

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

**ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011**

(8th 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, 2012

**AIF “Citadele Russian Equity Fund”
Annual report for the year ended December 31, 2011
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**AIF “Citadele Russian Equity Fund”
Annual report for the year ended December 31, 2011
Information on the investment fund**

Name of the fund:	Citadele Russian Equity Fund (Parex Russian Equity Fund – until 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 – until 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 – until 01.08.2010.)
Registered office of the custodian bank:	Republikas laukums 2a, Riga, LV-1010, 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> Chairman of the Council – Juris Jākobsons – appointed on 30.09.2010. Deputy Chairman of the Council – Philip Nigel Allard – appointed on 03.11.2010. Member of the Council – Anatolijs Fridmans – appointed on 01.04.2009. Member of the Council - James R.Breiding – resigned on 26.09.2011.</p> <p><i>Board of the investment management company:</i> Chairman of the Board – Vladimirs Ivanovs – appointed on 20.10.2010. Member of the Board – Zigurds Vaikulis – appointed on 30.03.2007. Member of the Board – Raimonds Vesers – appointed on 01.01.2011.</p>
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. Elchin Jafarov – appointed on 25.09.2011 Vitālijs Šostaks – resigned on 26.01.2011. Edgars Makarovs – 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

AIF "Citadele Russian Equity Fund"
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Information on the investment fund

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, 2011
Investment management company report

The assets of the open-end fund "Citadele Russian Equity Fund" (hereinafter– the Fund) are managed by the asset management company "Citadele Asset Management" having its registered office at Republikas laukums 2a, Riga, LV-1010 (hereinafter - the Company). It was founded on 11 January of 2002 with a registration number 40003577500. The Company holds a licence No. 06.03.07.098/285, last re-registered on 5 August 2010.

The Fund aims to achieve long-term capital appreciation by investing principally in the stocks of the issuers that are registered or operate in the Russian Federation. The Fund derives income in the form of share appreciation and dividends. The base currency of the Fund is the US dollar.

2011 proved a very volatile year for the Russian stock market. From the beginning of the year until mid August the market was characterised by great volatility showing no conspicuous trends, however. The situation in the global markets dramatically deteriorated in August when the US and European macroeconomic indicators heightened the concern of investors about potential global recession. The desire of investors to reduce portfolio risks (by reducing the share of equities in portfolios) contributed to a significant decline in the fund indices of developing economies. The Russian stock market which is characterised by a high beta coefficient was no exception in the circumstances and demonstrated strong negative dynamics.

Furthermore, in 2011 the Russia's parliamentary election took place followed by mass protests and an overall tension of the Russian political situation. Therefore in 2011, despite the high stability of the prices of energy resources the aggregate outflow of capital from Russia amounted to approximately 70 billion US dollars. Thus, the internal political risks in Russia, the growing possibility of a global recession and the present concern about fiscal discipline of a number of EU member states and their ability to discharge their debt obligations shook up the global financial markets and caused decline of the Russian stock market. Despite a sharp increase in October, the Russian stock market was unable to recover all the losses sustained during the year and yield for the year was a decline of 20.6%. During 2011, the Company reduced its investments in less liquid, second tier companies which under declining market conditions appeared less attractive compared to the companies with a large market capitalisation. In terms of investments, the Company has considerably reduced the share of utility companies in the Fund's assets due to tight national tariff policies that these companies are subject to, notably at the time of election.

The Fund's share of the providers of telecommunication services was reduced, too, mostly because of the likely fall in the profit margins a long-term perspective. Similarly the share of stocks in transport sector companies has been reduced mainly due to the cyclical operation of the companies of the sector.

The Company has taken a slightly more aggressive approach in the consumer goods and financial service sectors and increased investments in the food, pharmaceutical and raw material sectors. During the year the Company managed to benefit from a number of specific situations related to mergers and restructuring of companies. At 31 December 2011, cash resources accounted for 4.36% of the Fund's net asset value.

In 2011, the Fund's net asset value declined by 41.64% or by 3,304,175 lats and amounted to 4,631,793 lats at the end of the year. During the year the value of a share of the Fund dropped by 3.66 LVL down to 10.45 LVL. In 2011, the Fund's aggregate yield was (25.94)% in lats and (27.11)% in the Fund's functional currency.

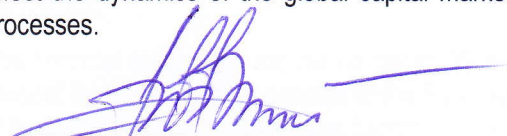
During the reporting period fund management fee of 303,216 USD was paid from the Fund's resources representing 2.28% of the average net asset value and being within the maximum limit of 4% set forth in the Prospectus.

Despite strong price race in the past months the Russian market continues to be comparatively inexpensive and is characterised by strong domestic macroeconomic indicators. Based on the general valuation methods the Russian stocks continue to be one of the most inexpensive globally and compared to the stocks of other developing markets their discount continues to be significantly higher than the long-term average. It must be noted, however, that the discount is to a large extent related to the assessment of the Energy resources sector and the share of the sector's companies in the indices of the Russian market.

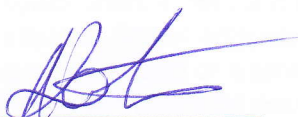
In forecasting the dynamics of the Russian stock market for 2012, a number of positive factors can be identified: potential stabilisation of political situation in Russia following the presidential election, high prices of energy resources, solid fiscal policy in Russia, relatively low external debt and proven ability to attract foreign investors.

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2011
Investment management company report

It must be born in mind, however, that the global economic situation faces significant risks that can materially affect the dynamics of the global capital markets, and the Russian stock market is not immune to the global processes.



Vladimirs Ivanovs
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



Elchin Jafarov
Member of the Investment
Committee

Riga,
27 April, 2012

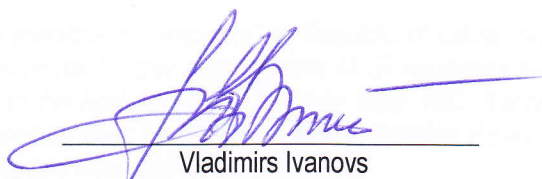
AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2011
Statement of responsibility of the Board of the investment management company

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 10 to 25 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at December 31, 2011 and December 31, 2010 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 judgements 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,
27 April, 2012



CUSTODIAN BANK REPORT

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

Nr. 2.2.4.-01/02

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.

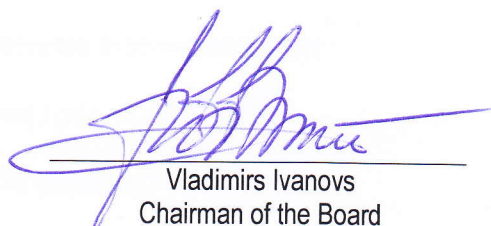


Juris Jākobsons
Chairman of the Board, p.p.

Riga, February 15, 2012

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2011
Statement of financial position
(LVL)

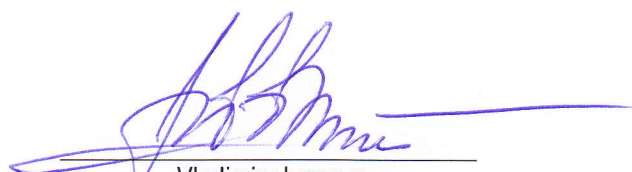
Notes	31.12.2011.	31.12.2010.
Assets		
3	202,011	322,067
	Financial assets held for trading	
4	4,426,564	7,629,312
5	12,730	-
	4,641,305	7,951,379
Liabilities		
6	(9,512)	(14,748)
	-	(663)
	(9,512)	(15,411)
	4,631,793	7,935,968


 Vladimirs Ivanovs
 Chairman of the Board

Riga,
27 April, 2012

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2011
Statement of comprehensive income
(LVL)

Notes	2011	2010
Income		
7	6,568	16,693
	166,091	61,503
	172,659	78,196
Expenses		
	(133,777)	(127,085)
	(10,410)	(9,932)
	(7,596)	(5,077)
	(151,783)	(142,094)
(Decrease) / increase in investment value		
8	(511,434)	219,924
9	(1,452,916)	1,610,169
	(1,964,350)	1,830,093
	(111,030)	461,553
	(2,054,504)	2,227,748



 Vladimirs Ivanovs
 Chairman of the Board

Riga,
27 April, 2012

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2011
Statement of changes in net assets
(LVL)

	<u>2011</u>	<u>2010</u>
Net assets as at the beginning of the reporting period	7,935,968	4,472,811
Total comprehensive (expense) / income	(2,054,504)	2,227,748
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	2,251,837	4,302,959
<i>Outflow on redemption of investment certificates</i>	<u>(3,501,508)</u>	<u>(3,067,550)</u>
(Decrease) / increase in net assets from transactions with investment certificates	<u>(1,249,671)</u>	1,235,409
(Decrease) / increase in net assets for the reporting period	<u>(3,304,175)</u>	<u>3,463,157</u>
Net assets as at the end of the reporting period	<u>4,631,793</u>	<u>7,935,968</u>
Issued investment certificates as at the beginning of the reporting period	<u>562,515</u>	<u>467,210</u>
Issued investment certificates as at the end of the reporting period	<u>443,046</u>	<u>562,515</u>
Net asset value per investment certificate as at the beginning of the reporting period	<u>14.11</u>	<u>9.57</u>
Net asset value per investment certificate as at the end of the reporting period	<u>10.45</u>	<u>14.11</u>

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

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2011
Statement of cash flows
(LVL)

	<u>2011</u>	<u>2010</u>
Interest income	6,568	16,693
Dividend income	166,091	61,503
Investment management expenses	(157,594)	(135,924)
Acquisition of financial assets	(5,272,246)	(3,596,024)
Disposal of financial assets	6,345,421	2,327,404
Result on foreign currency translation	665	(129)
Increase / (decrease) in cash from operating activities	<u>1,088,905</u>	<u>(1,326,477)</u>
Inflow from sale of investment certificates	2,251,170	4,303,622
Outflow on redemption of investment certificates	(3,501,508)	(3,067,550)
(Decrease) / increase in cash from financing activities	<u>(1,250,338)</u>	<u>1,236,072</u>
(Decrease) in cash during the reporting period	<u>(161,433)</u>	<u>(90,405)</u>
Cash as at the beginning of the reporting period	322,067	319,095
Result of revaluation of cash denominated in foreign currencies	<u>41,377</u>	<u>93,377</u>
Cash as at the end of the reporting period	<u><u>202,011</u></u>	<u><u>322,067</u></u>

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

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2011

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 2011 to December 31, 2011.

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, 2011

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>31.12.2011.</u>	<u>31.12.2010.</u>
USD	0.544	0.535
GBP	0.840	0.824

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 long 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 and loans and receivables. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. Loans and receivables include deposits with credit institutions. Deposits with credit institutions are carried at amortized cost, using effective interest rate less provisions for impairment, if applicable.

Impairment provisions are created when there is an objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables. The amount of provisions for impairment is the difference between the amortized cost and the recoverable amount.

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 recognised 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 revaluated 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.

Derivatives

For currency risk management purposes, the Fund is involved in forward foreign exchange transactions – forwards and swaps. For the accounting purposes, all derivatives are classified as held-for-trading and accounted as follows.

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2011
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(LVL)

2. Summary of significant accounting policies (continued)

Subsequent to initial recognition, outstanding contracts carried in the balance sheet at their fair value. The fair value of these instruments is recognized on the balance sheet under designated assets and liabilities caption "Derivative financial instruments". The notional amount of these instruments is disclosed in the notes of these financial instruments.

Gains or losses from changes in the fair value of outstanding contracts are recognized in the statement of comprehensive income as foreign exchange revaluation result.

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 2011 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 01.01.2011) 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 01.01.2011 until the settlement date. Changes in the law are applicable only to private persons being residents of the Republic of Latvia.

Adoption of new or revised standards and interpretations

The following new and amended IFRSs and interpretations became effective in 2011, but are not relevant for the Fund's operations and did not have an impact on these financial statements.

Amendment to IAS 24, Related Party Disclosures.

Amendment to IAS 32 - Classification of Rights Issues

Amendment to IFRS 1 Limited exemption from comparative IFRS 7 disclosures for first-time adopters -

Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement

IFRIC 19, Extinguishing financial liabilities with equity instruments

Annual Improvements to IFRS

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2011 or later periods and which are not relevant to the Fund or are not yet endorsed by the EU:

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011),

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).

Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU).

Employee benefits – Amendment to IAS 19 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU).

Financial statement presentation` regarding other comprehensive income – Amendment to IAS 1 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU).

IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015; not yet endorsed by the EU).

IFRS 10, Consolidated financial statements (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

IFRS 11, `Joint arrangements (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

AIF "Citadele Russian Equity Fund"
Annual report for the year ended December 31, 2011
Notes
(LVL)

2. Summary of significant accounting policies (continued)

IFRS 12, 'Disclosures of interests in other entities' (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

IFRS 13, 'Fair value measurement' (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

'Separate financial statements' - IAS 27 (revised 2011), (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

'Associates and joint ventures' - IAS 28 (revised 2011), (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

IFRIC 20, 'Stripping costs in the production phase of a surface mine', (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU)

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 1, (effective for annual periods beginning on or after 1 January 2014; not yet endorsed by the EU).

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

3. Demand deposits with credit institutions

	31.12.2011.	31.12.2010.	% of Fund's net assets as at 31.12.2011.
Demand deposits with credit institutions, JSC Citadele banka	202,011	322,067	4.36%
Total demand deposits with credit institutions	202,011	322,067	4.36%

The Fund receives interest on demand deposits at fixed rates.

4. Shares

	31.12.2011.	31.12.2010.	% of Fund's net assets as at 31.12.2011.
Equity shares:	4,426,564	7,629,312	95.57%
Non-OECD region equity shares	4,426,564	7,629,312	95.57%
Total shares	4,426,564	7,629,312	95.57%

All equity shares of corporate entities are classified as securities held for trading.

All shares are listed as at December 31, 2011. All shares are listed, except for shares with the book value as at December 31, 2010 in the amount of LVL 141,574 on which purchase and sale information has been included in special stock exchange listings, but which are traded outside the stock exchange.

Financial instrument	ISIN	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2011.	% of Fund's net assets as at 31.12.2011.
Financial instruments traded on regulated markets				5,175,984	4,426,564	95.57%
Russian issuers:				5,175,984	4,426,564	95.57%
TRANSNEFT	RU0009091573	USD	292	140,092	246,148	5.31%
LUKOIL	RU0009024277	USD	8,000	242,576	231,344	4.99%
EVRAZ GROUP	GB00B71N6K86	GBP	73,580	232,088	230,540	4.99%
SBERBANK	RU0009029540	USD	168,000	302,407	226,431	4.89%
SURGUTNEFTEGAS	RU0009029524	USD	785,000	207,490	220,690	4.77%
TNK BP	RU000A0HGPM9	USD	146,000	156,351	204,572	4.43%

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Financial instrument	ISIN	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2011.	% of Fund's net assets as at 31.12.2011.
ROSTELECOM	US7785291078	USD	12,000	198,366	184,155	3.98%
GAZPROM	US3682872078	USD	30,000	188,177	173,971	3.77%
ROSNEFT OIL	RU000A0J2Q06	USD	43,000	176,778	155,828	3.36%
POLYMETAL	US7317892021	USD	16,000	100,947	140,396	3.03%
NORILSK NICKEL	US46626D1081	USD	16,800	199,105	139,921	3.03%
POWER MACHINES	RU0005928307	USD	1,400,000	131,349	117,768	2.54%
MAGNIT	US55953Q2021	USD	10,000	110,400	113,587	2.45%
VSMPO - AVISMA	RU0009100291	USD	1,262	100,943	112,306	2.42%
MOSTOTREST	RU0009177331	USD	35,000	102,485	109,853	2.37%
NORILSK NICKEL	RU0007288411	USD	1,298	115,866	109,344	2.36%
SBERBANK	US80585Y3080	USD	20,000	117,620	107,658	2.32%
GLOBALTRANS	US37949E2046	USD	14,116	102,568	103,975	2.24%
OGK-4	RU000A0JNGA5	USD	2,766,603	100,771	100,268	2.16%
PHARMSTANDARD	US7171402065	USD	12,604	111,716	94,621	2.04%
ROSNEFT OIL	US67812M2070	USD	26,140	89,843	93,711	2.02%
RASPADSKAYA	RU000A0B90N8	USD	48,100	149,381	80,811	1.74%
SOLLERS	RU0006914488	USD	14,767	109,469	76,810	1.66%
NOVATEK	US6698881090	USD	1,120	74,412	75,977	1.64%
SISTEMA	US48122U2042	USD	8,000	72,234	72,765	1.57%
URALKALI	RU0007661302	USD	18,138	80,143	71,997	1.55%
X5 RETAIL GROUP	US98387E2054	USD	5,000	71,555	61,989	1.34%
VEROPHARM	RU000A0JL475	USD	4,027	61,909	59,359	1.28%
M.VIDEO	RU000A0JPGA0	USD	19,150	75,868	58,684	1.27%
MOSENERGO	RU0008958863	USD	2,030,268	119,930	58,550	1.26%
O KEY GROUP	US6708662019	USD	15,000	83,903	55,488	1.20%
SEVERSTAL	US8181503025	USD	9,000	76,716	55,276	1.19%
AEROFLOT	RU0009062285	USD	60,000	60,685	51,581	1.11%
RUSHYDRO	US4662941057	USD	30,000	60,321	49,352	1.07%
MECHEL	US5838401033	USD	10,700	142,443	48,662	1.05%
INTEGRA GROUP	US45822B2051	USD	50,000	78,954	47,600	1.03%
FSK EES	RU000A0JPNN9	USD	9,795,317	68,696	46,951	1.01%
LSR GROUP	US50218G2066	USD	21,300	102,680	38,180	0.82%
PHOSAGRO	US71922G2093	USD	8,000	51,812	35,926	0.78%
KUZBASSRAZREZUGOL	RU000A0F6X68	USD	325,000	99,420	30,056	0.65%
NOVOROSSIYSK						
COMMERCIAL SEA PORT	US67011U2087	USD	7,131	49,187	28,707	0.62%
SYNERGY	RU000A0HL5M1	USD	3,600	66,437	26,850	0.58%
RUSGRAIN HOLDING	RU000A0JPNP4	USD	25,000	46,511	21,191	0.46%
ROSINTER RESTAURANTS	RU000A0JP922	USD	9,500	64,848	20,941	0.45%
NOVOLIPETSK STEEL	US67011E2046	USD	1,900	10,227	20,104	0.43%
TRANSSTROY	RU000A0JPBY1	USD	15,000	70,305	8,160	0.18%
HOLDING MRSK	RU000A0JPVK8	USD	324,970	-	7,510	0.16%
TGC-6	RU000A0JNG06	USD	7	-	-	0.00%
Total shares				5,175,984	4,426,564	95.57%

5. Derivative financial instruments

	31.12.2011.	31.12.2010.	% of Fund's net assets as at 31.12.2011.
Derivative financial instruments	12,730	-	0.27%
Put option (RSX US 21/01/12 P27)	12,730	-	0.27%
Total derivative financial instruments	12,730	-	0.27%

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6. Accrued liabilities

	31.12.2011.	31.12.2010.
Accrued commission fees payable to investment management company	(7,920)	(12,977)
Accrued commission fees payable to custodian bank	(628)	(1,006)
Accrued fees payable for professional services	(964)	(765)
Total accrued liabilities	(9,512)	(14,748)

7. Interest income

	2011	2010
Interest income from demand deposits with credit institutions	6,568	16,693
Total interest income	6,568	16,693

8. Realised (decrease) / increase in investment value

	2011	2010
Income from sale of investments	6,501,762	2,279,409
(Increase) in value of investments sold, recognised in the prior reporting periods	(1,117,261)	(183,541)
Acquisition value of investments sold	(5,895,935)	(1,875,944)
Total realised (decrease) / increase in investment value	(511,434)	219,924

9. Unrealised (decrease) / increase in investment value

	2011	2010
From shares	(1,439,587)	1,610,169
From derivative financial instruments	(13,329)	-
Total unrealised (decrease) / increase in investment value	(1,452,916)	1,610,169

10. Change in investments during the reporting period

	31.12.2010.	Increase during the reporting period	Decrease during the reporting period	Foreign currency revaluation result	Fair value revaluation result	31.12.2011.
Financial assets held for trading						
Shares	7,629,312	5,246,842	(6,345,421)	(153,148)	(1,951,021)	4,426,564
Derivative financial instruments	-	25,404	-	655	(13,329)	12,730
Total investments	7,629,312	5,272,246	(6,345,421)	(152,493)	(1,964,350)	4,439,294

11. 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.

12. 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.

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13. 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 Fund 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.

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. Evaluated below are the sources of market risk, however they cannot be eliminated completely.

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, RIGSE (Latvian 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 0.84. The beta was calculated on the basis of the data for the year 2011. The RTSI 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
34.66%	28.95%

At the end of the year 2010 the beta was 0.81. The beta was calculated on the basis of the data for the year 2011. The RTSI 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%

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13. Risk management (continued)

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.

The following table shows the Fund's assets and liabilities by currency profile as at December 31, 2011.

	EUR	USD	GBP	Total
Assets				
Demand deposits with credit institutions	-	202,011	-	202,011
Financial assets held for trading				
Shares	-	4,196,024	230,540	4,426,564
Derivative financial instruments	-	12,730	-	12,730
Total assets	-	4,410,765	230,540	4,641,305
Liabilities				
Accrued liabilities	(964)	(8,548)	-	(9,512)
Total liabilities	(964)	(8,548)	-	(9,512)
Net assets	(964)	4,402,217	230,540	4,631,793
<i>Net long / (short) position</i>	<i>(0.02)%</i>	<i>95.04%</i>	<i>4.98%</i>	<i>100.00%</i>

The following table shows the Fund's assets and liabilities by currency profile as at 31 December 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 effect of changes in currency exchange rates on the Fund's value in 2011 is shown in the table below.

Currency	Share (% of assets)	Change in currency rate against EUR	Effect on the Fund's value
USD	95.04%	0.00%	0.00%
GBP	4.98%	8.46%	0.42%
EUR	-0.02%	11.89%	0.00%
Total	100%		0.42%

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13. Risk management (continued)

In the 2010 assets of the Fund had been denominated in one currency – USD - therefore the currency risk for the Fund was not material. Liabilities in EUR comprised 0.01%

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.

The following table shows the Fund's assets and liabilities by geographic profile as at December 31, 2011.

	Latvia	OECD region countries	Other non- OECD region countries	Total
Assets				
Demand deposits with credit institutions	202,011	-	-	202,011
Financial assets held for trading				
Shares	-	-	4,426,564	4,426,564
Derivative financial instruments	-	12,730	-	12,730
Total assets	202,011	12,730	4,426,564	4,641,305
Liabilities				
Accrued liabilities	(9,512)	-	-	(9,512)
Total liabilities	(9,512)	-	-	(9,512)
Net assets	192,499	12,730	4,426,564	4,631,793

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

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13. Risk management (continued)

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

Country	Carrying amount as at 31.12.2011.	Carrying amount as at 31.12.2010.	% of Fund's net assets as at 31.12.2011.
Russia	4,426,564	7,629,312	95.57%
Latvia	192,499	306,656	4.16%
USA	12,730	-	0.27%
Total	4,631,793	7,935,968	100.00%

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

	31.12.2011.	31.12.2010.	% of Fund's net assets as at 31.12.2011.
Energy resources	1,560,708	2,594,809	33.71%
Raw materials	964,472	1,484,097	20.82%
Commercial banks	334,089	395,375	7.21%
Public utilities	262,631	1,072,959	5.67%
Telecommunication services	256,920	495,514	5.55%
Retail of food and consumer goods	231,064	251,905	4.99%
Capital goods	227,621	279,271	4.91%
Transportation	192,423	392,232	4.15%
Pharmacy	153,980	220,444	3.32%
Production of cars and car spare parts	76,810	161,957	1.66%
Retail	58,684	-	1.27%
Food, beverages, tobacco	48,041	144,343	1.04%
Real estate	38,180	-	0.82%
Consumer services	20,941	116,898	0.45%
Mass media	-	19,508	0.00%
Total shares	4,426,564	7,629,312	95.57%

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, 2011.

	Within 1 month	1-6 months	No maturity	Total
Assets				
Demand deposits with credit institutions	202,011	-	-	202,011
Financial assets held for trading				
Shares	-	-	4,426,564	4,426,564
Derivative financial instruments	12,730	-	-	12,730
Total assets	214,741	-	4,426,564	4,641,305
Liabilities				
Accrued liabilities	(8,548)	(964)	-	(9,512)
Total liabilities	(8,548)	(964)	-	(9,512)
Net assets	206,193	(964)	4,426,564	4,631,793
<i>Net position %</i>	4.45%	(0.02)%	95.57%	100.00%

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13. Risk management (continued)

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

	Within 1 month	1-3 months	No maturity	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	(13,983)	(765)		(14,748)
Other liabilities	(663)	-	-	(663)
Total liabilities	(14,646)	(765)	-	(15,411)
Net assets	307,421	(765)	7,629,312	7,935,968
<i>Net position %</i>	<i>3.87%</i>	<i>(0.01)%</i>	<i>96.14%</i>	<i>100.00%</i>

14. 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:

	31.12.2011.	31.12.2010.	% of total certificates as at 31.12.2011.
Investment certificates held by related parties	65	-	0.01%
Investment certificates held by other persons	442,981	562,515	99.99%
Investment certificates issued as at the end of the period	443,046	562,515	100.00%

15. 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 resolution 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 6), 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 6).

During the reporting period and in 2010 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 2011 and 31 December 2010.

16. Dynamics of the Fund's performance

	31.12.2011.	31.12.2010.	31.12.2009.
Net assets(LVL)	4,631,793	7,935,968	4,472,811
Number of the investment certificates	443,046	562,515	467,210
Value of investment certificates (LVL)	10.45	14.11	9.57
Performance on investment certificates**	(25.94)%	47.44%	123.19%

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16. Dynamics of the Fund's performance (continued)

	31.12.2011.	31.12.2010.	31.12.2009.
Net assets (USD)*	8,516,181	14,833,571	9,147,130
Number of the investment certificates	443,046	562,515	467,210
Value of investment certificates (USD)	19.22	26.37	19.58
Performance on investment certificates**	(27.11)%	34.68%	126.10%

* 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 10 to 25 of AIF Citadele Russian Equity Fund which comprise the statement of financial position as of 31 December 2011 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.

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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 2011, 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 pages 5 - 6 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2011.

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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
27 April 2012

* 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.