

**OPEN-END INVESTMENT FUND
Citadele Russian Equity Fund**

**ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010**

(7th financial year)

**PREPARED IN ACCORDANCE WITH
FCMC REGULATIONS ON ANNUAL ACCOUNTS
OF INVESTMENT FUNDS AND
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION**

Translation from Latvian original*

*This version of financial statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

Riga, 2011

**AIF “Citadele Russian Equity Fund”
Annual report for the year ended December 31, 2010
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AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2010
Information on the investment fund

Name of the fund:	Citadele Russian Equity Fund (Parex Russian Equity Fund – till 01/08/2010)
Type of fund:	Open-end investment fund
Registration date of the fund:	5 March 2004
Number of the fund:	06.03.04.098/13
Name of the investment management company:	"Citadele Asset Management" IPAS (“Parex Asset Management” IPAS – till 01/08/2010)
Registered office of the investment management company:	Republikas laukums 2a, Riga, LV-1010, Latvia
Registration number of the investment management company:	40003577500
Licence number of the investment management company:	06.03.07.098/285
Name of the custodian bank:	"Citadele banka" JSC (“Parex banka” JSC – till 01/08/2010)
Registered office of the custodian bank:	Republikas laukums 2a, Riga, LV-1522, Latvia
Registration No. of the custodian bank:	40103303559
Names and positions of Council Members, Board Members of the investment management company:	<p><i>Council of the investment management company:</i></p> <p>Chairman of the Council – Juris Jākobsons – appointed on 30.09.2010.</p> <p>Deputy Chairman of the Council – Philip Nigel Allard – appointed on 03.11.2010.</p> <p>Member of the Council – Anatolijs Fridmans – appointed on 01.04.2009.</p> <p>Member of the Council - James R.Breiding – appointed on 01.04.2009.</p> <p>Chairman of the Council – Nils Melngailis – appointed on 26.03.2010.</p> <p>Chairman of the Council – Nils Melngailis – resigned on 30.09.2010.</p> <p>Deputy Chairman of the Council – Roberts Stūģis – resigned on 26.03.2010.</p> <p>Member of the Council – Solvita Deglava - appointed on 26.03.2010.</p> <p>Member of the Council – Solvita Deglava - resigned on 30.09.2010.</p> <p>Member of the Council – Aldis Paegle – resigned on 03.11.2010.</p> <p><i>Board of the investment management company:</i></p> <p>Chairman of the Board – Vladimirs Ivanovs – appointed on 20.10.2010.</p> <p>Member of the Board – Zigurds Vaikulis – appointed on 30.03.2007.</p> <p>Member of the Board – Raimonds Vesers – appointed on 01.01.2011.</p> <p>Chairman of the Board – Roberts Idelsons – resigned on 19.10.2010.</p> <p>Member of the Board – Elena Coleman – resigned on 03.11.2010.</p> <p>Member of the Board – Edgars Makarovs – resigned on 31.12.2010.</p> <p>Member of the Board – Igors Petrovs - resigned on 31.12.2010.</p>

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2010
Information on the investment fund

The related rights and obligations of the management of the investment Fund:	All the duties of the Council and Board members stated in the legislation of the Republic of Latvia and Statutes of the investment management company are performed by the Council and Board members
Names of Fund Managers (investment committee members):	Kristiāna Ķiete – appointed on 09.10.2008. Andris Kotāns– appointed on 26.01.2011. Antons Ļubenko – appointed on 26.01.2011. Edgars Makarovs – resigned on 26.01.2011. Vitālijs Šostaks – resigned on 26.01.2011.
The related rights and obligations of the management of the Fund:	All the duties of the Fund managers stated in the legislation of the Republic of Latvia, Statutes of the investment management company and Fund Prospectus are performed by the Fund managers
Auditor:	PricewaterhouseCoopers SIA Certified audit company licence No. 5 Kr. Valdemāra street 19 LV-1010, Riga Ilandra Lejiņa Certified auditor in charge Certificate No. 168

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2010
Investment management company report

The assets of the open-end investment fund Citadele Russian Equity Fund (hereinafter - the Fund) are managed by the asset management company Citadele Asset Management (hereinafter - the Company), registered at Republikas laukums 2a, Riga, LV-1010, founded January 11, 2002, a unified registration number 40003577500, a license for investment management services No. 06.03.07.098/285 (last re-registered on August 5, 2010).

The investment objective of the Fund is to achieve long-term capital growth from investments mainly in equities of those companies which are registered or which main operations take place in the Russian Federation. The Fund generates income from dividend payments and stock value growth. The Fund's functional currency is US dollar.

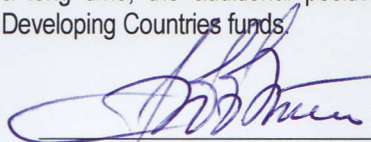
Year 2010 turned out to be an unstable year for the Russian stock market. Due to increased confidence in the continued recovery of the global economy and improved risk appetite, during the first quarter of 2010 shares rose sharply. However, in April the situation in the market changed considerably and equity prices experienced strong correction. The Russian stock market decline by 30% was due to increased concerns regarding fiscal discipline of several European Union countries and their ability to meet obligations to creditors. This adjustment was short-term and during the following months the market was fluctuating in the range of roughly +/- 2%, accompanied by a slight decrease in the total turnover. In September, another bullish period in the market begun and without much correction continued up to the end of the year, reaching 22.5% rise by the end of 2010.

During 2010 the Company increased Fund's exposure to less liquid shares of second-rate enterprises, which in comparison to more popular entities were more attractive based on fundamental indicators. When investing, the Company continued to prefer companies from utilities, telecommunication and industrial sectors. In addition, the Company became more aggressive regarding consumer goods and financial services sectors, whereas it decreased its exposure to food-sector companies because of concerns about conformity of their valuation. During this year, the Company was able to use several opportunities regarding enterprise mergers and restructuring. In 2010 relatively little cash and cash equivalents were held, as at 31.12.2010 cash and cash equivalents stood at only 4.06% of net assets.

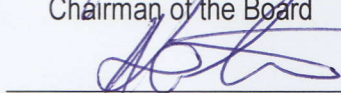
Net assets during the year increased by 77.43% or by 3,463,157 LVL, and by the end of the year they amounted to 7,935,968 LVL. The Fund's value per share rose by 4.54 LVL, reaching 14.11 LVL at the end of 2010. The total profitability for the year 2010 was 47.44% if calculated in LVL, whereas it was 34.58% if calculated in the Fund's base currency. The main financial return came from companies operating in food, financial services, raw materials and utilities sectors.

In the reporting year, the management fee of USD 260,370 USD was paid from the Fund's assets, or 2.20% of the average asset value for the year, which does not exceed the maximum expense limit fixed in the Prospectus, i.e. 4.00%.

Despite strong price rally over the last months, the Russian equity market still remains relatively cheap and is based on strong state's macroeconomic indicators. When considering common evaluation methods Russian shares remain one of the cheapest in the world and their discount, relative to the shares of other emerging markets, is higher than long-term average. Moreover, the discount exists not only in the energy sector; it became more evenly distributed across other industries. When combining this information with strong fiscal policy pursued by the Russian government, relatively low external debt and proved ability to attract foreign investors, this history of cheap valuation becomes even more captivating and during the next 6-12 months it can attract additional investments to the Russian stock market. As Russian equity market, compared to other Developing Countries' markets, has shown signs of lower growth already for a long time, the additional positive sentiment towards Russian shares can occur due to relocation process of Developing Countries funds.



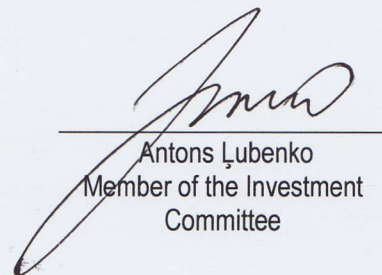
Vladimirs Iyanovs
Chairman of the Board



Andris Kotāns
Member of the Investment
Committee



Kristiāna Ķiete
Member of the Investment
Committee



Antons Ļubenko
Member of the Investment
Committee

Riga,
28 April, 2011

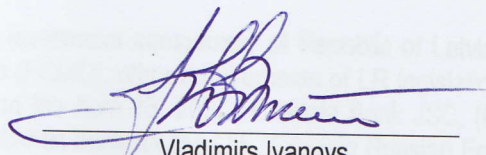
AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2010
Statement of responsibility of the Board of the investment management company

The Board of the investment management company (hereinafter - the Company) is responsible for the preparation of the financial statements of the investment fund Citadele Russian Equity Fund (hereinafter - the Fund).

The financial statements set out on pages 9 to 24 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at December 31, 2010 and December 31, 2009 and the results of its operations for the respective periods then ended.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted in the European Union, as set out in the Regulations of the Financial and Capital Market Commission (FCMC) on the Preparation of Annual Accounts of Investment Funds, on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The Board of the Company is responsible for the maintenance of proper accounting records, the safeguarding of the assets of Citadele Russian Equity Fund and the prevention and detection of fraud and other irregularities in the Fund. They are also responsible for operating the Fund in compliance with the Law of the Republic of Latvia on Investment Management Companies, regulations of the Financial and Capital Market Commission, and other laws and regulations of the Republic of Latvia


Vladimirs Ivanovs
Chairman of the Board

Riga,
28 April, 2011



CUSTODIAN BANK REPORT

For holders of
OIF "Citadele Russian Equity fund"
Investment fund applications

Nr. 2.2.4.-09 _____

With this Citadele Bank JSC, which is registered in LR Enterprise register on June 30, 2010 with No. 40103303559 and located at 2a Republikas square, Riga, certifies, that:

According to the law "On investment companies" of Republic of Latvia, regulations of Financial and Capital Market Commission (FCMC), other requirements of LR legislation and contract with Custodian bank, which is concluded on the April 13, 2007., Citadele Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for the OIF "Citadele Russian Equity fund" (further in the text - Fund) founded by IPAS "Citadele Asset Management";

Custodian is responsible for fulfilling of Custodian bank contract and requirements of LR legislation related to custodian banks. The main obligations of the Custodian are the following:

- to store assets of the Fund, as well as documents, which confirm title according to the requirements of LR legislation;
- to ensure maintenance of the Fund account, reception and execution of Company's orders, as well as performance of transactions according with requirements of LR legislation and current market practice;
- to ensure the Company with regular reports on assets of the Fund and its value (prices of the securities);
- to follow the correctness of the value of the Fund and its certificates set by the Company and its conformity with LR legislation acts;
- to follow the correctness and legal status of issuing, sales and repurchasing of investment certificates performed by the Company;

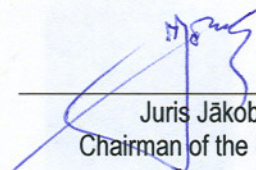
Issuing, sales and repurchasing of the investment certificates is performed according to the requirements of the law "On investment companies", fund prospect and Fund management regulations;

Storage of the Fund assets is performed according to the requirements of the law "On investment companies" and Custodian bank contract;

Calculation of the net value of the Fund assets is performed according to the requirements of the law "On investment companies", regulations of Financial and Capital Market Commission (FCMC), Fund prospect and Fund management regulations;

Orders of the Company, as well as transactions with the assets of OIF "Citadele Russian Equity fund" are performed according to the requirements of the law "On investment companies", Fund prospect and Fund management regulations and Custodian bank contract .

In the accounting period no mistakes and illegal matters were observed in performance of the Company with Fund assets. Citadele bank JSC is very satisfied with co-operation in performing of the functions of Custodian bank.




Juris Jākobsons
Chairman of the Board, p.p.

Riga, February 11, 2011

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2010
Statement of financial position
(LVL)

Notes	31.12.2010.	31.12.2009.
Assets		
3	322,067	319,095
	Financial assets held for trading	
4	7,629,312	4,162,784
	Total assets	
	7,951,379	4,481,879
Liabilities		
5	(14,748)	(9,068)
	Other liabilities	
	(663)	-
	Total liabilities	
	(15,411)	(9,068)
	Net assets	
	7,935,968	4,472,811

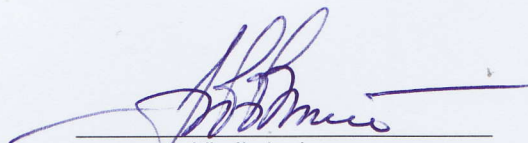


 Vladimirs Ivanovs
 Chairman of the Board

Riga,
28 April, 2011

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2010
Statement of comprehensive income
(LVL)

Notes	2010	2009
Income		
6	16,693	26,109
	61,503	61,969
	78,196	88,078
Expenses		
	(127,085)	(73,024)
	(9,932)	(5,856)
	(5,077)	(2,812)
	(142,094)	(81,692)
Increase in investment value		
7	219,924	870,197
8	1,610,169	2,040,797
	1,830,093	2,910,994
	461,553	(93,414)
	2,227,748	2,823,966


 Vladimirs Ivanovs
 Chairman of the Board

Riga,
 28 April, 2011

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2010
Statement of changes in net assets
(LVL)

	2010	2009
Net assets as at the beginning of the reporting period	4,472,811	2,765,658
Increase in net assets from investment activities	2,227,748	2,823,966
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	4,302,959	2,212,971
<i>Outflow on redemption of investment certificates</i>	(3,067,550)	(3,329,784)
Increase / (decrease) in net assets from transactions with investment certificates	1,235,409	(1,116,813)
Increase in net assets for the reporting period	3,463,157	1,707,153
Net assets as at the end of the reporting period	7,935,968	4,472,811
Issued investment certificates as at the beginning of the reporting period	467,210	645,011
Issued investment certificates as at the end of the reporting period	562,515	467,210
Net asset value per investment certificate as at the beginning of the reporting period	9.57	4.29
Net asset value per investment certificate as at the end of the reporting period	14.11	9.57

The accompanying notes form an integral part of these financial statements.

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2010
Statement of cash flows
(LVL)

	2010	2009
Interest income	16,693	26,109
Dividend income	61,503	61,969
Investment management expenses	(135,924)	(78,664)
Acquisition of financial assets	(3,596,024)	(1,898,344)
Disposal of financial assets	2,327,404	2,676,882
Result on foreign currency translation	(129)	(476)
(Decrease) / increase in cash from operating activities	(1,326,477)	787,476
Inflow from sale of investment certificates	4,303,622	2,212,971
Outflow on redemption of investment certificates	(3,067,550)	(3,329,784)
Increase / (decrease) in cash from financing activities	1,236,072	(1,116,813)
Decrease in cash during the reporting period	(90,405)	(329,337)
Cash as at the beginning of the reporting period	319,095	639,504
Result of revaluation of cash denominated in foreign currencies	93,377	8,928
Cash as at the end of the reporting period	322,067	319,095

The accompanying notes form an integral part of these financial statements.

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2010
Notes
(LVL)

1. General information

Name of the fund:	Citadele Russian Equity Fund
Type of the fund:	Open-end investment fund
Fund's business activity:	Investments mainly in equity shares of corporate entities incorporated or mainly operating in Russia.
Name of the investment management company:	"Citadele Asset Management" IPAS Republikas laukums 2a, Riga, LV-1010, Latvia

2. Summary of significant accounting policies

Basis of preparation

The financial statements of AIF Citadele Russian Equity Fund have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union, as set out in the Regulations of the Financial and Capital Market Commission (hereinafter - FCMC) on Annual Accounts of Investment Funds.

The financial statements are prepared on a historical cost basis, as modified for the measurement at fair value of securities held for trading.

The monetary unit used in the financial statements is Lats (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2010 through December 31, 2010.

Critical accounting estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires investment management company's management to make assumptions and exercise its judgement in the process of applying the Fund's accounting policies. IFRS requires that in preparing the financial statements, the management makes estimates and assumptions that affect the reported amounts of assets and liabilities and required disclosure at the date of the financial statements and the reported amounts of income and expenses during the reporting period.

Income and expense recognition

Interest income and expense items are recognised on an accrual basis.

Interest income and expense are recognized in the statement of comprehensive income by taking into account the effective interest rate of assets/liabilities. Interest income and expense include amortization of discount or premium or other differences between the initial accounting amount of an interest bearing instrument and its amount at the moment of its redemption, calculated by the effective interest rate method.

Dividend income is recognised at the moment of receipt. In some situations dividend income can be recognized when share price decreases after the issuer's announcement on payment of dividends.

Remuneration to investment management company of the Fund and the custodian bank are calculated as a fixed rate of the Fund's assets and are recognized daily on an accruals basis. The fee is paid out once a month.

Foreign currency translation

The Fund's functional currency is USA dollar but, according to the FCMC requirements, the Fund ensures accounting also in Latvian lats. These financial statements are prepared based on transaction accounting in Latvian lats, which is the presentation currency of the Fund.

Transactions denominated in foreign currencies are translated into Latvian lats at the official exchange rate established by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats at the official exchange rate established by the Bank of Latvia at the last day of the reporting period. Any gain or loss resulting from exchange rate fluctuations is included in the statement of comprehensive income as gain or loss from the revaluation of foreign currency positions.

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2010

Notes
(LVL)

2. Summary of significant accounting policies (continued)

The exchange rates established by the Bank of Latvia (LVL to 1 foreign currency unit) and mainly applied when preparing the statement of assets and liabilities of the Fund can be specified as follows:

<u>Currency</u>	<u>31.12.2010.</u>	<u>31.12.2009.</u>
USD	0.535	0.489

Since January 1, 2005, the Bank of Latvia has established a fixed official exchange rate for the Latvian lats against the euro, i.e. 0.702804. From this moment the Bank of Latvia will also ensure that the market rate will not differ from the official rate by more than 1%. Therefore, the Fund's future profit or loss due to fluctuations of the euro exchange rate will not be material as far as the Bank of Latvia maintains the above mentioned fixed exchange rate.

Cash

Cash comprises Fund's demand deposits with credit institutions.

Financial instruments

Financial instruments are classified in the following categories: financial assets at fair value through profit or loss. The classification depends on the purpose of financial instrument acquisition. The management determines classification of financial instrument at their initial recognition.

Financial assets and liabilities at fair value through profit or loss

Financial instruments at fair value through profit or loss include financial assets held for trading. All financial assets at fair value through profit or loss, belonging to the Fund, are classified as financial assets held for trading.

Investments in securities

All investments in securities are classified as securities held for trading, i.e. securities are acquired for generating a profit from short-term price fluctuations or dealer's margin.

Securities held for trading are initially recognised at fair value and subsequently revalued at fair value according to available market prices. The revaluation result of securities held for trading at fair value is included in the statement of comprehensive income as increase / (decrease) in investment value.

Securities are revalued on the basis of financial information on the bid prices of securities available from Bloomberg and Russian Stock Exchange. Unlisted securities are evaluated on the basis of the custodian bank's information on transactions, but in case such information is not available, respective securities are evaluated at their amortised cost. Securities purchase and sale transactions are recognised on the date of settlements. The cost of securities sold is defined on a FIFO (first in, first out) basis.

Fair values of financial assets and liabilities

The fair value of financial assets and liabilities represents the amount at which an asset could be exchanged or a liability settled on an arm's length principle.

Taxes

The Fund's income is subject to income tax in the country of its origin. Basically, the Fund's income is exempt from income taxes. The Fund is not a Latvian corporate income tax payer.

On December 1, 2009 Saeima has approved changes to the law "On personal income tax", stating that starting with 1 January 2010 capital gains are subject to 15% tax charge. For investment funds capital gain is a difference between selling price and purchase price of investment certificates. In accordance with transition norms of the law "On personal income tax", in order to calculate income from sale of investment certificates purchased before endorsement of the law (before 01.01.2010) one has to apportion difference between selling and purchase value to the number of months investment held and multiply this by the number of months the investment was held from 01.01.2010 until the settlement date. Changes in the law are applicable only to private persons being residents of the Republic of Latvia.

AIF “Citadele Russian Equity Fund”
Annual report for the year ended December 31, 2010
Notes
(LVL)

2. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations

Certain new IFRS became effective for the Fund from January 1, 2010. Listed below are those new standards or interpretations that do not have direct or substantial impact on the Fund’s everyday operations and accounting policies:

- IAS 27, Consolidated and Separate Financial Statements, revised in January 2008;
- Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009;
- Eligible Hedged Items—Amendment to IAS 39;
- IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008;
- Additional Exemptions for First-time Adopters - Amendments to IFRS 1;
- Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2;
- IFRS 3, Business Combinations, revised in January 2008;
- Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1);
- IFRIC 12, Service Concession Arrangements;
- IFRIC 15, Agreements for the Construction of Real Estate;
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation;
- IFRIC 17, Distributions of Non-Cash Assets to Owners;
- IFRIC 18, Transfers of Assets from Customers;
- Improvements to International Financial Reporting Standards, issued in April 2009.

Certain new standards and interpretations have been published that are effective for the annual periods beginning on or after February 1, 2010 or later periods and which the Fund has not early adopted:

- Amendment to IAS 24, Related Party Disclosures, issued in November 2009. Amendment is not relevant to the Fund’s operations and policies. Efficient for annual periods beginning on or after January 1, 2011;
- Classification of Rights Issues - Amendment to IAS 32, issued in October 2009. Amendment is not relevant to the Fund’s operations and policies. Efficient for annual periods beginning on or after February 1, 2010;
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1. Amendment is not relevant to the Fund’s operations and policies. Efficient for annual periods beginning on or after July 1, 2010;
- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14. Amendment is not relevant to the Fund’s operations and policies. Efficient for annual periods beginning on or after January 1, 2011;
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments. Amendment is not relevant to the Fund’s operations and policies. Efficient for annual periods beginning on or after July 1, 2010.

Certain new standards and interpretations have been published that are effective for the annual periods beginning on or after January 1, 2011 or later periods and which the Fund has not early adopted and that have not been endorsed by the EU:

- Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12. Amendment is not relevant to the Fund’s operations and policies. Efficient for annual periods beginning on or after January 1, 2012;
- Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1. Amendment is not relevant to the Fund’s operations and policies. Efficient for annual periods beginning on or after July 1, 2011;
- Disclosures—Transfers of Financial Assets – Amendments to IFRS 7. Amendment is not relevant to the Fund’s operations and policies. Efficient for annual periods beginning on or after July 1, 2011;
- IFRS 9, Financial Instruments Part 1: Classification and Measurement. The Fund is currently evaluating the impact of the standards on its financial statements. Efficient for annual periods beginning on or after January 1, 2013;
- Improvements to International Financial Reporting Standards, issued in May 2010. Effective dates vary standard by standard; most improvements are effective for annual periods beginning on or after January 1, 2011. The Fund does not consider that the amendments will have a significant impact on the financial statements.

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2010

Notes
(LVL)

3. Demand deposits with credit institutions

	31.12.2010.	31.12.2009.	% of Fund's net assets as at 31.12.2010.
Demand deposits with credit institutions, JSC Citadele banka	322,067	319,095	4.06%
Total demand deposits with credit institutions	322,067	319,095	4.06%

The Fund receives interest on demand deposits at fixed rates.

4. Shares

	31.12.2010.	31.12.2009.	% of Fund's net assets as at 31.12.2010.
Equity shares:			
Non-OECD region equity shares	7,629,312	4,162,784	96.14%
Total shares:	7,629,312	4,162,784	96.14%

All equity shares of corporate entities are classified as securities held for trading. All shares are listed, except for shares with the book value as at December 31, 2010 in the amount of LVL 141,574 (2009: LVL 115,446), on which purchase and sale information has been included in special stock exchange listings, but which are traded outside the stock exchange.

The following table presents shares by the issuer's country of residence:

Financial instrument	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2010.	% of Fund's net assets as at 31.12.2010.
Financial instruments traded on regulated markets			5,825,077	7,629,312	96.14%
Russian issuers:			5,825,077	7,629,312	96.14%
LUKOIL	USD	17,100	606,853	515,974	6.51%
SBERBANK	USD	218,000	297,139	395,375	4.99%
HOLDING MRSK	USD	3,485,040	202,702	316,963	4.00%
NORILSK NICKEL	USD	2,458	222,039	302,457	3.82%
MOBILE TELESYSTEMS	USD	24,225	168,537	261,411	3.30%
MAGNIT	USD	3,650	81,313	251,905	3.17%
GAZPROM	USD	18,350	193,159	249,064	3.14%
TNK BP	USD	181,000	186,081	256,613	3.23%
OGK-4	USD	4,566,603	137,469	233,319	2.94%
URALKALI	USD	63,800	122,095	232,104	2.92%
NOVATEK	USD	3,370	82,029	215,453	2.71%
SURGUTNEFTEGAS	USD	36,243	96,782	202,626	2.55%
TRANSNEFT	USD	292	140,092	195,275	2.46%
POLYMETAL	USD	19,600	81,253	192,733	2.43%
RASPADSKAYA	USD	48,100	149,381	176,274	2.22%
POWER MACHINES	USD	1,100,000	88,624	173,608	2.19%
ROSNEFT OIL	USD	43,000	176,778	164,486	2.07%
SOLLERS	USD	14,767	148,746	161,957	2.04%
BASHNEFT	USD	6,500	129,317	153,010	1.93%
SISTEMA	USD	11,200	147,409	148,002	1.86%
POLYUS GOLD	USD	7,580	75,707	145,139	1.83%
GAZPROM	USD	41,000	119,693	137,094	1.73%

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Financial instrument	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2010.	% of Fund's net assets as at 31.12.2010.
POLYUS GOLD	USD	4,000	92,186	130,540	1.64%
SILVINIT	USD	263	83,981	122,413	1.54%
MECHEL	USD	7,700	80,212	119,589	1.51%
ROSINTER RESTAURANTS	USD	9,500	64,848	116,898	1.47%
PHARMSTANDARD	USD	7,900	67,665	114,876	1.45%
RUSHYDRO	USD	3,989,506	-	114,190	1.44%
GLOBALTRANS	USD	12,116	86,315	113,566	1.43%
MOSENERGO	USD	2,030,268	119,930	111,335	1.40%
FSK EES	USD	18,795,317	131,814	110,610	1.39%
MOSTOTREST	USD	25,000	64,153	105,663	1.33%
VEROPHARM	USD	4,027	61,909	105,568	1.33%
OGK-2	USD	3,200,000	92,383	98,440	1.24%
NOVOROSSIYSK COMMERCIAL SEA PORT	USD	17,300	88,954	93,481	1.18%
FAR EAST SHIPPING	USD	318,500	112,027	92,015	1.16%
SYNERGY	USD	3,600	66,437	88,596	1.12%
COMSTAR UNITED TELESYSTEMS	USD	24,836	74,213	86,101	1.08%
AEROFLOT - RUSSIAN AIRLINES	USD	60,000	66,016	83,139	1.05%
ROSNEFT OIL	USD	21,000	75,796	80,499	1.01%
VSMPO - AVISMA	USD	1,262	100,943	74,269	0.94%
INTER RAO UES	USD	90,406,081	75,657	74,002	0.93%
SURGUTNEFTEGAS	USD	285,000	63,017	68,614	0.86%
KUZBASSRAZREZUGOL	USD	325,000	99,420	66,942	0.84%
SILVINIT	USD	350	62,308	64,601	0.81%
MASHINOSTROITELNY ZAVOD	USD	400	59,815	59,920	0.76%
SURGUTNEFTEGAS	USD	100,000	44,827	52,965	0.67%
SEVERSTAL	USD	5,799	11,593	52,649	0.66%
NOVOLIPETSK STEEL	USD	1,900	10,227	47,603	0.60%
RUSGRAIN HOLDING	USD	250	46,511	43,469	0.55%
RBC INFORMATION SYSTEMS HOLDING MRSK	USD	21,200	71,597	19,508	0.25%
HOLDING MRSK	USD	324,970	-	14,100	0.18%
RUSSIAN SEA GROUP	USD	8,500	26,820	12,278	0.15%
TRANSSTROY	USD	15,000	70,305	10,031	0.13%
TGC-6	USD	7	-	-	0.00%
Total shares			5,825,077	7,629,312	96.14%

5. Accrued liabilities

	31.12.2010.	31.12.2009.
Accrued commission fees payable to investment management company	(12,977)	(7,733)
Accrued commission fees payable to custodian bank	(1,006)	(610)
Accrued fees payable for professional services	(765)	(725)
Total accrued liabilities	(14,748)	(9,068)

6. Interest income

	2010	2009
Interest income from demand deposits with credit institutions	16,693	26,109
Total interest income	16,693	26,109

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7. Realised increase in investment value

	2010	2009
Income from sale of investments	2,279,409	2,759,719
(Increase) / decrease in value of investments sold, recognised in the prior reporting periods	(183,541)	1,797,660
Acquisition value of investments sold	(1,875,944)	(3,687,182)
Total realised increase in investment value	219,924	870,197

8. Unrealised increase in investment value

	2010	2009
From shares	1,610,169	2,040,797
Total unrealised increase in investment value	1,610,169	2,040,797

9. Change in investments during the reporting period

	31.12.2009.	Increase during the reporting period	Decrease during the reporting period	Foreign currency revaluation result	Fair value revaluation result	31.12.2010.
Financial assets held for trading						
Shares	4,162,784	3,596,024	(2,327,404)	367,815	1,830,093	7,629,312
Total investments	4,162,784	3,596,024	(2,327,404)	367,815	1,830,093	7,629,312

10. Pledged assets

During the reporting period, no guarantees or collaterals have been issued by the Fund, neither has it pledged or otherwise caused any encumbrance or lien on its assets.

11. Fair values of financial assets and liabilities

The management of the investment management company believes that the carrying amounts of financial assets and liabilities approximate to their fair values. The fair value is determined according to the market quotation method, based on available quotes of stock exchanges and information published by brokers.

12. Risk management

Risks are inherent in the investment process. The risk management process includes risk identification, risk measurement, and directly risk management. The Fund is exposed to market risk (i.e. currency risk, interest rate risk, and price risk), credit risk, liquidity risk and other risks (including operational risk). The investment strategy of the Fund is aimed at minimising the aforementioned risks; however, the Company cannot guarantee that these risks can be completely avoided in the future.

Risk management structure

Risk identification and measurement are the responsibility of an independent unit – the Risk Management Division which prepares and presents information about risks to the Fund Manager who decides specifically whether it would be necessary to minimise risks. The risk measurement process employs several models based on historical data and adjusted to consider for the current economic situation. Specific models are used to forecast changes in risk factors in ordinary and extraordinary market situations.

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12. Risk management (continued)

To mitigate the investment risks, the Fund Manager follows the risk diversification and hedging principles. The Fund Manager acquires sufficient information on potential or current investment objects, as well as supervises the financial and economic position of issuers of the securities in which the Fund's property has been or is to be invested.

The Company, when developing the Fund's investment strategy and stating limits, performs an analysis of the Fund's investments by maturity, geographic and currency profile, as well as assesses the risks inherent to each of the above factors. The Fund Manager acts in strict compliance with the Fund Prospectus, Fund Management Regulations, as well as regulations and restrictions imposed by legislation of the Republic of Latvia.

Market risk

Market risk is a risk that the Fund's value will reduce as a result of changes in any of the following market factors: securities prices, exchange rates, interest rates, etc.

Equity price risk

Changes in equity prices depend on the following two groups of factors: changes in stock indexes of a respective country (for instance, DAX (German stock index)) and the financial position of the issuer (prospects of earning profit), where the first factor is usually referred to as systematic risk and the second – as specific risk. Systematic risk is managed on the basis of forecasts of the overall economic development in specific geographic regions and industries. Specific risk management is performed by conducting a detailed analysis of the issuer's financial position and profitability, as well as other factors affecting the equity price, based on the published issuer's reports and mass media information. Equity price deviations and correlations are also a matter of particular focus, making it possible to calculate the total risk exposure for all shares of the portfolio only on the basis of equity price history.

As at the end of the reporting period, the beta (a ratio showing the change in the Fund's performance relative to the overall market) was 0.81. The beta was calculated on the basis of the data for the year 2010. The RTS index (Russian stock market index) was selected as the market index. The changes of the market index are calculated as annualised standard deviation.

Market changes	Changes of the Fund's value
27.8%	22.4%

Currency risk

Currency risk arises when the nominal value of Fund's securities or other instruments differs from the Fund's currency (US dollar). Exchange rate fluctuations may result in a gain or loss, depending on the trend of the fluctuations and the currency position in the Fund. Currency risk is minimised by the diversification effect, which arises in situations when the Fund has several currencies, and changes in exchange rates of those currencies are not closely interrelated.

In the end of the reporting period and in the end of the year 2009 the largest share of the currencies of the Fund was US dollar (more than 99% of the Fund's net assets). Therefore, as the Fund's currency is US dollar, the currency risk for the Fund is not material.

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12. Risk management (continued)

The following table shows the Fund's assets and liabilities by currency profile as at December 31, 2010.

	EUR	USD	Total
Assets			
Demand deposits with credit institutions	-	322,067	322,067
Financial assets held for trading			
Shares	-	7,629,312	7,629,312
Total assets	-	7,951,379	7,951,379
Liabilities			
Accrued liabilities	(765)	(13,983)	(14,748)
Other liabilities	-	(663)	(663)
Total liabilities	(765)	(14,646)	(15,411)
Net assets	(765)	7,936,733	7,935,968
<i>Net long / (short) position</i>	<i>(0.01%)</i>	<i>100.01%</i>	<i>100.00%</i>

The following table shows the Fund's assets and liabilities by currency profile as at 31 December 2009.

	EUR	USD	SEK	Total
Assets				
Demand deposits with credit institutions	-	319,095	-	319,095
Financial assets held for trading				
Shares	-	4,142,864	19,920	4,162,784
Total assets	-	4,461,959	19,920	4,481,879
Liabilities				
Accrued liabilities	(725)	(8,343)	-	(9,068)
Total liabilities	(725)	(8,343)	-	(9,068)
Net assets	(725)	4,453,616	19,920	4,472,811
<i>Net long / (short) position</i>	<i>(0.02%)</i>	<i>99.57%</i>	<i>0.45%</i>	<i>100.00%</i>

Concentration risk

The issuer's industry and geographic position are additional risk factors, which can affect the price of the issuer's securities or the issuer's solvency. Therefore, it is vital to identify concentration risk, i.e. to which extent the Fund's value depends on changes in specific regions or industries. Risk concentration by geographic profile (based on the country most affecting the issuer's solvency) and industry profile is presented in the table below.

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12. Risk management (continued)

The following table shows the Fund's assets and liabilities by geographic profile as at December 31, 2010.

	Latvia	Other non- OECD region countries	Total
Assets			
Demand deposits with credit institutions	322,067	-	322,067
Financial assets held for trading Shares	-	7,629,312	7,629,312
Total assets	322,067	7,629,312	7,951,379
Liabilities			
Accrued liabilities	(14,748)	-	(14,748)
Other liabilities	(663)	-	(663)
Total liabilities	(15,411)	-	(15,411)
Net assets	306,656	7,629,312	7,935,968

The following table shows the Fund's assets and liabilities by geographic profile as at December 31, 2009.

	Latvia	Other non- OECD region countries	Total
Assets			
Demand deposits with credit institutions	319,095	-	319,095
Financial assets held for trading Shares	-	4,162,784	4,162,784
Total assets	319,095	4,162,784	4,481,879
Liabilities			
Accrued liabilities	(9,068)	-	(9,068)
Total liabilities	(9,068)	-	(9,068)
Net assets	310,027	4,162,784	4,472,811

The following table shows the Fund's assets and liabilities by country profile.

Country	Carrying amount as at 31.12.2010.	Carrying amount as at 31.12.2009.	% of Fund's net assets as at 31.12.2010.
Russia	7,629,312	4,162,784	96.14%
Latvia	306,656	310,027	3.86%
Total	7,935,968	4,472,811	100.00%

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12. Risk management (continued)

The following table shows the Fund's securities portfolio by industry profile.

	31.12.2010.	31.12.2009.	% of Fund's net assets as at 31.12.2010.
Energy resources	2,594,809	1,524,561	32.71%
Raw materials	1,484,097	703,123	18.70%
Public utilities	1,072,959	546,870	13.52%
Telecommunication services	495,514	362,896	6.24%
Commercial banks	395,375	248,440	4.98%
Transportation	392,232	165,371	4.94%
Capital goods	279,271	85,286	3.52%
Retail of food and consumer goods	251,905	209,488	3.17%
Pharmacy	220,444	129,149	2.78%
Production of cars and car spare parts	161,957	42,864	2.04%
Food, beverages, tobacco	144,343	120,124	1.82%
Consumer services	116,898	-	1.47%
Mass media	19,508	12,959	0.25%
Software and related services	-	795	0.00%
Professional services	-	1,958	0.00%
Technical supply and services	-	8,900	0.00%
Total shares	7,629,312	4,162,784	96.14%

Liquidity risk

Liquidity risk is a risk that the Fund will have difficulties in meeting its financial obligations. The Fund Manager strives to maintain such asset structure which would ensure a possibility of selling securities in due time and with no significant losses. Investments in the Russian market are associated with an increased risk that various assets may have a temporarily illiquid market. This may give rise to a situation that financial instruments or other assets cannot be sold at all or can be sold at a lower value.

The following table shows the Fund's assets and liabilities by maturity profile as at December 31, 2010.

	Within 1 month	1-3 months	Total
Assets			
Demand deposits with credit institutions	322,067	-	322,067
Financial assets held for trading			
Shares	7,629,312	-	7,629,312
Total assets	7,951,379	-	7,951,379
Liabilities			
Accrued liabilities	(13,983)	(765)	(14,748)
Other liabilities	(663)	-	(663)
Total liabilities	(14,646)	(765)	(15,411)
Net assets	7,936,733	(765)	7,935,968
<i>Net position %</i>	<i>100.01%</i>	<i>(0.01)%</i>	<i>100.00%</i>

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12. Risk management (continued)

The following table shows the Fund's assets and liabilities by maturity profile as at December 31, 2009.

	Within 1 month	1-3 months	Total
Assets			
Demand deposits with credit institutions	319,095	-	319,095
Financial assets held for trading			
Shares	4,162,784	-	4,162,784
Total assets	4,481,879	-	4,481,879
Liabilities			
Accrued liabilities	(8,343)	(725)	(9,068)
Total liabilities	(8,343)	(725)	(9,068)
Net assets	4,473,536	(725)	4,472,811
<i>Net position %</i>	<i>100.02%</i>	<i>(0.02)%</i>	<i>100.00%</i>

13. Information on holders of investment certificates

The following table specifies the proportion of investment certificates held by related parties out of total investment certificates issued:

	31.12.2010.	31.12.2009.	% of total certificates as at 31.12.2010.
Investment certificates held by related parties	-	-	0.00%
Investment certificates held by other persons	562,515	467,210	100.00%
Investment certificates issued as at the end of the period	562,515	467,210	100.00%

14. Related party disclosures

On 1 August 2010 the restructuring of the Fund's custodian bank JSC Parex banka was completed. As a result, a new bank JSC Citadele banka was created as well as so called solutions bank that continues to operate under Parex banka name. After the restructuring the custodian bank of the Fund became JSC Citadele banka.

The majority of the Fund's investments are acquired with the mediation of the custodian bank JSC Citadele banka. JSC Citadele banka receives remuneration as the custodian bank, as disclosed in the statement of comprehensive income (see also Note 5), and the Fund's cash resources are held with JSC Citadele banka (see Note 3).

The fee paid to the investment management company during the reporting year is disclosed in the statement of comprehensive income (see also Note 5).

During the reporting period and in 2009 related parties have not carried out any transactions with the Fund's investment certificates. The Fund's investment certificates purchase and sale back transactions are calculated taking into account only the investment certificates held by those related parties, who have been classified as the Fund's related parties both as of 31 December 2010 and 31 December 2009.

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15. Dynamics of the Fund's performance

	31.12.2010.	31.12.2009.	31.12.2008.
Net assets(LVL)	7,935,968	4,472,811	2,765,658
Number of the investment certificates	562,515	467,210	645,011
Value of investment certificates (LVL)	14.11	9.57	4.29
Performance on investment certificates**	47.44%	123.19%	(72.01)%
Net assets (USD)*	14,833,571	9,147,130	5,585,966
Number of the investment certificates	562,515	467,210	645,011
Value of investment certificates (USD)	26,37	19.58	8.66
Performance on investment certificates**	34.68%	126.10%	(72.64)%

* The net asset value in USD is determined, based on exchange rates determined at financial markets at the end of each day.

** Performance is calculated supposing that a year consists of 365 days.



Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AIF Citadele Russian Equity Fund

Report on the Financial Statements

We have audited the accompanying financial statements on pages 9 to 24 of AIF Citadele Russian Equity Fund which comprise the statement of financial position as of 31 December 2010 and the statements of comprehensive income, changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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.

*PricewaterhouseCoopers SIA, Kr. Valdemara iela 19, Riga LV-1010, Latvia
T: +371 6709 4400, F: +371 6783 0055, www.pwc.lv*

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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 financial statements give a true and fair view of the financial position of AIF Citadele Russian Equity Fund as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Management Report set out on page 5 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2010.

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Licence No. 5

A handwritten signature in blue ink, appearing to read 'Ilandra Lejiņa', is written over the printed name.

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
28 April 2011

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.