RENFIN II LIMITED

Consolidated Financial Statements 2010
International Financial Reporting Standards
Consolidated Financial Statements and Report of the Independent Auditors for the year ended December 31, 2010

Contents

Company Information

Directors	David Blair (appointed on June 13, 2007) Sarah Moule (resigned on July 9, 2009) Igor Stychinsky (appointed on June 9, 2009, resigned September 22, 2010) James Keyes (appointed on July 9, 2009) John Elder (appointed September 22, 2010)
Registered office	(From January 12, 2010) Jayla Place Wickhams Cay 1 Road Town Tortola VG1110 British Virgin Islands (Until 12 January 2010) 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	
United States Law	Akin Gump Strauss Hauer & Feld City Point, Level 32 One Ropemaker Street London EC 2Y 9AW United Kingdom
Bermuda Law	Appleby Spurling Bailhache Canon's Court 22 Victoria Street P.O. Box HM 1179 Hamilton HM EX Bermuda
British Virgin Islands Law	Appleby Hunter Bailhache Palm Grove House P.O. Box 3190 Road Town Tortola British Virgin Islands
Listing sponsor	Reid Services Limited 41a Cedar Avenue PO Box HM 1179 Hamilton HM EX Bemuda

Investment Manager's Report

RenFin II Limited (the “Fund”) raised USD 154 million in July 2007 to capitalize on the growth opportunities in the financial sector in Russia and the CIS. The Fund’s strategy is 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. As of December 31, 2010 the Fund had ten 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.

The global economic turmoil inevitably affected Russia’s financial sector. In 2010 the number of banks licensed to provide banking services in Russia shrank from 1058 to 1012, with 28 banks losing their licenses due to insolvency. The banking sector in Russia remains concentrated, with top 200 banks accounting for 93.9% of its assets. During 2010 the Russian economy continued its revival from the consequences of global financial crisis, which had a positive effect on Russian banks. Lending is picking up and quality of loan books is improving. The gross loan book of Russian banks grew by 12.6% during the year. The unprecedented measures taken by the Government and the Central Bank of Russia (the CBR) to stabilise the banking sector at the end of 2008 proved to restore public confidence. In spite of decreasing interest rates throughout the year, retail deposits increased by 31.2% year-on-year.

These developments have positively contributed to the profitability of banking business. Total profit earned by Russian banks in 2010 was highest for the last decade and allowed to compensate losses incurred during the crisis. In 2010 Return on Assets (ROA) and Return on Capital (ROE) for the banking sector reached 1.9% and 12.5% respectively, which exceeded 0.7% ROA and 4.9% ROE in 2009, but still fall short of pre-crisis 3% ROA and 20% ROE.

The liquidity situation has fully recovered, too. The upbeat trend allowed the Russian government and the Central Bank of Russia (the CBR) to gradually phase out the anti-crisis stimulus measures introduced in 2008-2009.

Still, fundamental risks persist: bad debts in banks’ loan books are still high, and repossessed collateral is piling up in banks’ balance sheets. Also, despite Russia’s strong macro indicators and economic activity picking up, banks still lack lending opportunities of reasonable credit quality. As a result, excess liquidity has been piling up in securities portfolios in banks’ balance sheets growing by 35.3% year-on-year.

Overall, we are optimistic about the fundamental attractiveness and strong growth prospects of the Russian financial sector. During 2010 the Fund managed to make a few successful exits in spite of the fact that valuation multiples are still depressed. On the negative side we see the spill-over effect from the overall weakness of the global economy, which makes many potential investors in Russia to shy away, thus limiting our exits opportunities. Going forward, the Fund will aim to strike the right balance between the timing and valuations of exits to maximise the upside from its investments. We believe that the situation in the Russian banking sector will continue to improve, and therefore we remain positive about the prospects of future growth of the Fund.

Kashtan Limited
Investment manager of RenFin Limited

Ernst & Young

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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") and its subsidiary Ratto Holdings Limited (the "Subsidiary"), which comprise the consolidated statement of financial position as at December 31, 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to shareholders and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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, 2010, 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, 2011

Consolidated Statement of Comprehensive Income
For the year ended December 31, 2010

(in thousands of US Dollars)

	Notes	***2010***	***2009***
Income			
Interest income		1,653	3,957
Dividend income		533	1,315
Net gain/(loss) on financial instruments at fair value through profit or loss	6	11,347	(4,646)
Net foreign exchange loss		(128)	(674)
Gains on share redemption		5,578	-
		18,983	**(48)**
Expense			
Management fee	10	(2,491)	(3,064)
Performance fee	10	(931)	-
Administration fee		(182)	(245)
Other operating expenses		(390)	(826)
Total expenses		**(3,994)**	**(4,135)**
Net income before tax		**14,989**	**(4,183)**
Income tax expense	12	(165)	-
Net income after tax		**14,824**	**(4,183)**
Other comprehensive income for the year		-	-
Total comprehensive income/(loss) for the year		**14,824**	**(4,183)**

The accompanying notes on pages 11 to 30 are an integral part of these Consolidated financial statements.

Consolidated Statement of Financial Position
As of December 31, 2010

(in thousands of US Dollars)

	Notes	December 31, 2010	December 31, 2009
Assets			
Cash and cash equivalents	5	9,003	1,124
Financial assets designated at fair value through profit or loss	6	97,397	97,760
Deposits with banks	8	-	1,202
Loans receivable	7	3,440	14,605
Other assets		9	7
Total assets		**109,849**	**114,698**
Liabilities			
Performance fee payable	10	931	-
Management fee payable	10	318	772
Current tax liabilities	12	143	35
Deferred income	6	1,027	2,642
Accounts payable and accrued expenses		354	332
Total liabilities excluding net assets attributable to shareholders		**2,773**	**3,781**
Net assets attributable to shareholders	11	**107,076**	**110,917**
Number of redeemable shares in issue		**1,033,521**	**1,252,155**
Net asset value per redeemable share		**104**	**89**

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

John Elder
Director

James Keyes
Director

June 30, 2011

The accompanying notes on pages 11 to 30 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, 2010

(in thousands of US Dollars)

	Notes	***Number of redeemable shares***	***Net assets attributable to shareholders***
January 1, 2009		**1,532,154**	**122,100**
Repurchase of shares		(279,999)	(7,000)
Decrease in net assets attributable to shareholders from operations		-	(4,183)
Total loss for the year		**-**	**(11,183)**
December 31, 2009		**1,252,155**	**110,917**
Redemption of shares	11	(218,634)	(18,665)
Increase in net assets attributable to shareholders from operations		-	14,824
Total loss for the year		**-**	**(3,841)**
December 31, 2010		**1,033,521**	**107,076**

The accompanying notes on pages 11 to 30 are an integral part of these Consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended December 31, 2010

(in thousands of US Dollars)

	Notes	2010	2009
Cash flows from operating activities			
Increase/(decrease) in net assets attributable to shareholders from operations		**14,824**	**(4,183)**
Less gain on shares redemption		(5,578)	-
Adjustments to reconcile net loss resulting from operations to net cash used in operating activities		-	-
Increase/(decrease) in net assets attributable to shareholders from operations including adjustments		**9,246**	**(4,183)**
Net changes in operating assets and liabilities			
Decrease in financial assets designated at fair value through profit and loss		363	86
Decrease of loans receivable		11,165	5,495
Decrease of deposits with banks		1,202	3,289
Increase/(decrease) of current tax liabilities		108	(196)
Increase/(decrease) of accounts payable and accrued expenses		21	218
Increase/(decrease) of Performance fee payable		931	-
Decrease of Management fee payable		(454)	(7)
(Decrease)/increase of deferred Income		(1,615)	2,642
(Increase)/decrease of other assets		(2)	86
Cash generated from / (used in) operating activities		**20,965**	**7,430**
Cash flows from financing activity			
Share redemption	11	(13,086)	(7,000)
Net cash used in financing activity		**(13,086)**	**(7,000)**
Net increase in cash and cash equivalents		**7,879**	**430**
Cash and cash equivalents at the beginning of the year		1,124	694
Cash and cash equivalents at the end of the year		**9,003**	**1,124**

The accompanying notes on pages 11 to 30 are an integral part of these Consolidated financial statements.

(in thousands of US Dollars)

Notes to Consolidated Financial Statements

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, 2010 the Fund had no employees (2009: nil).

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

The consolidated financial statements of the Fund as at and for the year ended December 31, 2010 (the "consolidated financial statements") were authorised for issue in accordance with a resolution of the Board of Directors on June 30, 2011.

2. Basis of Preparation

2.1 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.

(in thousands of US Dollars)

2.2 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.

2.3 Basis of Consolidation

The consolidated financial statements comprise financial statements of RENFIN II LIMITED and its subsidiary – Ratto Holdings Ltd. The Fund owns 100% of the Subsidiary at December 31, 2010 and 2009.

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

3. Summary of Significant Accounting Policies

3.1 Changes in Accounting Policies and Disclosures

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

IFRS 3 Business Combinations (revised in January 2008) and IAS 27 Consolidated and Separate Financial Statements (revised in January 2008)

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July, 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change has no impact on goodwill, nor it gives rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards are applied prospectively. Adoption of the revised standard did not have a material effect on the financial performance or position of the Fund.

IAS 24 Related Party Disclosures (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after January 1, 2011, with earlier application permitted. The Fund has decided to early adopt the revised IAS 24 from January 1, 2010. Though, implementation of revised standard has no significant effect on the consolidated financial statement as neither the Fund no its Subsidiary are related to government.

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

The amendment to IAS 39 was issued in August 2008, and became effective for annual periods beginning on or after July 1, 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment did not affect the Fund’s consolidated financial statements as the Fund has not entered into any such hedges.

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and became effective for financial years beginning on or after January 1, 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. This amendment had no impact on the Fund’s consolidated financial statements.

(in thousands of US Dollars)

IFRIC 17 Distribution of Non-Cash Assets to Owners

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. This interpretation had no impact on the Fund's consolidated financial statements.

Improvements to IFRSs

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Fund, except the following amendments resulting in changes to accounting policies, as described below.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. Not applicable to the consolidated financial statements as Fund operates I one segment. IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Fund as it operates in one segment.

3.2 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.

(in thousands of US Dollars)

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.

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 marketplace are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

(iii) Derecognition

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

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

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

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

(iv) Initial Measurement

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

(in thousands of US Dollars)

(v) Subsequent Measurement

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

Subsequent changes in the fair value of those financial instruments are recorded in “Net 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 not yet purchased”.

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 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.

(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 8.

(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.

(in thousands of US Dollars)

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.

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.

(in thousands of US Dollars)

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 11.

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

(H) Cash and cash Equivalents

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

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

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

(I) Interest Income and Interest Expense

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

(J) Dividend Income 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.

(K) Fees and Commissions

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

(L) Net gain (loss) on Financial 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).

(in thousands of US Dollars)

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

4.1 Going Concern

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

4.2 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.

4.3 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.

4.4 Impairment of Investments

The Fund holds investments in several companies, including 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. Cash and Cash Equivalents

Outstanding balances of Cash and cash equivalents as of December 31, 2010 and December 31, 2009 are represented by current bank accounts of the Fund and the Subsidiary in large European banks: Reiffeisenbank Austria and JP Morgan Chase Bank, N.A (New York). There are no amounts of restricted cash as of December 31, 2010 and December 31, 2009.

(in thousands of US Dollars)

6. Financial Instruments Designated at Fair Value through Profit or Loss

At December 31, 2010 and 2009, financial assets designated at fair value through profit or loss comprised of the following non-traded ordinary shares:

	2010			2009		
	Percentage of ownership, %	**Cost**	**Fair value**	**Percentage of ownership, %**	**Cost**	**Fair value**
Chelindbank OAO	5.6%	15,975	11,282	5.6%	15,975	10,743
First Collection Bureau	15.0%	1,800	8,424	15.0%	1,800	4,921
FIRST REPUBLIC BANK COM	20.0%	18,064	23,285	20.0%	18,064	23,087
INSURANCE CO UNIVERSALNA	5.6%	15,000	1,714	5.6%	15,000	1,890
JSC Latvijas Krajbanka	4.7%	12,923	8,535	4.7%	12,923	11,772
LEVOBEREZHY BANK	10.0%	12,275	10,568	10.0%	12,275	8,952
Rosevrobank	1.5%	10,067	8,169	1.5%	10,067	7,367
Vostochny Commercial Bank (OJSC Orient Express Bank)	3.5%	18,149	18,267	4.0%	25,515	14,749
OJSC CB Hlynov (Unquoted equity participation note)	-	1,919	7,153	-	1,919	6,646
OJSC CB Kamabank	-	-	-	20.0%	17,380	7,633
		106,172	**97,397**		**130,918**	**97,760**

In the first half of 2010, a merger took place between OJSC Orient Express Bank and OJSC CB Kamabank. Each one share of OJSC CB Kamabank with nominal value of 1 RUB per share was exchanged for 7 shares of Vostochny Commercial Bank with nominal value of 0,01 RUB per share. As a result of this transaction the percentage of ownership in Vostochny Commercial Bank increased up to 6.5%.

Further during 2010 the Fund has sold part of its shareholding in Vostochny Commercial Bank (3.0%) for total cash consideration of USD 10,095. The realized loss on this transaction comprised USD 4,903.

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 Quest Advisory Restructuring Limited. In the consolidated financial statements the equity participation note was recognized at fair value of the underlying asset. The profit recognized at initial recognition of USD 3,792 (the "Day 1 profit") has been deferred and is amortised until the maturity at origination date of the Fund in June 2011 (the maturity was prolonged till June 2012). For the year 2010, an amount of USD 1,615, which is a proportion of deferred income related to 2010, has been recognized in the consolidated statement of comprehensive income as a part of net gain/(loss) on financial instruments designated at fair value through profit and loss.

As at December 31, 2010 there was a cumulative net unrealized loss of USD 8,775 (2009: loss of USD 33,158) on securities designated at fair value through profit and loss as compared to the cost of investment.

As of December 31, 2010 and 2009 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, 2010 and 2009.

(in thousands of US Dollars)

7. Loans Receivable

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

Borrower	Maturity	Interest rate	2010
Asental Investments Limited	September 1, 2011	25%	3,440
			3,440

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

Borrower	Maturity	Interest rate	2009
First Collection Bureau Ltd	February 1, 2010	15%-20%	9,317
Asental Investments Limited	June 30, 2010	25%	5,288
			14,605

In 2008 the Fund in syndication with Renaissance Russia Distressed Assets Limited (a related party to the Fund) has granted a loan to Marbin Investments Limited with maturity on January 1, 2009 for total amount of USD 15,339 (Fund's exposure amounting to USD 7,500).In 2009 after the borrower failed to meet its obligations Fund's share in this syndicated loan was replaced by the loan to Asental Investments Limited (subsidiary of Renaissance Russia Distressed Assets Limited) while Assental Investments Limited has repossessed collateral (commercial real estate) pledged under original syndicated loan. The only purpose of Asental Investments Limited is the disposal of repossessed commercial real estate and distribution of respective cash proceeds to original lenders of syndicated loan. During 2010 certain real estate objects were sold by Asental Investments Limited and amount of USD 1,848 (2009: USD 5,250) was repaid to the Fund.

8. Deposits with Banks

Outstanding balance as of December 31, 2009 USD 1,202 was represented by deposit in OJSC CB Kamabank, at interest of 11.5% per annum. The deposit was fully redeemed in the first half of 2010.

9. Fair Values of Financial Instruments

Financial Instruments Recorded at Fair Value

As of December 31, 2010 and 2009 fair value of the financial assets designated 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, the investments are classified as level 3 investments.

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

	2010	2009
Opening balance	**97,760**	**97,846**
Total gains less losses recognised in consolidated statement of comprehensive income	11,347	(4,647)
Deferred income	(1,615)	2,642
Cost of purchased securities	-	1,919
Sale proceeds	(10,095)	-
Closing balance	**97,397**	**97,760**

(in thousands of US Dollars)

In 2010 fair value of investments in banks, except on Vostochny Commercial Bank, was calculated using transaction multiples method (2009: combined guideline and transaction). The most significant key assumptions used in estimating fair value of investments in banks using pricing models were P/TA (price to total assets) multiple, P/NA (price to net assets) multiple and control premium. Multiples used are presented below:

	2010	**2009**
P/TA	0.17	0.20
P/NA	1.47	1.50
Control premium	30%	30%

Fair value of investments valued based on average price to P/TA and P/NA multiples. The potential effect of measuring the fair value of these investments based on only P/TA multiple, which is considered a reasonable possible alternative assumption, would have increased the fair value by USD 6,354. In case these investments are measured based on only P/NA respective fair value would have been reduced by USD 6,354. Increase or decrease of control premium by 10% will cause respective change in fair value amounting to USD 3,783.

Fair value of Vostochny Commercial Bank was determined based on price of recent transaction with the shares of this bank.

Fair value of investment in insurance company was determined as average of values applying trading and transactions P/GWP multiples. The most significant assumptions also included: discount for lack of marketability applied to trading multiples (15%) and discount for lack of control applied to transaction multiples (30%). The potential effect of measuring fair value based only on trading multiple or only transaction multiples, which is considered a reasonable possible alternative assumption, would have reduced/increased fair value by USD 321 respectively. Increase or decrease of liquidity discount by 10% will cause respective change in fair value for USD 85. Increase or decrease of control discount by 10% will cause respective change in fair value for USD 75.

Investment in First Collection Bureau was valued based on discounted cash flow model. 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 Weighted Average Cost of Capital method. The most significant assumptions and analysis of fair value sensitivity to their changes presented below:

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

10. 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.

As at December 31, 2010 the Fund's net assets value per share (before deduction of management and performance fees) exceeded initial issue price by US Dollar 4,5. The performance fees for the year amounted to USD 931. In 2009 no accrual of the performance fee has been recorded in the consolidated statement of comprehensive income, since the net assets attributable to shareholders were lower than the aggregate issue price of the Redeemable shares.

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.
As at December 31, 2010 the amount of management fee payable amounted to USD 318 (2009: USD 772).

(in thousands of US Dollars)

11. 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 Redeemable shares of US Dollar 0.01 each.

The Investment Manager owns 100% of the Management shares.

As at December 31, 2010 and December 31, 2009 100 Management shares have been issued at US Dollar 0.01 each and 1,033,521 (2009: 1,252,155) profit participating, non-voting redeemable shares have been issued at US Dollar 0.01 each.

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

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

The Fund does not have externally exposed 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, capital distribution or as a partial voluntary redemption of shares.

During 2010 and 2009 the Fund did not declare any dividends or performed distributions.

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

In accordance with the terms of its offering documents the Fund reports its net assets attributable to shareholders of 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:

- A net unrealized loss on unquoted financial assets designated at fair value has been recognized;
- An accrual for performance fee has been recognised; and
- Other adjustments for expense accruals have been recorded.

(in thousands of US Dollars)

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.

	2010	2009
Net assets attributable to shareholders as reported to shareholders	**99,869**	**117,386**
Unrealised gain/(loss) on financial assets designated at fair value	9,233	(4,331)
Income tax accrual	(143)	-
Accrual of performance fee	(931)	-
Deferred income	(1,027)	(2,642)
Other adjustments	75	504
Adjusted net assets attributable to shareholders per consolidated financial statements	**107,076**	**110 917**
Net asset value per redeemable share as reported to shareholders of Redeemable shares (in US dollars)	97	94
Adjustments per redeemable share (in US dollars)	7	(5)
Net asset value per Redeemable share per these consolidated financial statements (in US dollars)	**104**	**89**

12. 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).

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:

	2010	2009
Accounting (loss)/income before tax	**14,989**	**(4,183)**
Theoretical tax expense calculated at the Fund's statutory tax rate (0%)	-	-
Tax effect of subsidiary's result calculated at other tax rates	1,380	(830)
Tax effect of non deductible expense less tax exempt income	(1,233)	830
Income tax expense	**147**	**-**
Utilization of tax losses brought forward	(17)	-
Additional tax	13	-
Withholding tax	22	-
Income tax expense	**165**	**-**

As of December 31, 2010 there are no tax losses to be carried forward (2009: USD 170).

(in thousands of US Dollars)

13. Commitments and Contingencies

Operating Environment

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

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could affect the Fund's future 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.

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.

14. 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 or three years.

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

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 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.

14.1 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 2010	**Maximum exposure 2009**
Cash and cash equivalents	9,003	1,124
Loans and receivables	3,440	14,605
Deposits with banks	-	1,202
Other assets	9	7
Total credit risk exposure	**12,452**	**16,938**

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

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

As at December 31, 2009	**A+/A-1**	**Aaa.ru**	**Not rated**	**Total**
Cash and cash equivalent	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**

As of December 31, 2010 and 2009 the Fund had neither past due financial assets, nor individually impaired assets.
Counterparty credit risk is managed through the internal developed system of counterparty limits. The counterparty limits are established by the Investment Manager. Adherence to those limits is monitored by Investment Manager on a daily basis. Counterparty limits bound the maximum amount of all unsettled trades (exposure) for all products with each respective counterparty.

(in thousands of US Dollars)

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 JP Morgan Chase Bank, N.A. 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.
The geographical concentration of Fund's assets and liabilities is set out below:

				2010				2009
	CIS	**Cyprus**	**Other**	**Total**	**CIS**	**Cyprus**	**Other**	**Total**
Assets:								
Cash and cash equivalents	484	-	8,519	9,003	70	-	1,054	1,124
Financial assets designated at fair value through profit or loss	97,397	-	-	97,397	97,760	-	-	97,760
Deposits with banks	-	-	-	-	1,202	-	-	1,202
Loans and receivables	3,440	-	-	3,440	14,605		-	14,605
Other assets	9	-	-	9	7	-	-	7
	101,330	**-**	**8,519**	**109,849**	**113,644**	**-**	**1,054**	**114,698**
Liabilities:								
Management fee payable	-	-	318	318	-	-	772	772
Performance fee payable	-	-	931	931	-	-	-	-
Deferred income	1,027	-	-	1,027	2,642	-	-	2,642
Tax payable	-	143	-	143	-	35	-	35
Accounts payable and accrued expenses	-	354	-	354	-	332	-	332
	1,027	**497**	**1,249**	**2,773**	**2,642**	**367**	**772**	**3,781**
Net position	**100,303**	**(497)**	**7,270**	**107,076**	**111,002**	**(367)**	**282**	**110,917**

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

14.2 Liquidity Risk and Funding Management

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

The Fund has a term of four years and may extend the term by up to one year. Prior to the expiration of the Fund's term, shareholders may not redeem their shares. The Fund is currently extended for the first time till June 18, 2012.

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

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

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

(in thousands of US Dollars)

a) Analysis of Financial Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the Fund's financial liabilities at December 31, 2010 and 2009 based on contractual undiscounted repayment obligations.

	December 31, 2010				December 31, 2009		
	Less than 3 months	**3 month -1year**	**Over 1 year**	**Total**	**Less than 3 months**	**Over 1 year**	**Total**
Deferred income	-	1,027	-	1,027	-	2,642	2,642
Performance fees	-	-	931	931	-	-	-
Current tax liability	143	-	-	143	35	-	35
Management fees	318	-	-	318	772	-	772
Accounts payable and accrued expenses	354	-	-	354	332	-	332
Total undiscounted financial liabilities	**815**	**1,027**	**931**	**2,773**	**1,139**	**2,642**	**3,781**

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

14.3 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 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.

14.4 Other Price Risk

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

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

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

At December 31, 2010 and 2009 no investments in any single instrument exceeded the set limits.

14.5 Value-at-risk

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

For closed-end funds the approach to VaR calculation is as following. VaR is derived using standard deviation of the fund share return calculated using 2-year history. Thus fund share daily VaR is calculated using 95% (2009: 99%) confidence interval. Then VaR figure is interpolated to the fund portfolio which allows calculating value at risk in US Dollar.

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

(in thousands of US Dollars)

At December 31, 2010 and 2009, the Fund's overall market VaR is set out below:

	December 31, 2010	December 31, 2009
VAR of the portfolio	2,446	3,300
VaR/NAV ratio	2.21%	2.95%

14.6 Currency Risk

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

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

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

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

The table below indicates the currencies to which the Fund had significant exposure at December 31, 2010 and 2009 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 % 2010	Effect on change of net assets attributable to shareholders (before tax) 2010	Change in currency rate in % 2009	Effect on change of net assets attributable to shareholders (before tax) 2009
Russian Ruble (upper border)	10.6%	(107)	15%	1,568
Russian Ruble (lower border)	(10.6)%	107	(15)%	(1,568)
Euro (upper border)	8.9%	-	12%	28
Euro (lower border)	(8.9)%	-	(12)%	(28)

14.7 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 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.

15. 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.

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

The Fund has a term of four years and may extend the term by up to one year. Prior to the expiration of the Fund's term, shareholders may not redeem their shares. The Fund is currently extended for the first time till June 18, 2012.

(in thousands of US Dollars)

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

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

	2010			2009		
	Within one year	**More than one year**	**Total**	**Within one year**	**More than one year**	**Total**
Cash and cash equivalents	9,003	-	9,003	1,124	-	1,124
Financial assets designated at fair value through profit or loss	-	97,397	97,397	-	97,760	97,760
Deposits with banks	-	-	-	1,202	-	1,202
Loans and receivables	3,440	-	3,440	14,605	-	14,605
Other assets	9	-	9	7	-	7
Total	**12,452**	**97,397**	**109,849**	**16,938**	**97,760**	**114,698**
Management fee payable	318	-	318	772	-	772
Tax payable	143	-	143	35	-	35
Performance fee payable	-	931	931			
Deferred Income	-	1,027	1,027	-	2,642	2,642
Accounts payable and accrued expenses	354	-	354	332	-	332
Total	**815**	**1,958**	**2,773**	**1,139**	**2,642**	**3,781**
Net position	**11,637**	**95,439**	**107,076**	**15,799**	**95,118**	**110,917**

16. 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 2010 and 2009.

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

	2010		2009	
	Investment manager	**Entities under common control**	**Investment manager**	**Entities under common control**
Management fee payable at January 1	772	–	779	–
Management fee accrued	2,491	–	3,064	–
Management fee paid	2,945	–	3,071	–
Management fee payable at December 31	318	–	772	–
Performance fee payable at January 1	–	–	–	–
Performance fee accrues / (reversed)	931	–	–	–
Performance fee payable at December 31	931	–	–	–
Loans and receivables	–	3,440	–	5,288
Accounts payable and accrued expenses	–	5	–	196

In 2010 and 2009 the Fund had no significant transactions with its Directors, except for directors fees accrued during the year 2010 in amount of USD 54 (2009: USD 15).

(in thousands of US Dollars)

17. Events after the Reporting Date

In June 2011 the Fund sold its share in OJSC Orient Express Bank (3.6% as of December 31, 2010) at price of RUB 0.24 per share. Sale proceeds comprised USD 19,550. The realized gain comprised USD 1,401.

On June 9, 2011 the directors of the Fund approved a distribution in cash of US Dollars 24.18 per share, which reflects a total distribution of US Dollars 25 million.