As of December 31, 2009

(in thousands of US Dollars)

	Notes	*December 31, 2009*	*December 31, 2008*
Assets			
Cash and cash equivalents		1,124	694
Financial assets designated at fair value through profit or loss	5	97,760	97,846
Deposits with banks	6	1,202	4,491
Loans and receivables	7	14,605	20,100
Other assets		7	93
Total assets		**114,698**	**123,224**
Liabilities			
Management fee payable	8	772	779
Current tax liabilities	10	35	231
Deferred income	5	2,642	–
Accounts payable and accrued expenses		332	114
Total liabilities excluding net assets attributable to shareholders		**3,781**	**1,124**
Net assets attributable to shareholders	9	**110,917**	**122,100**
Number of redeemable shares in issue		**1,252,155**	**1,532,154**
Net asset value per redeemable share		**88.58**	**79.69**

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

David Blair
Director

Igor Stychinsky
Director

James Keyes
Director

June 30, 2010

The accompanying notes on pages 5 to 26 are an integral part of these Consolidated financial statements

Consolidated statement of comprehensive income

For the year ended December 31, 2009

(in thousands of US Dollars)

	Notes	2009	2008
Income			
Interest income		3,957	6,577
Dividend income		1,315	502
Net loss on financial instruments at fair value through profit or loss		(4,646)	(36,851)
Net foreign exchange loss		(674)	(3,423)
		(48)	**(33,195)**
Expense			
Management fee	8	(3,064)	(3,038)
Performance fee reversal		-	1,288
Impairment of loans receivable		-	(1,533)
Administration fee		(245)	(264)
Other operating expenses		(826)	(402)
Total expenses		**(4,135)**	**(3,949)**
Decrease in net assets attributable to shareholders from operations before income tax		**(4,183)**	**(37,144)**
Income tax expense	10	-	(77)
Decrease in net assets attributable to shareholders from operations		**(4,183)**	**(37,221)**
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		**(4,183)**	**(37,221)**

The accompanying notes on pages 5 to 26 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, 2009

(in thousands of US Dollars)

	Notes	*Number of redeemable shares*	*Net assets attributable to shareholders*
January 1, 2008		1,532,154	159,321
Decrease in net assets attributable to shareholders from operations		-	(37,221)
December 31, 2008	9	1,532,154	122,100
Repurchase of shares	9	(279,999)	(7,000)
Decrease in net assets attributable to shareholders from operations		-	(4,183)
December 31, 2009		1,252,155	(110,917)

The accompanying notes on pages 5 to 26 are an integral part of these Consolidated financial statements.

Consolidated statement of cash flows

For the year ended December 31, 2009

(in thousands of US Dollars)

	2009	2008
Cash flows from operating activities		
Decrease in net assets attributable to shareholders from operations	(4,183)	(37,221)
Adjustments to reconcile net loss resulting from operations to net cash used in operating activities		
Non-cash:		
Impairment of loans receivable	-	1,533
Decrease in net assets attributable to shareholders from operations including adjustments	(4,183)	(35,688)
Net changes in operating assets and liabilities		
Decrease in financial assets designated at fair value through profit and loss	86	(54,883)
Decrease/(increase) of loans and receivables	5,495	(8,779)
Decrease/(increase) of deposits with banks	3,289	(4,491)
Decrease of amounts due from brokers	-	64,182
Decrease of loans receivable under reverse repurchase agreements	-	5,462
Decrease of prepayment for securities	-	1,800
Decrease of debt securities at amortised cost	-	30,846
Increase/(decrease) of current tax liabilities	(196)	77
Increase/(decrease) of accounts payable and accrued expenses	218	(123)
Decrease of performance fee payable	-	(1,288)
Decrease of management fee payable	(7)	(13)
Increase of deferred Income	2,642	-
Decrease of other assets	86	39
Cash generated from / (used in) operating activities	7,430	(2,859)
Cash flows from financing activity		
Shares redemption	(7,000)	-
Net cash used in financing activity	(7,000)	-
Net decrease in cash and cash equivalents	430	(2,859)
Cash and cash equivalents at the beginning of the year	694	3,553
Cash and cash equivalents at the end of the year	1,124	694
Supplementary information:		
Interest received	2,096	5,395
Dividend received	1,315	502

The accompanying notes on pages 5 to 26 are an integral part of these Consolidated financial statements.

(in thousands of US Dollars)

1. Corporate information

These 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 Palm Grove House, PO Box 3190, Road Town, 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 former Soviet Union 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 former Soviet Union.

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.

The Fund's administrator is Custom House Administration and Corporate Services Limited (the "Administrator"). The Fund's custodian is Custom ING Bank (Eurasia) ZAO (the "Custodian").

As at December 31, 2009 the Fund had no employees (2008: nil).

In accordance with the Offering Memorandum, the Fund matures on June 18, 2011.

The consolidated financial statements of the Fund as at and for the year ended December 31, 2009 (the "consolidated financial statements") were authorised for issue in accordance with a resolution of the Board of Directors on June 30, 2010.

2. Basis of preparation

(a) General

These consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

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 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.

(b) Statement of compliance

These 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.

(in thousands of US Dollars)

2. Basis of preparation (continued)

(c) 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, 2009 and 2008.

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

(a) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except:

The Fund has adopted the following standards and amendments as of January 1, 2009:

- IFRS 8 *Operating Segments;*
- IAS 1 (Revised 2007) *Presentation of Financial Statements;*
- *Amendments to* IFRS 7 *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments;*
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation.*

The principal effect of these changes is as follows:

IFRS 8 Operating Segments

This standard is effective for accounting periods beginning on or after January 1, 2009, it requires disclosure of information about the Fund's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Fund. For management purposes, the Fund is organised into one business unit. The Fund determined that this operating segment was the same as the business segment previously identified under IAS 14 *Segment Reporting*.

IAS 1 (Revised 2007) Presentation of Financial Statements

The standard replaces IAS *1 Presentation of Financial Statements (revised in 2003)* as amended in 2005.The revised IAS 1 *Presentation of Financial Statements* was issued in September 2007 and is effective for accounting periods beginning on or after January 1, 2009 with early application permitted.

The standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Fund chose to present one single statement of comprehensive income. The grouping of several line items classified within expenses has been amended in order to reflect management reporting.

Adoption of the revised standard did not have a material effect on the financial performance or position of the Fund as the Fund has no instruments classified as equity and therefore, has neither "profit or loss" nor "total comprehensive income" as defined by the revised standard.

Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments

The amendments to IFRS 7 were issued in March 2009 and become effective for annual periods beginning on or after January 1, 2009, with early application permitted. The Fund has adopted these amendments with effect from January 1, 2009.

(in thousands of US Dollars)

3. Summary of significant accounting policies (continued)

(a) Changes in accounting policies (continued)

The amendments to IFRS 7 require fair value measurements to be disclosed by the source of inputs, using a three-level hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

In addition, the amendments revise the specified minimum liquidity risk disclosures including: the contractual maturity of non derivative and derivative financial liabilities, and a description of how this is managed. In the first year of application, comparative information is not required. However, the Fund has voluntarily disclosed comparative information.

The following standards, amendments and interpretations are effective for 2009 but had no impact on the financial position or performance of the Fund:

Amendment to IFRS 2 Share-based Payments – Vesting Conditions and Cancellations

This amendment to IFRS 2 Share-based Payments was published in January 2008 and became effective for financial years beginning on or after January 1, 2009. The standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

Amendments to IAS 32 and IAS 1 were issued by the IASB in February 2008 and become effective for annual periods beginning on or after January 1, 2009 with early application permitted. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendments to IAS 1 require disclosure of certain information relating to puttable instruments classified as equity.

The Fund did not have any puttable financial instruments meeting the criteria as set out by IAS 32, and therefore reclassification was not necessary.

Amendment to IAS 23 Borrowing Costs

IAS 23 Borrowing Costs issued in March 2007 supersedes IAS 23 Borrowing Costs (revised in 2003). The main change from the previous version is the removal of the option to immediately recognise as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement

These amendments to IFRIC 9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

IFRIC 13 Customer Loyalty Programmes

IFRIC 13 Customer Loyalty Programmes addresses accounting by the entity that grants loyalty award credits to its customers.

(in thousands of US Dollars)

3. Summary of significant accounting policies (continued)

(a) Changes in accounting policies (continued)

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 15 Agreements for the Construction of Real Estate provides guidance how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from the construction should be recognised.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 Hedges of a Net Investment in a Foreign Operation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39.

IFRIC 18 Transfer of Assets from Customers

The IFRIC issued IFRIC Interpretation 18 in January 2009. IFRIC 18 provides guidance on accounting for transfers of assets, where cash is used to purchase those items of plant, property and equipment, which an entity receives from a customer, which is either used to connect the customer to a network, or provide the customer ongoing access to a supply of goods and services. The Interpretation is effective prospectively to transfers of assets from customers received on or after July 1, 2009.

Improvements to IFRSs

In May 2008 the IASB has issued its first 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 amendments to the following standards did not have any impact on the accounting policies, financial position or performance of the Fund.

The following standards, amendments and interpretations are not effective and are not expected to have material impact on the financial position or performance of the Fund:

IFRS 3 (Revised 2008) Business Combinations and IAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3 (Revised 2008) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Application of the revised standards will become mandatory for the Fund's 2010 financial statements.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

This amendment to IAS 39 *Financial Instruments: Recognition and Measurement* was issued on July 31, 2008 and is applicable for annual periods beginning on or after July 1, 2009 with early application permitted. The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

IFRS 1 First Time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters

The revised standard was issued in July 2009 and become effective for financial years beginning on or after January 1, 2010. The amendment provides relief from the full retrospective application of IFRS in certain circumstances.

IFRS 2 Share-based Payments – Group cash-settled share-based payment transactions

The revised standard was issued in July 2009 and is effective for annual periods beginning on or after January 1, 2010. It provides guidance on that to be in the scope of IFRS 2, an award must be a "share-based payment transaction", and part of a "share-based payment arrangement".

(in thousands of US Dollars)

3. Summary of significant accounting policies (continued)

(a) Changes in accounting policies (continued)

IFRIC Interpretation 17 Distributions of Non-Cash Assets to Owners

The IFRIC issued IFRIC Interpretation 17 in November 2008. IFRIC 17 provides guidance on how to account for distributions of non-cash assets to its owners and distributions that give owners a choice of receiving either non-cash assets or a cash alternative. An entity shall apply this Interpretation prospectively for annual periods beginning on or after July 1, 2009.

IFRS 9 Financial Instruments

In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after January 1, 2013. Entities may adopt the first phase for reporting periods ending on or after December 31, 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Fund now evaluates the impact of the adoption of new standard and considers the initial application date.

Improvements to IFRSs

In April 2009 the IASB has issued a second omnibus of amendments to its standards and interpretations. These amendments are not expected to have any impact on the accounting policies, financial position or performance of the Fund.

(b) Significant accounting policies

The principal accounting policies applied in the preparation of these 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.

- *Financial instruments designated 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 designated 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.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as investments at fair-value-through profit or loss or investments held to maturity.

(in thousands of US Dollars)

3. Summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Fund has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held to maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated statement of comprehensive income when the investments are impaired, as well as through the amortisation process.

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 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 market place 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 designated 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.

(in thousands of US Dollars)

3. Summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

Subsequent changes in the fair value of those financial instruments are recorded in "Net gain or loss on financial assets and liabilities 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. Dividend expenses related to short positions are recognised in "Dividends on securities sold but not yet repurchased".

Held to maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated statement of comprehensive income when the investments are impaired, as well as through the amortization process.

After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of net assets attributable to shareholders until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in net assets attributable to shareholders is included in the consolidated statement of comprehensive income. However, interest calculated using the effective interest method is recognised in the consolidated statement of comprehensive income.

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 profit or loss 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.

(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 13.

(in thousands of US Dollars)

3. Summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

(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.

For available-for-sale financial investments, the Fund assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income – is removed from net assets attributable to shareholders and recognised in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income. Increases in their fair value after impairment are recognised directly in net assets attributable to shareholders.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of comprehensive income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

(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 each period end.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at 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.

(in thousands of US Dollars)

3. Summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

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)".

(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) Redeemable 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 liabilities arising from the redeemable 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 9.

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 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 and expense

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

(in thousands of US Dollars)

3. Summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

(K) Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accrual basis.

(L) Net gain (loss) on financial assets and liabilities at fair value through profit or loss

This item includes changes in the fair value of financial assets and liabilities held for trading or designated 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).

(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.

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.

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.

(in thousands of US Dollars)

4. Significant accounting judgments, estimates and assumptions (continued)

Impairment of loans and receivables

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.

Impairment of investments

The Fund holds investments in several companies, including publicly-traded securities and other securities that do not trade in an active market. Future adverse changes in market conditions, poor operating results, or the inability of certain development-stage companies to find additional financing could result in losses that may not be reflected in an investment's current carrying value, thereby requiring an impairment charge in the future. The Fund regularly reviews its investments to determine if there have been any indicators that the value may be impaired. These reviews require estimating the outcome of future events and determining whether factors exist that indicate impairment has occurred. Based on the results of regular impairment assessment, the Fund estimates certain financial investments as impaired.

5. Financial instruments designated at fair value through profit or loss

At December 31, 2009 and 2008, financial assets designated at fair value through profit or loss comprised of the following non-traded ordinary shares:

	2009		*2008*	
	Cost	*Fair value*	*Cost*	*Fair value*
Orient Express Bank	25,515	14,749	25,515	26,595
First Republican Bank JSC	18,064	23,087	18,064	15,478
Levoberezhny	12,275	8,952	12,275	11,091
First collection bureau Limited	1,800	4,921	1,800	9,201
OJSC CB Kamabank	17,380	7,633	17,380	8,561
JSC Latvijas Krajbanka	12,923	11,772	12,923	8,269
OJSC Chelindbank	15,975	10,743	15,975	7,732
Rosevrobank	10,067	7,367	10,067	6,839
Insurance company Universalna	15,000	1,890	15,000	4,080
OJSC CB Hlynov	1,919	6,646	-	-
	130,918	97,760	128,999	97,846

On May 13, 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 the related party. 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 of the Fund in June 2011. For the year 2009, an amount of USD 1,150 has been recognized in the consolidated statement of comprehensive income.

As of December 31, 2009 and 2008 the Fund has entered into a number of put option agreements related to financial assets designated 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, 2009 and 2008.

(in thousands of US Dollars)

6. Deposits with banks

As at December 31, 2009 and 2008 the Fund placed the following deposits with Russian banks:

	Amount in currency (thousand)	*Maturity*	*Interest rate*	*2009*
Rouble deposit	36,000	April 5, 2010	10.50%	1,202
				1,202

	Amount in currency (thousand)	*Maturity*	*Interest rate*	*2008*
Rouble deposit	110,000	February 1, 2010	11.50%	3,781
US Dollar deposit	710	February 13, 2009	12.00%	710
				4,491

7. Loans and receivables

As at December 31, 2009 the Fund granted the following loans and receivables:

Borrower	*Maturity*	*Interest rate*	*2009*
First Collection Bureau Ltd.	February 1, 2010	15%-20%	9,317
Asental Investments Limited	-	-	5,288
			14,605

As at December 31, 2008 the Fund granted the following loans and receivables:

Borrower	*Maturity*	*Interest rate*	*2008*
First Collection Bureau Ltd.	February 14, 2009	15%	8,721
SmartInvest Ltd.	September 10, 2009	11%	2,702
Marbin Investments Ltd.	January 1, 2009	67%	8,677
			20,100

The loan to First Collection Bureau Ltd has been extended until August 2010.

On February 1, 2009 the Fund foreclosed on the real estate pledged under the loan granted to Marbin Investments Limited by obtaining a claim with maximum of USD 11,000 from Asental Investments Limited, a special purpose company that holds the legal title on the premises pledged.

The only purpose of Asental Investments Limited is the disposal of real estate owned and distribution of respective cash proceeds. During 2009 certain real estate objects were sold by Asental and amount of USD 5,250 was repaid to the Fund.

As of December 31, 2009 receivable from Asental Investments Limited amounted to USD 5,288 and was valued based on the management projections on timing and prices of real estate disposal. Currently the Fund has no other intentions with respect to this company.

8. Performance and management fees

The Fund pays the Investment Manager a performance fee equal to 20% of all amounts otherwise distributable to the shareholders of Redeemable shares (whether as dividends, distributions or upon liquidation) in excess of the aggregate issue price for the Redeemable shares. Such performance fee, if owed, will be payable within 30 days of the date of any distribution.

No performance fee has been accrued since the net assets attributable to shareholders are lower than the aggregate issue price of the Redeemable shares (2008: reversal of USD 1,288).

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 Redeemable 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.

(in thousands of US Dollars)

9. Net assets attributable to shareholders

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

The Investment Manager owns 100% of the Management shares.

As of December 31, 2009 and 2008, 100 Management shares have been issued at US Dollar 0.01 each. During the year, the Fund bought back 279,999 profit participating non-voting Redeemable shares, leading to a total number of 1,252,155 shares issued at US Dollar 0.01 each as of December 31, 2009 (2008: 1,532,154).

The Fund does not have any externally imposed capital requirements.

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 Redeemable shares.

Rights of the Redeemable shares

The Redeemable 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 Redeemable shares, at their sole discretion.

Winding up

The Redeemable 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 Redeemable 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 holders of redeemable shares 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 or as a partial compulsory redemption of shares.

During 2009 and 2008, the Fund did not declare any dividends. During 2009, the Fund bought back a number of 279,999 profit participating non-voting Redeemable shares for an amount of USD 7,000.

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 holders of Redeemable 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 of Redeemable shares as previously reported in order to comply with IFRS. These differences are:

- Unrealized loss on financial assets designated at fair value has been recognized;
- Reversal of performance fees; and
- Other adjustments have been recorded.

(in thousands of US Dollars)

9. Net assets attributable to shareholders (continued)

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

	2009	*2008*
Net assets attributable to shareholders as reported to shareholders	**117,386**	**173,704**
Unrealised loss on financial assets designated at fair value	(4,331)	(55,648)
Impairment of loans	-	(1,533)
Income tax accrual	-	(77)
Reversal of performance fee	-	5,122
Deferred income	(2,642)	-
Other adjustments	504	532
Adjusted net assets attributable to shareholders per consolidated financial statements	**110,917**	**122,100**
Net asset value per redeemable share as reported to shareholders of Redeemable shares (in US Dollars)	93.75	113.37
Adjustments per redeemable share (in US Dollars)	(5.17)	(33.68)
Net asset value per Redeemable share per these consolidated financial statements (in US Dollars)	88.58	79.69

10. 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 redeemable 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).

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:

	2009	*2008*
Accounting loss before tax	(4,183)	(37,221)
Tax benefit calculated at domestic rate applicable to the Fund's subsidiary	(830)	4,132
Tax effect of non deductible expense less tax exempt income	830	-
Income tax benefit	-	4,132
Special defence contribution	-	(62)
Adjustment in respect of current income tax prior years	-	(15)
Unrecognised deferred tax asset	-	(4,132)
Income tax expense	-	(77)

(in thousands of US Dollars)

11. Commitments and contingencies

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.

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 is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Fund's investees, which could affect the fair value of the Fund's financial position, results of operations and business prospects of the Fund's investees and, consequently, affect the fair value of the Fund's investments.

Also, the investees of the Fund may have been affected by the deterioration in liquidity, which could in turn impact their ability to repay the amounts due. To the extent that information is available, the Fund has reflected revised estimates of expected future cash flows in its fair value assessments.

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.

12. 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 investment strategy the Fund invests in financial institutions (banks, insurance companies, and other companies) providing financial services that are located in Russia or other states of the former Soviet Union, 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 in financial institutions may take the form unlisted equity and equity-related securities and other instruments of financial institutions. 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 former Soviet Union.

The Fund pursues 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.

The Fund intends to hold such investments until disposed of via a private transaction with one or more investors, or in or following an IPO.

(in thousands of US Dollars)

12. Financial risk management (continued)

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 instruments, when deemed appropriate and as a substitute for cash positions.

Asset allocation is determined by the Fund's 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 Fund's Compliance Controller.

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.

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. Credit risk is generally higher when a non-exchange-traded financial instrument is involved, because the counterparty is not backed by an exchange clearing house.

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 2009	*Maximum exposure 2008*
Cash and cash equivalents (excluding cash on hand)	1,124	694
Loans and receivables	14,605	20,100
Deposits with banks	1,202	4,491
Other assets	7	93
Total credit risk exposure	16,938	25,378

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 to maturity. Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Credit quality per class of financial asset

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 asset for loan-related lines of the consolidated statement of financial position, based on the Fund's credit risk monitoring approach.

As at December 31, 2009	*A+/A-1*	*Aaa.ru*	*Not rated*	*Total*
Cash and cash equivalents	70	1,054	-	1,124
Deposits with banks	-	-	1,202	1,202
Loans and receivables	-	-	14,605	14,605
Other assets	-	-	7	7
Total	70	1,054	15,814	16,938

(in thousands of US Dollars)

12. Financial risk management (continued)

Credit risk (continued)

As at December 31, 2008	*A+/A-1*	*Aaa.ru, B1/B-*	*Not rated*	*Total*
Cash and cash equivalents	75	532	87	694
Deposits with banks	-	-	4,491	4,491
Loans and receivables	-	-	20,100	20,100
Other assets	-	-	93	93
Total	75	532	24,771	25,378

As of December 31, 2009 and 2008 the Fund had neither past due financial assets, nor individually impaired assets. As of December 31, 2009 and 2008 the Fund had loan granted to First Collection Bureau Ltd. which terms have been renegotiated (Note 7).

The 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 all of the assets of the Fund are held by ING Bank (Eurasia) ZAO. 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 Raiffeisenbank Moscow to facilitate any payments or proceeds received in Russian Rubles. The Fund also established a bank account with JP Morgan Chase Bank, N.A. to facilitate redemption and other payments in US Dollars. 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.

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

	2009				*2008*			
	CIS	*Cyprus*	*Other*	*Total*	*CIS*	*Cyprus*	*Other*	*Total*
Assets:								
Cash and cash equivalents	70	-	1,054	1,124	619	-	75	694
Financial assets designated at fair value through profit or loss	97,760	-	-	97,760	97,846	-	-	97,846
Deposits with banks	1,202	-	-	1,202	4,491	-	-	4,491
Loans and receivables	14,605	-	-	14,605	20,100	-	-	20,100
Other assets	7	-	-	7	-	93	-	93
	113,644	-	1,054	114,698	123,056	93	75	123,224
Liabilities:								
Management fee payable	-	-	772	772	-	-	779	779
Deferred income	2,642	-	-	2,642	-	-	-	-
Tax payable		35		35	-	231	-	231
Accounts payable and accrued expenses	-	332	-	332	-	114	-	114
	2,642	367	772	3,781	-	345	779	1,124
Net position	111,002	(367)	282	110,917	123,056	(252)	(704)	122,100

(in thousands of US Dollars)

12. Financial risk management (continued)

Liquidity risk and funding management

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 current maturity date of the Fund is June 18, 2011.

The Fund's constitution does not provide for the cancellation of shares and it is therefore not exposed to the liquidity risk of meeting shareholder redemptions upon the cancellation time.

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 consolidated 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 contractual maturities

At December 31, 2009 and 2008, all the Fund's financial liabilities were due within 3 months.

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 former Soviet Union 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 former Soviet Union.

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 (VaR) analysis, which is monitored by the Investment Manager on a daily basis. 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.

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 99% confidence level does not take into account potential loss which can occur out of that interval. Real loss can exceed calculated VaR value with the probability of 1%.

(in thousands of US Dollars)

12. Financial risk management (continued)

Market risk (continued)

The table below indicates the VaR of the Fund's financial instruments, measured as the potential loss in value from adverse changes in equity prices with a 99 percent confidence level, indicating that the net value of the Fund's financial assets and liabilities could be expected to change by more than the stated amount on only one day out of 100, in response to equity price change.

	December 31, 2009	*December 31, 2008*
VAR of the portfolio	3,155	1,672
VaR/NAV ratio	2.84%	1.37%

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 Dollars, 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 Company invests may be denominated in Russian roubles or other currencies. At the year end, the major part of investments was denominated 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, 2009 and 2008 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 Redeemable shares, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in % 2009*	*Effect on change of net assets attributable to shareholders (before tax) 2009*	*Change in currency rate in % 2008*	*Effect on change of net assets attributable to shareholders (before tax) 2008*
Russian Ruble (upper border)	15%	1,568	(10)%	(1,565)
Russian Ruble (lower border)	(15)%	(1,568)	(30)%	(4,696)
Euro (upper border)	12%	28	14%	32
Euro (lower border)	(12)%	(28)	(14)%	(32)

Interest rate risk

Cash and cash equivalents of the Fund are represented by the current bank 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 deposits and 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)

13. Fair value of financial instruments

Financial instruments recorded at fair value

As at December 31, 2009 and 2008 the Fund's assets recorded at fair value were estimated using pricing models or discounted cash flow techniques. The investments can therefore be 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.

	2009	*2008*
Opening balance	97,846	42,963
Total gains and losses		
Recognised in consolidated statement of comprehensive income	(4,647)	(36,851)
Deferred income	2,642	-
Purchases	1,919	91,734
Closing balance	97,760	97,846

The estimated future cash flows are based on management's best estimates which are discounted to arrive at the present value of the cash flows at the reporting date and the discount rate is calculated using either the Capital Asset Pricing Model or Weighted Average Cost of Capital method. Where pricing models are used, inputs are based on composition of market observable and non-observable inputs which may vary according to the specific industry that the Fund operates in, at the reporting date. The most significant key assumptions used in estimating the fair value of available-for-sale assets were:

	2009	*2008*
Price to total assets multiple	0.20	N/A
Price to book multiple	1.50	2.21
Price to earnings multiple	N/A	13.34
Control discount	30%	0% - 23%

The Fund estimated fair value of its investments based on the average of price to total assets, price to book multiples and price to earnings multiples. The potential effect of measuring fair value of the Fund's investments is based on price to total assets multiples, which is considered a reasonable possible alternative assumption, would have reduced the fair value by USD 2,656 (2008 based on price to earnings multiples: USD 14,874). In case the investments are measured based on price to book multiples respective fair value would increase by USD 2,656 (2008: US Dollar 14,874).

Profit calculated when such financial instruments are first recorded ("Day 1" profit) comprises USD 3,792, of which USD 2,642 has been deferred.

Total amount of net unrealised gain/(loss) recorded in the net assets attributable to shareholders for the years ended December 31, 2009 and 2008 is attributable to financial instruments whose fair value is estimated using valuation techniques with a composition of market observable and non-market observable inputs.

(in thousands of US Dollars)

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 12 "Financial risk management" for the Fund's contractual undiscounted repayment obligations.

	2009			*2008*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	1,124	-	1,124	694	-	694
Financial assets designated at fair value through profit or loss	-	97,760	97,760	-	97,846	97,846
Deposits with banks	1,202	-	1,202	710	3,781	4,491
Loans and receivables	14,605	-	14,605	20,100	-	20,100
Other assets	7	-	7	93	-	93
Total	16,938	97,760	114,698	21,597	101,627	123,224
Management fee payable	772	-	772	779	-	779
Current tax liabilities	35	-	35	231	-	231
Deferred Income	-	2,642	2,642	-	-	-
Accounts payable and accrued expenses	332	-	332	114	-	114
Total	1,139	2,642	3,781	1,124	-	1,124
Net position	15,799	95,118	110,917	20,473	101,627	122,100

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 2009 and 2008.

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

	2009		*2008*	
	Investment manager	*Entities under common control*	*Investment manager*	*Entities under common control*
Management fee payable at January 1	779	-	792	-
Management fee accrued	3,064	-	3,038	-
Management fee paid	3,071	-	(3,051)	-
Management fee payable at December 31	772	-	779	-
Performance fee payable at January 1	-	-	1,288	-
Performance fee reversed	-	-	(1,288)	-
Performance fee payable at December 31	-	-	-	-
Loans and receivables	-	5,288	-	2,702
Accounts payable and accrued expenses	-	196	-	-

In 2009 and 2008 the Fund had no significant transactions with its Directors, except for directors fees accrued during the year 2009 in amount of USD 15 (2008: USD 27).

(in thousands of US Dollars)

16. Events after the reporting date

As of December 31, 2009, OJSC Orient Express Bank was 80% owner of the Kamabank. Kamabank was therefore consolidated in the financial statements of the OJSC Orient Express Bank. In the first half of 2010, a merger took place between OJSC Orient Express Bank and Kamabank. Due to this merger, the percentage of ownership held by the Fund will increase from 4.08% to 6.46%.