

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

HALF-YEAR REPORT 2013 (UNAUDITED)

(at June 30th, 2013)

**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, 2013

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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" AS („Parex banka" AS – 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 06.11.2012. Deputy Chairman of the Council – Vladimirs Ivanovs – appointed on 06.11.2012. Council Member – Philip Nigel Allard – appointed on 06.11.2012.</p> <p><i>Board of the investment management company:</i> Chairman of the Board – Uldis Upenieks – appointed on 06.11.2012. Board Member – Zigurds Vaikulis – appointed on 30.04.2013. Board Member – Sergejs Zaicevs – appointed on 31.01.2013. Board Member – Sergejs Zaicevs – resigned on 01.07.2013.</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 Janvare – appointed on 09.10.2008. Andris Kotāns – appointed on 26.01.2011. Elchin Jafarov – appointed on 25.09.2011
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

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Information on the investment fund

Auditor:

PricewaterhouseCoopers SIA
Certified audit company, licence No. 5
Kr. Valdemāra street 21-21
LV-1010, Riga

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

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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). The Company was founded on 11 January, 2002 with the registration number 40003577500.

The Company holds a licence No. 06.03.07.098/285 authorising it to render investment management services. The licence was last re-registered on 5 August 2010.

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

During the reporting period the Fund's total asset value declined by 12.66% to 5,187,025 lats. The Fund's net assets of the reporting period declined by 12.66% i.e. by LVL 750,554 and amounted to 5,177,938 lats at the end of the period of six months. During the period the value of the Fund's share declined by 1.24 lats and at the end of the period of six months it amounted to LVL 10.68. The Fund's performance in lats was -10.40% (-19.87% annualized per year) and -11.80% in base value (-22.38% annualized per year).

The first half of the year of 2013 was characterized by relatively volatile behavior of risk assets and unsustainable demand for developing countries' shares. Risk assets in the first half showed different performance - developing countries' stock markets significantly underperformed the markets of developed countries, indicating a selective risk appetite among investors. This is partly due to the ambiguous economic backgrounds - on the one hand the shares of developed countries supported by the U.S. macroeconomic data improvements as well as the quantitative enhancement program (QE3) of U.S. Federal Reserve System, but the Euro area macroeconomic indicators remained weak, and the political instability in such faring nations as Italy, Cyprus banks' crisis as well as the relatively weak financial results of European enterprises led investors to take certain precautions. There was additional pressure on developing countries' shares made by inconclusive nature of Chinese macroeconomic data and the resulting decrease of raw material prices. The decrease in the prices of oil and industrial metals had a significant negative impact on the Russian stock market performance and on economic growth rates. For example, GDP growth in the first half of 2013 inhibited to 1.70 % y/y, while the inflation remained at a relatively high level (6.90 % y/y in June), which prevented the Russian Central Bank from cutting the official interest rate. At the same time, fiscal policy became more conservative - the Russian government introduced new budget policy by limiting the costs that depend on short-term oil price fluctuations. From the perspective of six months RTS index underwent a 16.50 % fall and fell behind with the broad MSCI shares' index of developing countries, which in U.S. dollar terms has lost 10.90 %. The performance of Russian shares was also hampered by unfriendly decisions to minority shareholders made by certain companies, indicating that significant improvements are needed in the area of corporate governance. From a positive point of view, it should be noted that there were also some positive changes in market microstructure development, such as the transition to T+2 day settlement system.

In the first half of 2013 the greatest negative impact on the Fund's performance was made by the investments in raw materials' and energy's production sectors, a total of nearly 80.00% of the negative yield. The investments in utilities, manufacturing and telecommunications sectors also made a negative impact on the Fund's performance. Whereas the most positive contribution was made by investments in the essential goods sector. The Fund manager effort to limit the losses from adverse market fluctuations with the help of derivative financial instruments was successful and also had a small positive impact on the Fund's performance.

During the period the most significant changes in the Fund's portfolio structure affected the raw materials mining sector, the share of which decreased from 24.40 % to 13.70 % of the Fund's assets due to the substantial decline in prices and due to a number of sales transactions made, when our view on the sector's growth prospects deteriorated. During the six month the share of energy production sectors also declined slightly (from 35.80% to 34.40%) due to the fluctuations of the relative market prices and certain sales transactions. It was also decided to reduce further the Fund's investment share of public utilities sector due to the uncertain growth perspective, which is largely dependent on political decisions (the share dropped from 03.30% to 2.00%). During this period the share of investments in consumer goods sector also decreased (from 5.80 % to 4.60 %). The biggest positive

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changes in the Fund's investment structure were observed in the essential goods sector, which can be explained by the strong performance of the sector shares (the share increased from 5.40% to 10.8%). In the context the slowdown of Russia's economic growth and of uncertain perspective of raw material prices, the proportion of the Fund's investments increased in relatively less cyclical telecommunications sector (from 4.40 % to 6.70 %). The share of other sectors in the Fund's investment structure did not change significantly during the reporting period. During this period there was a significant increase in cash share in the Fund (from 3.30% to 12.40%), reflecting the relatively cautious view of the Company on the Russian stock market. Generally the changes in the Fund's investment structure are made also due to the decision to make the Fund's investment portfolio structure more focused, with an emphasis on quality and liquid issuers, thus less liquid companies with relatively high risk profile (for example, a high debt burden) were completely sold out from the Fund.

In the second half of 2013 it could be expected that the demand for shares of the developing countries, including Russia, will continue to be stated by the investors' overall risk appetite likely to remain selective due to the uncertain perspectives for the Chinese economy and risk limits of the U.S. quantitative incentive programs.

However, in the global context, the Russian stock market offers relatively cheap assessments and good dividend yield with upward trend that could attract the investors' attention. Furthermore, in the second half of the year the decline of inflationary pressure is expected, thus opening the door to monetary stimulation from the Central Bank, which could provide support for the Russian economy and stock market.

During the reporting year, fund management fee of 119,421 US dollars was paid from the Fund's resources representing 2.50% of the average net asset value and being within the limit of 4.00% set forth in Prospectus.

Uldis Upenieks
Chairman of the Board

Andris Kotāns
Member of the investment committee

Kristiāna Janvare
Member of the investment committee

Elchin Jafarov
Member of the investment committee

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Statement of financial position
(LVL)

Notes	30.06.2013.	31.12.2012.
Assets		
1	Demand deposits with credit institutions	649,129 340,850
	Financial assets held for trading	
2	Shares	4,444,487 5,598,251
3	Debt securities and other fixed income securities	93,409 -
	Total assets	5,187,025 5,939,101
Liabilities		
	Accrued liabilities	(9,087) (10,609)
	Total liabilities	(9,087) (10,609)
	Net assets	5,177,938 5,928,492

The accompanying notes set out on pages 10 to 11 form an integral part of these financial statements.

 Uldis Upenieks
 Chairman of the Board

Riga, 22 August 2013

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Statement of comprehensive income
(LVL)

	01.01.2013.- 30.06.2013.	01.01.2012.- 30.06.2012.
Income		
Interest income	1,363	1,904
Dividends	61,110	12,867
Total income	62,473	14,771
Expenses		
Investment management company fee	(55,560)	(49,830)
Custodian bank fee	(4,408)	(3,940)
Other fund management expenses	(3,717)	(4,238)
Total expenses	(63,685)	(58,008)
Decrease in investment value		
Realised (decrease) / increase in investment value	(9,809)	172,396
Unrealised decrease in investment value	(581,916)	(206,851)
Total decrease in investment value	(591,725)	(34,455)
Foreign currency gain	9,827	152,318
Total comprehensive (expense) / income	(583,110)	74,626

Uldis Upeniņks
Chairman of the Board

Riga, 22 August 2013

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Statement of changes in net assets
(LVL)

	01.01.2013.- 30.06.2013.	01.01.2012.- 30.06.2012.
Net assets as at the beginning of the period	5,928,492	4,631,793
Total comprehensive (expense) / income	(583,110)	74,626
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	871,836	489,870
<i>Outflow on redemption of investment certificates</i>	(1,039,280)	(521,100)
Decrease in net assets from transactions with investment certificates	(167,444)	(31,230)
(Decrease) / increase in net assets for the reporting period	(750,554)	43,396
Net assets as at the end of the reporting period	5,177,938	4,675,189
Issued investment certificates as at the beginning of the reporting period	497,448	443,046
Issued investment certificates as at the end of the reporting period	484,913	439,580
Net asset value per investment certificate as at the beginning of the reporting period	11.92	10.45
Net asset value per investment certificate as at the end of the reporting period	10.68	10.64

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(LVL)

1. Demand deposits with credit institutions

	30.06.2013.	31.12.2012.	% of Fund's net assets as at 30.06.2013.
Demand deposits with credit institutions, JSC Citadele banka	649,129	340,850	12.54%
Total demand deposits with credit institutions	649,129	340,850	12.54%

The Fund receives interest on demand deposits at fixed rates

2. Shares

All debt securities and other fixed income securities are classified as held-for-trading securities.

All fixed income securities are listed, except for securities with the book value LVL 124,849

The table below presents debt securities by the issuer's country of residence as at 30 June 2013:

Financial instrument	ISIN kods	Currency	Amount	Acquisition value	Carrying amount as at 30.06.2013.	% of Fund's net assets as at 30.06.2013.
<u>Financial instruments traded on regulated markets</u>				<u>4,663,766</u>	<u>4,444,487</u>	<u>85.84%</u>
Russian issuers:				4,663,766	4,444,487	85.84%
LUKOIL	US6778621044	USD	14,100	468,440	431,294	8.33%
SBERBANK	US80585Y3080	USD	63,000	401,975	385,412	7.44%
ROSNEFT OIL	US67812M2070	USD	87,140	356,234	322,204	6.22%
NOVATEK	US6698881090	USD	4,220	268,569	269,765	5.21%
MAGNIT	US55953Q2021	USD	8,600	109,497	265,145	5.12%
MOBILE TELESYSTEMS	US6074091090	USD	24,000	237,239	239,057	4.62%
TRANSNEFT	RU0009091573	USD	200	128,774	236,297	4.56%
NORILSK NICKEL	US46626D1081	USD	25,000	234,543	193,770	3.75%
SURGUTNEFTEGAS	RU0009029524	USD	545,000	171,970	182,342	3.52%
PHARMSTANDARD	US7171402065	USD	12,604	111,716	143,140	2.76%
M.VIDEO	RU000A0JPGA0	USD	35,350	146,257	136,925	2.64%
URALKALI	US91688E2063	USD	7,000	151,495	124,849	2.41%
VSMPO - AVISMA	RU0009100291	USD	1,262	100,943	120,164	2.32%
BASHNEFT	RU0007976957	USD	4,000	117,013	120,316	2.32%
MEGAFON	US58517T2096	USD	6,500	101,654	109,274	2.11%
OGK-4	RU000A0JNGA5	USD	2,766,603	100,771	105,789	2.04%
SOLLERS	RU0006914488	USD	8,767	52,835	101,273	1.96%
O KEY GROUP	US6708662019	USD	15,000	83,903	91,361	1.76%
LSR GROUP	US50218G2066	USD	39,840	148,884	85,938	1.66%
GLOBALTRANS	US37949E2046	USD	11,116	83,350	82,324	1.59%
MOSTOTREST	RU0009177331	USD	35,000	102,485	82,002	1.58%
SEVERSTAL	US8181503025	USD	23,700	155,700	80,670	1.56%
EVRAZ GROUP	GB00B71N6K86	GBP	97,580	178,914	78,600	1.52%
MAIL.RU GROUP	US5603172082	USD	5,000	87,007	77,454	1.50%
GAZPROM	US3682872078	USD	20,000	112,053	70,286	1.36%
POLYUS GOLD CO	JE00B5WLXH36	GBP	40,000	67,777	66,822	1.29%

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Financial instrument	ISIN kods	Currency	Amount	Acquisition value	Carrying amount as at 30.06.2013.	% of Fund's net assets as at 30.06.2013.
DIXY GROUP OJSC	RU000A0JP7H1	USD	8,000	58,630	60,328	1.17%
TNK BP	RU000A0HGPM9	USD	71,000	107,276	53,809	1.04%
VEROPHARM	RU000A0JL475	USD	4,027	61,909	45,852	0.89%
POLYMETAL NOVOROSSIYSK	JE00B6T5S470	GBP	12,000	95,566	44,866	0.87%
COMMERCIAL SEA PORT	US67011U2087	USD	10,917	60,387	37,159	0.72%
TGC-6	RU000A0JNG06	USD	7	-	-	0.00%
Total shares				4,663,766	4,444,487	85.84%

3. Debt securities and other fixed income securities

All debt securities and other fixed income securities are classified as held-for-trading securities.
All fixed income securities are not listed with the book value LVL 93,409 (2012: LVL 0).
The table below presents debt securities by the issuer's country of residence as at 30 June 2013:

Financial instrument	ISIN kods	Currency	Amount	Acquisition value	Carrying amount as at 30.06.2013.	% of Fund's net assets as at 30.06.2013.
<u>Financial instruments not traded on regulated markets</u>				130,515	93,409	1.80%
French issuers:				130,515	93,409	1.80%
BNP PARIBAS	XS0842632498	USD	25	130,515	93,409	1.80%
Total securities and other fixed income securities				130,515	93,409	1.80%

4. Dynamics of net asset value

	30.06.2013.	31.12.2012.	31.12.2011.	31.12.2010.
Net assets (LVL)	5,177,938	5,928,492	4,631,793	7,935,968
Number of investment certificates	484,913	497,448	443,046	562,515
Value of investment fund's shares (LVL)	10.68	11.92	10.45	14.11
Performance on investment fund's shares*	(19.87)%	14.03%	(25.94)%	47.44%
Net assets (USD)**	9,602,672	11,165,778	8,516,181	14,833,571
Number of investment certificates	484,913	497,448	443,046	562,515
Value of investment fund's shares (USD)	19.8	22.45	19.22	26.37
Performance on investment fund's shares*	(22.38)%	16.76%	(27.11)%	34.68%

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

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