RENFIN LIMITED

Consolidated Financial Statements 2012
International Financial Reporting Standards

Consolidated Financial Statements and Report of the Independent Auditors for the year ended December 31, 2012

Contents

.

Company information

Directors	David Blair (appointed on June 13, 2007) John Elder (appointed on September 22, 2010) Adrian Harris (appointed on October 13, 2011)
Registered office	Jayla Place Wickhams Cay 1 Road Town Tortola VG1110 British Virgin Islands
Investment manager	Kashtan Limited Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108
Advisor to Investment manager	(From April 16, 2012) Renaissance Asset Managers (Guernsey) Limited Hirzel Court St Peter Port Block F GY1 2NH Guernsey (Until April 16, 2012) 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 Global Fund Services Ltd 60 Tigne Towers Tigne Street Sliema SLM 3172 Malta
Secretary	Appleby Corporate Services (BVI) Limited Palm Grove House PO Box 3190 Road Town Tortola British Virgin Islands
Custodian	ING Bank (Eurasia, Russia) CJSC 36 Krasnoproletarskaya Moscow 127473 Russia
Independent auditors	Ernst & Young Sadovnicheskaya nab.77, bld.1 Moscow 115035 Russia

Company information

General legal advisors

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	Appleby Securities (Bermuda) Ltd. Canon's Court 22 Victoria Street PO Box HM 1179 Hamilton HM EX Bermuda

Investment manager's report

RenFin Limited (the "Fund") raised USD 200 million in November 2006 to capitalize on the growth opportunities in the financial sector in Russia and the Commonwealth of Independent States ("CIS"). The Fund's strategy at inception was to build a diversified portfolio comprising fast-growing banks and non-banking financial institutions with sound strategies and strong management teams looking for ways to strengthen their performance and market share ahead of an IPO or a private sale. Currently the Fund is in divestment stage. As of December 31, 2012 the Fund had six equity investments in its portfolio representing minority equity stakes in Russian regional and Moscow-based banks with strong regional presence.

Overall, 2012 was a positive year for all asset classes that we track excepting commodities, with the MSCI World Index up +13.18%, the MSCI Emerging Markets Index up +15.15% and the JPM Aggregate Bond Index up +4.05%. Rapid declines took place in May 2012. Certain segments of the fixed income market such as emerging market debt experienced strong inflows and on average delivered upper teens returns in 2012. The Russian market (RTS) was up +10.5% and the MICEX financials index (rebased into USD) was up some +1.12%.

The Russian banking sector demonstrated very good performance again: total assets grew by +18.9%, loan portfolio increased by +18.4% and customers deposits grew by +15.5%; average ROA and ROE improved to 2.0% and 16.6% respectively from 2.0% and 16.2% in 2011, but still fall short of pre-crisis 3% ROA and 20% ROE. Nevertheless, situation on the Russian equity market is still difficult and volatile. Shares of the financial institutions continue to be traded with significant discount to the equity.

During 2012 the Fund was actively seeking buyers for a number of assets and these discussions were proceeding as communicated to investors.

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

The global sentiment towards Russia was further damaged by the demonstrations against the Russian government and President. Though these protests have diminished in size and frequency they have had an impact upon the perception of Russia as an investment destination.

Russia's economic growth whilst still positive in real terms has, in line with the global environment, declined and is hovering around the +2% growth level on an annualised basis.

In addition to this we still see a spill-over effect from the overall weakness of the global economy that on one hand affect Fund's investment and on the other hand it makes many potential investors in Russia to shy away, thus limiting the Fund's exits opportunities.

On a micro basis, we firmly believe that the situation in the Russian banking sector will continue to improve albeit at a slower pace than 2012, and therefore we remain positive about the prospects of future growth of the Fund.

Kashtan Limited
Investment manager of RenFin Limited

ERNST & YOUNG

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditors' report

To the Shareholders and Board of Directors of RENFIN LIMITED

Introduction

We have audited the accompanying consolidated financial statements of RENFIN LIMITED and its subsidiary Rekha Holdings Limited (together the "Fund"), which comprise the consolidated statement of financial position as of December 31, 2012, 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 information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

June 28, 2013

Consolidated statement of comprehensive income for the year ended December 31, 2012

(in thousands of US Dollars)

	Notes	**2012**	**2011**
Income			
Dividend income from investment securities available-for-sale		2,085	1,709
Interest income		148	135
Net realized gain on investments available-for-sale	7,8	24	4,950
Net foreign exchange (loss)/gain		(171)	153
Net gain from financial instruments at fair value through profit or loss	6	–	1,987
Net gain on shares redemption	11	–	6,366
Total operating income		**2,086**	**15,300**
Expenses			
Management fee	10	(2,212)	(2,679)
Performance fee reversal	10	986	3,467
Impairment on investment securities available-for-sale	7,8	(4,232)	(18,652)
Administration fees		(82)	(93)
Other operating expenses		(199)	(914)
Total expenses		**(5,739)**	**(18,871)**
Finance costs			
Distributions to shareholders		(3,025)	–
Operating loss before income tax expense		**(6,678)**	**(3,571)**
Income tax expense	12	(104)	(89)
Decrease in net assets attributable to shareholders from operations		**(6,782)**	**(3,660)**
Decrease in investment securities available-for-sale	8	(8,532)	(13,724)
Other comprehensive loss for the year		**(8,532)**	**(13,724)**
Decrease in net assets attributable to shareholders from operations after other comprehensive loss		**(15,314)**	**(17,384)**

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

Consolidated statement of financial position as of December 31, 2012

(in thousands of US Dollars)

	Notes	December 31, 2012	December 31, 2011
Assets			
Cash and cash equivalents	5	3,793	5,021
Loans and receivables	9	-	2,113
Financial assets designated at fair value through profit or loss	6,8	16,947	16,767
Investment securities available-for-sale	7,8	95,793	108,683
Other assets and prepaid expenses		9	6
Total assets		**116,542**	**132,590**
Liabilities			
Management fee payable	10	582	509
Accounts payable and accrued expenses		270	271
Financial liabilities designated at fair value through profit or loss	6,8	16,947	16,767
Performance fee payable	10	-	986
Total liabilities excluding net assets attributable to shareholders		**17,799**	**18,533**
Net assets attributable to shareholders	11	**98,743**	**114,057**
Number of participating shares in issue	11	1,099,972	1,099,972
Net asset value per participating share (in US Dollars)		**89.77**	**103.69**

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

John Elder
Director

David Blair
Director

June 28, 2013

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

Consolidated statement of changes in net assets attributable to shareholders for the year ended December 31, 2012

(in thousands of US Dollars)

	Notes	**Number of participating shares**	**Net assets attributable to shareholders**
January 1, 2011	11	**1,599,972**	**177,807**
Shares redemption	11	(500,000)	(46,366)
Net unrealized gain on investment securities available-for-sale	8	–	(13,724)
Increase in net assets attributable to shareholders from operations		–	(3,660)
December 31, 2011	11	**1,099,972**	**114,057**
Net unrealized loss on investment securities available-for-sale	8	–	(8,532)
Decrease in net assets attributable to shareholders from operations		–	(6,782)
December 31, 2012	11	**1,099,972**	**98,743**

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

Consolidated statement of cash flows for the year ended December 31, 2012

(in thousands of US Dollars)

	2012	2011
Cash flows from operating activities		
Decrease in net assets attributable to shareholders from operations	(6,782)	(3,660)
Net gain on shares redemption	–	(6,366)
Distribution to shareholders	3,025	–
Net changes in operating assets and liabilities		
(Increase)/decrease in financial assets designated at fair value through profit or loss	(180)	3,086
Decrease/(increase) in loans and receivables	2,113	(2,113)
Decrease in investment securities available-for-sale, net of change in revaluation reserve	4,358	52,959
(Increase)/decrease in other assets and prepaid expenses	(3)	4
Increase/(decrease) in management fee payable	73	(475)
Decrease in performance fee payable	(986)	(3,467)
Increase/(decrease) in financial liabilities designated at fair value through profit or loss	180	(5,073)
Decrease in accounts payable and accrued expenses	(1)	(79)
Cash provided by operating activities	**1,797**	**34,816**
Cash flows from financing activities		
Distribution to shareholders	(3,025)	–
Redemption of participating shares	–	(40,000)
Cash used in financing activities	**(3,025)**	**(40,000)**
Net decrease in cash and cash equivalents	**(1,228)**	**(5,184)**
Cash and cash equivalents at the beginning of the year	**5,021**	**10,205**
Cash and cash equivalents at the end of the year	**3,793**	**5,021**
Supplementary information:		
Dividend income, net of withholding tax	1,981	1,620
Interest income	261	22

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

Notes to Consolidated Financial Statements

1. Corporate Information

These consolidated financial statements include the financial statements of RENFIN LIMITED (the "Fund") and its wholly owned subsidiary Rekha Holdings Ltd. (the "Subsidiary").

RENFIN LIMITED was incorporated under the laws of the British Virgin Islands on September 14, 2006 as a closed-end limited liability exempted company. Its registered office is at Jayla Place, VG1110, Wickhams Cay 1, Tortola, the British Virgin Islands.

The Fund makes all its investments through the Subsidiary.

Rekha Holdings Ltd. was incorporated under Cyprus Companies Law, CAP.113 on July 13, 2006, as a private limited liability company.

In accordance with the Offering Memorandum the initial investment objective of the Fund is to achieve medium term capital growth through investments in financial institutions whose principal operations are located in Russia or other states of Commonwealth of Independent States ("CIS") region and are planning to undertake an initial public offering ("IPO") 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 CIS region.

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 initially appointed an Advisor to Investment Manager, Renaissance Capital Investment Management Limited, to advise the Investment Manager on implementation of the Fund's investment strategy. On April 16, 2012 new investment advisor was appointed by the Fund – Renaissance Asset Managers (Guernsey) Limited.

The Fund's administrator is Custom House Global Fund Services (Malta) Limited (the "Administrator").

The Fund's custodian is ING Bank (Eurasia, Russia) CJSC (the "Custodian").

As of December 31, 2012 the Fund had no employees (2011: nil).

In accordance with the Offering Memorandum the Fund has a term of three years from the commencement date of November 27, 2006, provided that the Directors may extend the term of the Fund for up to two successive one year periods. On March 4, 2010 the maturity of the Fund has been extended for the second time for one year till November 27, 2011.

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

- June 29, 2011, establishing a new term of October 30, 2012;
- July 25, 2012, establishing a new term of October 31, 2013.

The latest extension was made on June 17, 2013 amending the Fund's term to October 30, 2014.

The consolidated financial statements of the Fund as at and for the year ended December 31, 2012 (the "consolidated financial statements") were authorized for issue on June 28, 2013.

2. Basis of Preparation

2.1 General

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

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

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

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

2.2 Statement of compliance

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

2.3 Basis of consolidation

The Fund owns 100% of the Subsidiary at December 31, 2012 and 2011.

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

3. Summary of significant accounting policies

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 noted below:

Amendments to IFRS 7 Financial Instruments: Disclosures

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after July 1, 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Fund’s financial statements to evaluate the risk exposures relating to those assets. The amendment affects disclosure only and has no impact on the Fund’s financial position or performance.

3.2 Standards issued but not yet effective

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

Amendments to IAS 19 Employee Benefits

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

Amendments to IAS 1 Changes to the presentation of the Other Comprehensive Income

The amendments to IAS 1 *Presentation of Financial Statements*, effective for annual periods beginning on or after July 1, 2012, change the grouping of items presented in other comprehensive income. Items that could be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The Fund expects that these amendments will have no impact on the Fund's consolidated financial position.

IAS 27 Separate Financial Statements (as revised in 2011)

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

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

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

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

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

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. It will be necessary to assess the impact to the Fund by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right ot offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Fund’s examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

These amendments become effective for annual periods beginning on or after January 1, 2014.

Amendment to IFRS 1 – Government loans

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. These amendments are not applicable for the Fund.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Fund will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. It is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. Currently the Fund evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities (“JCEs”) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Fund expects that adoption of IFRS 11 will have no effect on its financial position and performance.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 is effective for annual periods beginning on or after January 1, 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. In particular, the Fund will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored. However, the standard will have no impact on Fund's financial position or performance.

IFRS 13 – Fair Value measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Fund assets and liabilities accounted for at fair value. Currently the Fund evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

Improvements to IFRS

The amendments are effective for annual periods beginning on or after 1 January 2013. They will not have an impact on the Fund.

- *IFRS 1 First-time Adoption of International Financial Reporting Standards:* This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
- *IAS 1 Presentation of Financial Statements*: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- *IAS 16 Property Plant and Equipment*: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- *IAS 32 Financial Instruments, Presentation*: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.
- *IAS 34 Interim Financial Reporting:* The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

3.3 Significant Accounting Policies

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

(A) Financial Instruments

(I) Classification

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

Financial Assets and Liabilities at Fair Value through Profit or Loss

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

Financial Instruments Held for Trading

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

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 Fund's 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.

(II) Recognition

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

(III) Derecognition

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

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

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

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

(IV) Initial Measurement

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

Embedded derivatives separated from the host contract are carried at fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

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

(V) Subsequent Measurement

After initial measurement, the Fund measures financial instruments which are classified as at fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in “Net gain/(loss) from financial instruments at fair value through profit or loss” in the consolidated statement of comprehensive income. Interest earned and dividend revenue elements of such instruments are recorded separately in “Interest income” and “Dividend income from investment securities available-for-sale” respectively.

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.

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.

(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 recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

(E) Foreign Currency Translations

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

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

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

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

As of the reporting date, the assets and liabilities of the Subsidiary are translated into the presentation currency of the Fund at the rate of the exchange ruling at the reporting date and its consolidated statement of comprehensive income is translated at the weighted average rate for the respective year.

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

(F) Due from and Due to Brokers

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

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

(G) Participating Shares

The shares are not 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.

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

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

Net assets attributable to shareholders are calculated in accordance with the Fund's offering memorandum. Valuation of net assets attributable to shareholders as reported to shareholders is different from the IFRS valuation requirements. The difference between the two valuations is reported in Note 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, current accounts, demand deposits, short-term deposits in banks with original maturities of three months or less and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

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

(I) Interest Income and Interest Expense

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

(J) Dividend Income

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

(K) Fees and Commissions

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

(L) Net Gain/(Loss) from Financial Instruments at Fair Value through Profit or Loss

This item includes changes in the fair value of financial assets and liabilities held for trading or 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 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 Subsidiary is liable for income tax in Cyprus on its taxable income (which excludes capital gains on trading of securities either of a revenue or capital nature) at a flat rate of 10%. All expenses wholly and exclusively incurred in the production of taxable income are deductible for Cypriot tax purposes (expenses relating to the trading of securities will not be allowed for tax purposes).

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

4.1 Going Concern

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

4.2 Functional Currency

The primary objective of the Fund is to generate returns in US Dollar, its capital-raising currency. The term of the Fund is limited and thus its liquidity is managed on a regular basis in US Dollar in order to handle the acquisition of its shares at the end of the Fund's term. The Fund's performance is evaluated in US Dollar. Therefore, the management considers the US Dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

4.3 Fair Value of Financial Instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity, selection of peer companies and appropriate valuation multiples and model inputs such as control premium and other adjustments. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

4.4 Impairment of Investments

The Fund holds available-for-sale investments in several companies and 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.

4.5 Income Taxes

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

5. Cash and Cash Equivalents

Outstanding balances of Cash and cash equivalents as of December 31, 2012 and 2011 are represented by current bank accounts in large European and Russian banks in total amount of USD 3,793 (2011: USD 5,021). There are no amounts of restricted cash as of December 31, 2012 and 2011.

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

	2012	***2011***
Assets		
JSCB Probusinessbank ordinary shares (124,151 ordinary shares)	16,947	16,767
Total	**16,947**	**16,767**
Liabilities		
Equity Linked Note Issued (Unlisted)	16,947	16,767
Total	**16,947**	**16,767**

In 2007 the Fund acquired 124,151 ordinary shares of JSCB Probusinessbank for USD 23,281 from Agrera Investments Ltd. (Cyprus), a related party. On the same date the Fund issued an Equity Linked Note for USD 23,281, purchased by the same related party. The Equity Linked Note gives Agrera Investments Ltd. the right to receive any dividends or other distributions arising from the JSCB Probusinessbank shares, and the right to receive any proceeds resulting from the disposal of those shares.

An unrealized gain resulted from increase of fair value of the assets designated at fair value through profit or loss amounting to USD 180 in 2012 (2011: loss USD 3,086) and a corresponding unrealized loss from increase of respective financial liabilities (Equity Linked Note Issued) fair value amounting to USD 180 was included within the same line of the consolidated statement of comprehensive income (2011: gain from decrease USD 3,086). Consequently, the net effect of changes in fair value of these financial instruments at fair value through profit or loss comprised USD nil in 2012 (2011: USD nil).

In 2011 net gain from financial instruments at fair value through profit and loss amounted to USD 1,987and was attributable to derivative liability which expired during 2011.

7. Investment Securities Available-for-Sale

As of December 31, 2012 and 2011 investment securities available-for-sale are comprised of the following non-traded ordinary shares:

	December 31, 2012			*December 31, 2011*		
	Percentage of ownership, %	***Cost***	***Fair value***	***Percentage of ownership, %***	***Cost***	***Fair value***
OJSC Rosevrobank ACB	8.05%	42,952	41,323	8.07%	43,082	47,852
OJSC Centre Invest CB	8.15%	27,957	19,358	8.15%	27,957	20,310
JSCB Probusinessbank	3.61%	15,230	16,947	3.61%	15,230	16,767
OJSC Hlynov CB	19.99%	8,101	12,072	19.99%	8,101	13,853
OJSC InvestBank	12.23%	26,982	4,617	12.23%	26,982	8,330
OJSC SKB Bank	0.53%	1,697	1,476	0.53%	1,697	1,571
		122,919	**95,793**		**123,049**	**108,683**

In April 2012, the Fund sold 70,000 shares of OJSC Rosevrobank for total consideration of USD 150. Net realized gain from disposal of investment securities available-for-sale in the consolidated statement of comprehensive income comprised USD 24 (2011: USD 4,950). As a result this disposal the Fund's share in OJSC Rosevrobank decreased from 8.07% as of December 31, 2011 to 8.05%.

	Unrealized gain/(loss) on investment securities available-for-sale
	USD
January 1, 2011	**31,549**
Net unrealized loss on investment securities available-for-sale	(30,425)
Gain on disposal of investment securities available-for-sale	(1,951)
Impairment of investment securities available-for-sale	18,652
December 31, 2011	**17,825**
Net unrealized loss on investment securities available-for-sale	(12,748)
Gain on disposal of investment securities available-for-sale	(18)
Impairment of investment securities available-for-sale	4,232
December 31, 2012	**9,291**

As of December 31, 2012 the Fund identified an objective evidence of impairment of OJSC InvestBank, OJSC Rosevrobank and OJSC SKB Bank and recognized the respective impairment loss of USD 4,232 in the statement of comprehensive income.

As of December 31, 2011 the Fund identified an objective evidence of impairment of OJSC InvestBank and recognised the respective impairment loss of USD 18,652 in the statement of comprehensive income.

Refer to Note 8 for detailed disclosures on fair value of investment securities available-for-sale.

8. Fair Value of Financial Instruments

Financial Instruments Recorded at Fair Value

As of December 31, 2012 and 2011 fair value of the investment securities available-for-sale and financial assets/liabilities 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, all the investments are classified as level 3 investments.

The following tables show 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.

Investment securities available-for-sale:

	2012	*2011*
Opening balance	**108,683**	**175,366**
Net unrealized loss recognized in other comprehensive income	(8,532)	(13,724)
Realized gain recognized in consolidated statement of comprehensive income	24	4,950
Impairment of investment securities available-for-sale	(4,232)	(18,652)
Sales proceed on investment securities available-for-sale	(150)	(39,257)
Closing balance	**95,793**	**108,683**

Total losses for the year included in profit or loss for assets held at the end of the reporting year comprised impairment of investment securities available-for-sale (Note 7).

Financial assets and liabilities designated at fair value through profit and loss:

		2012		*2011*	
	Notes	***Assets***	***Liabilities***	***Assets***	***Liabilities***
Opening balance	6	**16,767**	**(16,767)**	**19,853**	**(21,840)**
Revaluation of JSCB Probusinessbank ordinary shares	6	180	–	(3,086)	–
Revaluation of Equity Linked Note Issued		–	(180)	–	3,086
Gain on termination of derivative financial liability	6	–	–	–	1,987
Closing balance		**16,947**	**(16,947)**	**16,767**	**(16,767)**

In 2012 and 2011 fair value of investments in financial institutions was calculated using guideline companies method under market approach based on transaction multiples.

In 2012 the most significant key assumptions used in estimating fair value of investments in financial institutions using pricing models were the following:

	2012	*2011*
Price to net assets multiple	0.95	1.20
Premium for additional shareholder rights	10%	30%
Discount for specific circumstances	80%	58%

Increase or decrease of premium for additional shareholder rights by 10%, which is considered a reasonably possible alternative assumption, will cause respective change in fair value amounting to USD 4,854 (2011: USD 4,747).

As of December 31, 2012 the Fund had applied 80% discount for specific circumstances to fair value of one of the investments. Increase or decrease of this adjustment by 10%, which is considered a reasonably possible alternative assumption, will cause respective change in fair value of this investment by USD 2,309 (2011: USD 1,983).

As of December 31, 2012 and 2011 the Fund has entered into a number of put option agreements related to investment securities available-for-sale. In accordance with terms of these contracts, the Fund has a right to dispose of the shares at a fixed or determinable price in case of certain financial or non-financial conditions are not met either by the investee or by other shareholders of the investee. The fair value of these options approximated zero as of December 31, 2012 and 2011.

9. Loans and Receivables

As of December 31, 2012 the Company had no loans and receivables (2011: USD 2,113). The loan outstanding as of December 31, 2011 was granted on March 9, 2011 under an interest rate of 10% p.a. and was fully repaid during 2012. The loan was secured by the shares of Da Vinci Group with fair value of USD 627 as of December 31, 2011.

10. Performance and Management Fees

In accordance with the Investment Management Agreement the Fund pays the Investment Manager a performance fee equal to 20% of all amounts otherwise distributable to the holders of participating shares (whether as dividends, distributions or upon liquidation) in excess of the aggregate issue price for the participating shares.

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

As of December 31, 2012, the Fund's net assets value per share (before deduction of management and performance fees) did not exceed initial issue price. Thus, the Fund reversed the performance fee accrued in 2011 in amount of USD 986.

As of December 31, 2011 the Fund's net assets value per share (before deduction of management and performance fees) exceeded initial issue price by US Dollar 4.5. Accordingly the Fund reversed the performance fee accrued in 2010 in amount of USD 3,467.

As of December 31, 2012 the amount of performance fee payable amounted to USD nil (2011: USD 986).

The Fund pays the Investment Manager a management fee equal to 2% per annum of the total capital invested, provided that such fees will not exceed 2% of the aggregate issue price for the participating shares. Management Fees are generally paid quarterly in arrears or at such other times as the Directors, with the consent of the Investment Manager, may determine. For the year ended December 31, 2012 the amount of Management fee expense amounted to USD 2,212 (2011: USD 2,679). Aggregate issue price was lower than total capital invested and was used as a basis for management fees accrual in 2012 and 2011. The amount of management fee payable was equal to USD 582 as of December 31, 2012 (2011: USD 509).

11. Net assets Attributable to Shareholders

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

The Investment Manager owns 100% of the Management shares.

As of December 31, 2012 and 2011 100 Management shares have been issued at USD 0.01 each and 1,099,972 profit participating shares have been issued at USD 0.01 each.

As the result of the Tender Offer held on June 27, 2011 the 500,000 ordinary shares of the Fund were redeemed at cash consideration amounting to USD 40,000 (US Dollar 80 per share). Redeemed shares were cancelled. The difference between the carrying amount, being the net assets value calculated in accordance with IFRS at the date of redemption, and the consideration paid was recognized in consolidated statement of comprehensive income amounting to USD 6,366.

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 Management shares.

Rights of the Participating Shares

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

Winding up

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

Distributions

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

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

During 2012 the Fund declared and executed distributions in total amount of USD 3,025 (2011: nil), representing 2.75 US Dollars per participating share.

Capital management

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

The Fund's objectives for managing capital are:

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

Refer to Financial risk management objectives and policies (Note 14) for the policies and processes applied by the Fund in managing its capital.

As of December 31, 2012 and 2011, the Fund's operations were funded by issued non-voting participating shares.

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

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

- Unrealized (loss)/gain on investment securities available-for-sale resulted from the revaluation of the fair value of these investment securities;
- Impairment of investment securities available-for-sale;
- Other adjustments including accruals.

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

	2012	***2011***
Net assets attributable to shareholders as reported to shareholders	**111,253**	**150,481**
Unrealized loss on investment securities available-for-sale	(8,500)	(26,778)
Impairment of investment securities available-for-sale	(4,232)	(18,652)
Correction of realized gain on investment securities available-for-sale	(13)	(2,177)
Performance fee reversal	314	9,135
Income tax reversal	120	120
Other adjustments	(199)	1,928
Adjusted net assets attributable to shareholders per consolidated financial statements	**98,743**	**114,057**
Net asset value per participating share as reported to holders of participating shares (in US Dollars)	101.14	136.80
Adjustments per participating share (in US Dollars)	(11.37)	(33.11)
Net asset value per participating share per these consolidated financial statements (in US Dollars)	**89.77**	**103.69**

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 participating shares, nor any taxes on the shareholders in the nature of estate duty, inheritance or capital transfer tax.

Cyprus

The Fund is subject to corporation tax under the laws of Cyprus on its taxable profits at the rate of 10%. Capital gains derived on sale of securities are tax exempted (except for capital gains realized in connection with sale of shares in companies deriving their fair value or the greater part of their value from immovable property located in Cyprus). Similarly interest on borrowings to finance acquisitions of securities is not a tax allowable expense.

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:

	2012	***2011***
Accounting loss before tax	(6,678)	(3,571)
Theoretical tax expense calculated at the Fund's statutory tax rate (0%)	–	–
Tax effect of the Subsidiary's result calculated at other tax rates	(219)	(1,054)
Tax effect of non deductible expense less tax exempt income	205	1,062
Income tax (benefit)/expense	**(14)**	**8**
Utilization of tax losses brought forward	–	(8)
Tax effect of losses carried forward	14	–
Withholding tax	104	89
Income tax expense	**104**	**89**

As of December 31, 2012 tax losses attributable to the Subsidiary comprised USD1,115 (2011: USD 1,697).

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

To the extent that information is available, the Fund has reflected revised estimates of expected future cash flows in its impairment assessment.

The Fund executes the majority of its investments through its subsidiary which is a Cypriot based company. The Cyprus economy has been adversely affected over the last few years by the Eurozone credit crisis, especially with respect to Greece and the instability in the global financial markets.

During 2012, there was a considerable tightening of financing availability from the major Cypriot financial institutions. In addition, following its credit downgrades, the ability of the Republic of Cyprus to borrow from international markets has been significantly affected. As a result, the Cyprus government entered into negotiations with the EU, the European Central Bank and the International Monetary Fund, in order to receive financial assistance.

In 2013 the Eurogroup has reached an agreement with the Cypriot government on the key elements necessary for a future macroeconomic adjustment programme. The programme aims to address the exceptional economic challenges that Cyprus is facing and restore the viability of the financial sector, with the view of restoring sustainable growth and sound public finances over the coming years.

The Board of Directors and management have assessed the current economic conditions in Cyprus with respect to any possible effects the above developments could have on its operations. Given the fact that all of the Fund's operations and business inflows are generated abroad management does not anticipate any significant adverse effects on its operating environment such as the unavailability of financing or negative economic growth.

However, management is currently unable to predict any future developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Fund.

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

The Fund initially pursued the following strategies:

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

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

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

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

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

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. 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 2012	***Maximum exposure 2011***
Cash and cash equivalents	3,793	5,021
Loans and receivables	–	2,113
Total credit risk exposure	**3,793**	**7,134**

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.

Credit Quality per Class of Financial Assets

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

As of December 31, 2012	*A-*	*BBB*	*Not rated*	*Total*
Cash and cash equivalents	3,166	627	–	3,793
Total	**3,166**	**627**	**–**	**3,793**

As of December 31, 2011	*A+*	*B+*	*Not rated*	*Total*
Cash and cash equivalent	1,169	3,852	–	5,021
Loans and receivables	–	–	2,113	2,113
Total	**1,169**	**3,852**	**2,113**	**7,134**

As of December 31, 2012 and 2011 the Fund had neither past due financial assets, nor individually impaired assets.

Counterparty credit risk is managed through the internally developed system of counterparty limits. The counterparty limits are established by the Investment Manager. Adherence to those limits is monitored by both Investment Manager on a daily basis.

Non-delivery risk, prepayment risk and pre-settlement risk incurred in non-exchange-settled transaction are subject to monitoring. The risks are aggregated and utilized against counterparty limit. 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 unsettled transactions were in place.

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

Substantially all of the cash held by the Fund is held by Raiffeisenbank CJSC (Russia) to facilitate any payments or proceeds received in Russian Rubles. The Fund also established a bank account with Royal Bank of Scotland 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.

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'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 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.

a) Analysis of Financial Liabilities by Remaining Contractual Maturities

The Fund's financial liabilities at December 31, 2012 and 2011 were classified into category "Less than one year" based on contractual undiscounted repayment obligations, except for net assets attributable to shareholders classified into category "Over one year" and financial liabilities designated at fair value through profit or loss classified into category "No stated maturity".

14.3 Market Risk

Market risk embodies the potential for both losses and gains and includes currency risk, interest rate risk and other 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 and other companies providing financial services that are located in Russia or other states of the CIS and which are planning to undertake an initial public offering or a private placement of their shares in the next two to three years. Investments may also be made in companies that derive a substantial portion of their revenue from, or have substantial assets in Russia or other states of the CIS.

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 "Increase/ (decrease) in investment securities available-for-sale" and "Net gain/(loss) on financial instruments at fair value through profit or loss".

Price risk is managed by the Fund's Investment Manager by diversifying the portfolio. The Fund's overall price risk exposure is monitored by Investment Manager on a daily basis.

As of December 31, 2012 and 2011 no investments in any single instrument exceeded the set limits.

14.5 Sensitivity Analysis

Equity price risk is the risk of unfavorable changes in the fair values of equities. The equity price risk exposure arises from the Fund's investments in equity securities. The Fund manages this risk by investing in a variety of entities.

The Fund holds both – financial instruments designated through profit or loss and financial assets available-for-sale. Management's best estimate of the effect on the profit or loss for a year and "Other comprehensive income" due to a reasonably possible change in equity securities, with all other variables held constant is indicated in the table below. In practice, the actual results may differ from the sensitivity analysis below and the difference could be material.

	Effect on net assets attributable to shareholders and on the change in net assets attributable to shareholders from operations for the year		***Effect on other comprehensive income for the year***	
	2012	***2011***	***2012***	***2011***
Increase in fair value of investments by 10%	908	833	8,693	14,310
Decrease in fair value of investments by 10%	(4,742)	(1,354)	(4,817)	(5,662)

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 Fund invests may be denominated in Russian roubles or other currencies. At the year end, the major part of investments was denominated mainly in Russian roubles. However those securities are priced and traded in US Dollars. All settlements on securities trading are predominantly performed in US Dollars.

As of December 31, 2012 and 2011 the monetary assets and liabilities, subjects to currency risk, were not significant.

14.7 Interest Rate Risk

The Fund primarily invests in equity securities, which are not exposed to interest rate risk. Cash and cash equivalents of the Fund are represented by the current bank accounts not exposed to interest rate risk. Loans and receivables are represented by the loan with fixed interest rate.

As of December 31, 2012 the Fund's placements are represented by loans and receivables are at fixed rates, the expectation of re-pricing is low (2011: deposits, loans and receivables at fixed rates). Therefore, the Fund has limited exposure to interest rate fluctuations and does not have specific policies and procedures for managing interest rate risk.

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

	2012				*2011*			
	Russia and CIS	***Cyprus***	***Other***	***Total***	***Russia and CIS***	***Cyprus***	***Other***	***Total***
Assets:								
Cash and cash equivalents	627	–	3,166	3,793	3,852	–	1,169	5,021
Loans and receivables	–	–	–	–	–	–	2,113	2,113
Financial assets designated at fair value through profit or loss	16,947	–	–	16,947	16,767	–	–	16,767
Investments securities available-for-sale	95,793	–	–	95,793	108,683	–	–	108,683
Other assets and prepaid expenses	–	4	5	9	–	4	2	6
	113,367	**4**	**3,171**	**116,542**	**129,302**	**4**	**3,284**	**132,590**
Liabilities:								
Management fee payable	–	–	582	582	–	–	509	509
Accounts payable and accrued expenses	111	–	159	270	116	–	155	271
Financial liabilities designated at fair value through profit or loss	–	16,947	–	16,947	–	16,767	–	16,767
Performance fee payable	–	–	–	–	–	–	986	986
	111	**16,947**	**741**	**17,799**	**116**	**16,767**	**1,766**	**18,533**
Net position	**113,256**	**(16,943)**	**2,430**	**98,743**	**129,186**	**(16,763)**	**1,518**	**114,057**

Geographical classification of assets and liabilities is tied to country of incorporation of bank or counter party.

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 2012 and 2011.

During the years ended December 31, 2012 and 2011 the Fund was involved in transactions with related parties under common control of Renaissance Group Holdings Limited (Bermuda), which is also the parent company of the Investment Manager.

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

	2012		2011	
	Investment Manager	***Entities under common control***	***Investment Manager***	***Entities under common control***
Management fee payable at January 1	509	–	984	–
Management fee accrued	2,212	–	2,679	–
Management fee paid	(2,139)	–	(3,154)	–
Management fee payable at December 31	**582**	**–**	**509**	**–**
Performance fee payable at January 1	986	–	4,453	–
Performance fee reversed	(986)	–	(3,467)	–
Performance fee payable at December 31	**–**	**–**	**986**	**–**
Financial liabilities designated at fair value through profit or loss	–	16,947	–	16,767
Accounts payable and accrued expenses	–	14	–	14

In 2012 and 2011 the Fund had no significant transactions with its Directors, except for directors fees accrued during the year 2012 in amount of USD 21 (2011: USD 6).

16. Events after the Reporting Date

On March 22, 2013 Kazimir Partners Limited, a privately owned investment manager, committed to acquire the Parent company of the Investment manager. The completion of the transaction is subject to regulatory approvals.