

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

**ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31 2012**

(9th 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, 2013

**OIF “Citadele Russian Equity Fund”
Annual report for the year ended 31 December 2012
Table of contents**

General information	3
Investment Management Company report	5
Statement of responsibility of the Board of the investment management company	7
Custodian bank report	8
Financial statements:	
Statement of financial position	10
Statement of comprehensive income	11
Statement of changes in net assets	12
Statement of cash flows	13
Notes	14
Auditors’ report	27

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012
Information on the investment fund

Name of the fund:	Citadele Russian Equity Fund
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
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
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 – Vladimirs Ivanovs – appointed on 01.11.2012. Council Member – Valters Ābele – appointed on 31.01.2012, resigned – 01.11.2012. Council Member – Philip Nigel Allard – appointed on 01.11.2012. Deputy Chairman of the Council – Philip Nigel Allard – resigned on 01.11.2012 Council Member – Anatolijs Fridmans – resigned on 31.01.2012.</p> <p><i>Board of the investment management company:</i> Chairman of the Board – Uldis Upenieks – appointed on 01.11.2012. Board Member – Zigurds Vaikulis – appointed on 30.03.2007. Board Member – Sergejs Zaicevs – appointed on 25.01.2013. Chairman of the Board – Vladimirs Ivanovs – resigned on 01.11.2012. Board Member – Raimonds Vesers – resigned on 18.08.2012.</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., resigned on 29.11.2012. 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

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012
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

OIF “Citadele Russian Equity Fund”
Annual report for the year ended 31 December 2012
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). 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.

In 2012 demand for developing countries’ securities was impacted by significant fluctuations in investors’ behaviour. The first quarter of 2012 was mainly optimistic, however in the second quarter of the year investors’ risk appetite was negatively impacted by inconsistent macroeconomic conditions in the world’s largest economies (Eurozone, United States and China), as well as concerns about the Eurozone debt crisis further development. However, risk assets have received significant support at the end of summer and during autumn 2012, when additional quantitative promotional events were performed in the US and European Central Bank announced on making all possible efforts in maintaining unity of the Eurozone. During the last quarter of the year investors become more careful once again due to the approaching elections and budget consolidation in the US as well as continuing unconvincing performance in global economics. In 2012 RTS index has increased by 10.5% in terms of US dollars, falling behind the wide developing countries’ shares index MSCI EM, which increased by 15.1% in the same currency.

Although there was an increase of raw material prices during the year (Brent +3.5%; industrial metals +4.5%), Russian shares yield was negatively affected by a number of internal factor. In May 2012 international investors were concerned about increasing political risks connected with presidential elections. Additionally, deterioration of Russian macroeconomic characteristics was observed during the second half of the year; which indicated industrial manufacturing and retail industry growth slowdown. Investors were not satisfied with with the uncertainties within the State privatisation policy, despite the fact that the State performed a successful transaction of Sberbank share sale. Nevertheless, there were also some major events in 2012 that had a positive impact on Russian shares perspectives. Those include joining of the World Trade Organisation by Russia, which should provide additional support to gross domestic product development in future, due to improvements on efficiency and reduced import taxes. Additional support to Russian shares was also provided by positive forecasts of increasing dividend payments in the State controlled companies, which can in turn significantly reduce corporate management risks.

During 2012, the Company continued to reduce the exposure to less liquid second-tier stock shares, that, taking in mind investors selective attitude towards risks (avoidance of high risk segments) showed weaker performance than high capitalisation shares. As a result the number of the Fund’s investments decreased to 43 in the end of the year (in previous year 48).

In terms of investments structure by industry sectors, the main decrease is observed in durable goods sector, generally because of company’s “Power Machines” full share repurchase from minority investors. The Company also continued to reduce the Funds investment share in utilities sector due to the large uncertainty surrounding the future perspective of this industry which significantly depends on future State regulations. Telecommunication services sector share was reduced as well, due to sale of “Sistema holding” shares. On the other hand, raw materials sector share in total Fund’s investments was increased, expecting recovery of global economics. Also increase is observed in cars manufacturing and retail sectors, considering significant domestic consumption increase in Russia. Changes in Fund’s investments in other industries have been relatively insignificant. As at 31.12.2012 free cash funds share reached 5.75% of Funds net assets.

Overall, the most positive contribution to Fund performance was provided by investments in energy, retail and cars manufacturing industries, while telecommunication sector was the only one to show a negative contribution.

The Fund’s net assets amount increased by 28.00% (or by 1,296,699 LVL) in 2012 and at the end of the year amounted to 5,928,492 LVL. The Fund’s share price increased by 1.47 LVL and amounted to 11.92 LVL at year end. Overall performance of the Fund in Y2012 was 14.03% denominated in lats and 16.76% in Fund’s base currency.

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012
Investment management company report

During the reporting year, fund management fee of 218,017 US dollars (117,293 LVL) was paid from the Fund's resources representing 2.3% of the average net asset value and being within the limit of 4% set forth in Prospectus.

It is expected that Russian equity shares dynamics will be closely associated with global demand on risk assets in 2013 – investor's desire on investing in developing countries' shares and raw material price dynamics. Significant impact is expected from further global economic performance and monetary policy of leading central banks. Potential monetary stimulation volume decrease in the US is considered as the main risk factor in world's risk asset price dynamics for the next year. The Company's management expects, that Russian economic results will continue to decrease during the first half of 2013, which could in turn initiate a monetary stimulation policy from the Central Bank. Currently Russian stock markets have relatively positive assessments and are attractive to investors, taking into consideration its history and other world's stock markets performance, however as proven by experience this individual factor cannot be sufficient reason for attracting significant foreign investors' funds. Positive impact on investors' interest for Russian equity shares might be impacted by the expected improvements in overall investment climate with the requirement for all companies quoted on a stock exchange to publish their financial results in accordance with International Finance Reviewing standards (IFRS) starting from 2013; expected minimum dividends payout ratio introduction for the State companies, based on their IFRS results, as well as possible cancellation of depositary certificates limits.



Uldis Upenieks
Chairman of the Board



Andris Kotāns
Member of the Investment
Committee



Kristiāna Ķiete
Member of the Investment
Committee



Elchin Jafarov
Member of the Investment
Committee

Riga,
26 April, 2013

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012
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 26 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2012 and 31 December 2011 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



Uldis Upenieks
Chairman of the Board

Riga,
26 April, 2013



CUSTODIAN BANK REPORT

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

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.



Guntis Beļavskis
Chairman of the Board, p.p.

Riga, February 25, 2013

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012
Statement of financial position
(LVL)

Notes	31.12.2012.	31.12.2011.
Assets		
3	340,850	202,011
	Financial assets held for trading	
4	5,598,251	4,426,564
		12,730
5	-	-
	5,939,101	4,641,305
Total assets		
Liabilities		
6	(10,609)	(9,512)
	(10,609)	(9,512)
Total liabilities		
	5,928,492	4,631,793
Net assets		

The accompanying notes set out on pages 14 to 26 form an integral part of these financial statements.



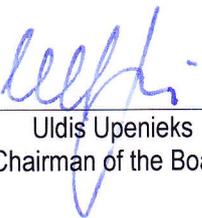
Uldis Upeniaks
Chairman of the Board

Riga,
26 April, 2013

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012
Statement of comprehensive income
(LVL)

Notes	2012	2011
Income		
7	3,288	6,568
	130,849	166,091
	134,137	172,659
Expenses		
	(102,610)	(133,777)
	(8,114)	(10,410)
	(8,469)	(7,596)
	(119,193)	(151,783)
Increase / (decrease) in investment value		
8	197,399	(511,434)
9	525,465	(1,452,916)
	722,864	(1,964,350)
	(97,833)	(111,030)
	639,975	(2,054,504)

The accompanying notes set out on pages 14 to 26 form an integral part of these financial statements.



Uldis Upenieks
Chairman of the Board

Riga,
26 April, 2013

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012
Statement of changes in net assets
(LVL)

	<u>2012</u>	<u>2011</u>
Net assets as at the beginning of the reporting period	4,631,793	7,935,968
Total comprehensive income / (expenses)	639,975	(2,054,504)
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	<i>1,627,094</i>	<i>2,251,837</i>
<i>Outflow on redemption of investment certificates</i>	<i>(970,370)</i>	<i>(3,501,508)</i>
Increase / (decrease) in net assets from transactions with investment certificates	<u>656,724</u>	<u>(1,249,671)</u>
Increase / (decrease) in net assets for the reporting period	<u>1,296,699</u>	<u>(3,304,175)</u>
Net assets as at the end of the reporting period	<u>5,928,492</u>	<u>4,631,793</u>
Issued investment certificates as at the beginning of the reporting period	<u>443,046</u>	<u>562,515</u>
Issued investment certificates as at the end of the reporting period	<u>497,448</u>	<u>443,046</u>
Net asset value per investment certificate as at the beginning of the reporting period	<u>10.45</u>	<u>14.11</u>
Net asset value per investment certificate as at the end of the reporting period	<u>11.92</u>	<u>10.45</u>

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012
Statement of cash flows
(LVL)

	<u>2012</u>	<u>2011</u>
Interest income	3,288	6,568
Dividend income	130,849	166,091
Investment management expenses	(118,317)	(157,594)
Acquisition of financial assets	(3,441,484)	(5,272,246)
Disposal of financial assets	2,880,162	6,345,421
Result on foreign currency translation	429	665
(Decrease) / increase in cash from operating activities	<u>(545,073)</u>	<u>1,088,905</u>
Inflow from sale of investment certificates	1,627,093	2,251,170
Outflow on redemption of investment certificates	(970,370)	(3,501,508)
Increase / (decrease) in cash from financing activities	<u>656,723</u>	<u>(1,250,338)</u>
Increase / (decrease) in cash during the reporting period	<u>111,650</u>	<u>(161,433)</u>
Cash as at the beginning of the reporting period	202,011	322,067
Result of revaluation of cash denominated in foreign currencies	<u>27,189</u>	<u>41,377</u>
Cash as at the end of the reporting period	<u>340,850</u>	<u>202,011</u>

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012

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 Russian Federation.
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 OIF 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) No 99 "Regulations on the Preparation of Annual Reports 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 2012 to 31 December 2012.

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 accruals 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 recognized 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 recorded in 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.

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012

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>31.12.2012.</u>	<u>31.12.2011.</u>
USD	0.531	0.544
GBP	0.857	0.840
RUB	0.0174	0.0170

Since 1 January 2005, the Bank of Latvia has stated a fixed official exchange rate for the Latvian lat against the euro, i.e. 0.702804. From that 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 instruments at their original 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 available from Bloomberg and Russian Stock Exchange on the bid prices of securities. 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

In order to manage currency risk, the Fund engages as a party to contracts for foreign exchange forward and currency swap instruments. For the accounting purposes, all derivatives are classified as held-for-trading and accounted as follows.

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012
Notes
(LVL)

2. Summary of significant accounting policies (continued)

Subsequent to initial recognition, outstanding and foreign exchange forwards and currency swaps are 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 forward foreign exchange rate contracts and currency swaps 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 01.01.2010) 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.

Adoption of new or revised standards and interpretations

The following new and amended IFRSs and interpretations became effective in 2012, but are not relevant for the Fund's operations and did not have an impact on these financial statements.

Amendments to IFRS 7 "Financial instruments: Disclosures" on transfers of assets (effective for annual periods beginning on or after 1 July 2011).

Amendments to IFRS 1 "First time adoption" on fixed dates and hyperinflation (effective for annual periods beginning on or after 1 July 2011).

Amendments to IAS 12 "Income taxes" on deferred tax (effective for annual periods beginning on or after 1 January 2012).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2013 or later periods and which are not relevant to the Fund or are not yet endorsed by the EU:

Amendments to IAS 19 "Employee benefits" (effective for annual periods beginning on or after 1 January 2013).

Amendments to IAS 1 "Financial statement presentation" regarding other comprehensive income (effective for annual periods beginning on or after 1 January 2012, endorsed by the EU on June 2012).

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).

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

IFRS 10 "Consolidated financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IFRS 11 "Joint arrangements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IFRS 12 "Disclosures of interests in other entities" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012

Notes
(LVL)

2. Summary of significant accounting policies (continued)

Amendments to IFRS 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2013).

IFRS 13 "Fair value measurement" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012).

IAS 27 (revised 2011) "Separate financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IAS 28 (revised 2011) "Associates and joint ventures" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

Amendments to IFRS 7 "Financial instruments: Disclosures" on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).

Amendments to IAS 32 "Financial instruments: Presentation" on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014, endorsed by the EU on December 2012).

Amendments to IFRS 1 "First time adoption" on government loans (effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU).

Improvements to IFRS (issued in May 2012; most of the amendments are effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU):

- IFRS 1 "First time adoption";
- IAS 1 "Financial statement presentation";
- IAS 16 "Property, plant and equipment";
- IAS 32 "Financial instruments: Presentation";
- IAS 34 "Interim financial reporting".

Amendments to IFRS 10, IFRS 12 and IAS 27 on investment entities (effective for annual periods beginning on or after 1 January 2014, 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, endorsed by the EU on December 2012).

3. Demand deposits with credit institutions

	31.12.2012.	31.12.2011.	% of Fund's net assets as at 31.12.2012.
Demand deposits with credit institutions, JSC Citadele banka	340,850	202,011	5.75%
Total demand deposits with credit institutions	340,850	202,011	5.75%

The Fund receives interest on demand deposits at fixed rates.

4. Shares

	31.12.2012.	31.12.2011.	% of Fund's net assets as at 31.12.2012.
Equity shares:	5,598,251	4,426,564	94.43%
Non-OECD region equity shares	5,598,251	4,426,564	94.43%
Total shares	5,598,251	4,426,564	94.43%

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

As at 31 December 2012 and 31 December 2011, all the Fund's shares were traded on regulated markets, except for shares with the book value of LVL 141,841 on which purchase and sale information has been included in special stock exchange listings, but which are traded outside the stock exchange.

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012

Notes
(LVL)

4. Shares (continued)

Taking into account specifics of the region, investments are assessed by evaluating the actual country of operations of the company rather than the country where it is listed on the stock exchange, as significant portion of companies have selected to quote their shares on foreign markets due to undeveloped local stock markets.

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

Financial instrument	ISIN	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2012.	% of Fund's net assets as at 31.12.2012.
Financial instruments traded on regulated markets				5,572,868	5,545,641	92.04%
Russian issuers:				5,572,868	5,545,641	92.04%
LUKOIL	US6778621044	USD	13,110	433,199	455,972	7.69%
SBERBANK	US80585Y3080	USD	69,000	426,580	444,431	7.50%
ROSNEFT OIL	US67812M2070	USD	76,140	297,155	358,213	6.04%
TRANSNEFT	RU0009091573	USD	200	128,774	239,063	4.03%
SEVERSTAL	US8181503025	USD	32,700	239,984	210,101	3.54%
EVRAZ GROUP	GB00B71N6K86	GBP	95,580	220,366	209,449	3.53%
MOBILE TELESYSTEMS	US6074091090	USD	19,000	182,894	187,958	3.17%
MAGNIT	US55953Q2021	USD	8,600	109,497	176,956	2.98%
SOLLERS	RU0006914488	USD	14,767	109,469	176,324	2.97%
NOVATEK	US6698881090	USD	2,720	181,716	173,030	2.92%
NORILSK NICKEL	RU0007288411	USD	17,500	165,102	172,841	2.92%
SURGUTNEFTEGAS	RU0009029524	USD	485,000	145,627	168,127	2.84%
POLYUS GOLD	JE00B5WLXH36	GBP	90,000	152,019	158,888	2.68%
GAZPROM	US3682872078	USD	30,000	188,177	149,981	2.53%
M.VIDEO	RU000A0JPGA0	USD	35,350	146,257	148,526	2.51%
VSMPO - AVISMA	RU0009100291	USD	1,262	100,943	140,993	2.38%
NOVOLIPETSK STEEL	US67011E2046	USD	11,900	111,914	126,125	2.13%
OGK-4	RU000A0JNGA5	USD	2,766,603	100,771	125,684	2.12%
BASHNEFT	RU0007976957	USD	4,000	117,012	123,332	2.08%
POLYMETAL	JE00B6T5S470	GBP	12,000	95,566	119,500	2.02%
MOSTOTREST	RU0009177331	USD	35,000	102,485	114,057	1.92%
PHARMSTANDARD	US7171402065	USD	12,604	111,716	109,225	1.84%
ROSNEFT OIL	RU000A0J2Q06	USD	22,000	78,155	103,693	1.75%
KUZBASSRAZREZUGOL	RU000A0F6X68	USD	325,000	99,420	98,368	1.66%
GLOBALTRANS	US37949E2046	USD	11,116	83,350	95,858	1.62%
O KEY GROUP	US6708662019	USD	15,000	83,903	92,872	1.57%
MAIL.RU GROUP	US5603172082	USD	5,000	87,007	88,491	1.49%
LSR GROUP	US50218G2066	USD	38,300	145,260	83,180	1.40%
ROSTELECOM	US7785291078	USD	6,000	98,026	75,126	1.27%
PETROPAVLOVSK	GB0031544546	GBP	25,000	137,011	74,773	1.26%
TNK BP	RU000A0HGPM9	USD	71,000	107,276	71,786	1.21%
VEROPHARM	RU000A0JL475	USD	4,027	61,909	58,208	0.98%
MAGNITOGORSK IRON & STEEL WORKS	US5591892048	USD	23,000	57,296	53,432	0.90%
X5 RETAIL GROUP	US98387E2054	USD	5,000	71,555	47,286	0.80%
RASPADSKAYA	RU000A0B90N8	USD	44,377	134,762	44,868	0.76%
NOVOROSSIYSK						
COMMERCIAL SEA PORT	US67011U2087	USD	11,538	65,452	41,998	0.71%
MECHEL	US5838401033	USD	10,700	142,443	38,408	0.65%
RUSHYDRO	US4662941057	USD	30,000	60,321	37,451	0.63%
FSK EES	RU000A0JPNN9	USD	9,795,317	68,696	34,266	0.58%
ROSINTER RESTAURANTS	RU000A0JP922	USD	9,500	64,848	19,240	0.32%
INTEGRA GROUP	US45822B2051	USD	37,335	58,955	8,330	0.14%

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012

Notes
(LVL)

4. Shares (continued)

Financial instrument	ISIN	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2012.	% of Fund's net assets as at 31.12.2012.
Financial instruments not traded on regulated markets				151,495	141,841	2.39%
Russian issuers:				151,495	141,841	2.39%
URALKALI	RUS91688E2063	USD	7,000	151,495	141,841	2.39%
Total shares				5,724,363	5,598,251	94.43%

5. Derivative financial instruments

	31.12.2012.	31.12.2011.	% of Fund's net assets as at 31.12.2012.
Derivative financial instruments	-	12,730	0.00%
Put option (RSX US 21/01/12 P27)	-	12,730	0.00%
Total derivative financial instruments	-	12,730	0.00%

6. Accrued liabilities

	31.12.2012.	31.12.2011.
Accrued commission fees payable to investment management company	(8,822)	(7,920)
Accrued commission fees payable to custodian bank	(698)	(628)
Accrued fees payable for professional services	(1,089)	(964)
Total accrued liabilities	(10,609)	(9,512)

7. Interest income

	2012	2011
Interest income from demand deposits with credit institutions	3,288	6,568
Total interest income	3,288	6,568

8. Realised increase / (decrease) in investment value

	2012	2011
Income from sale of investments	2,745,034	6,501,762
Decrease / (increase) in value of investments sold, recognised in the prior reporting periods	370,873	(1,117,261)
Acquisition value of investments sold	(2,918,508)	(5,895,935)
Total realised increase / (decrease) in investment value	197,399	(511,434)

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012

Notes
(LVL)

9. Unrealised increase / (decrease) in investment value

	2012	2011
From shares	525,465	(1,439,587)
From derivative financial instruments	-	(13,329)
Total unrealised increase / (decrease) in investment value	525,465	(1,452,916)

10. Change in investments during the reporting period

	31.12.2011.	Increase during the reporting period	Decrease during the reporting period	Foreign currency revaluation result	Fair value revaluation result	31.12.2012.
Financial assets held for trading						
Shares	4,426,564	3,415,600	(2,825,725)	(126,257)	708,069	5,598,251
Derivatives, net	12,730	25,884	(54,437)	1,028	14,795	-
Total investments	4,439,294	3,441,484	(2,880,162)	(125,229)	722,864	5,598,251

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.

IFRS 7 states the hierarchy of valuation techniques based on if the technique employs market data that can be monitored or market data that cannot be monitored. The Company classifies all financial assets using valuation techniques listed in the 1st category of this hierarchy. Prices quoted in active market (unadjusted) are used in the valuation technique. This level includes shares quoted in stock exchange as well as debt securities and other financial instruments sold in the stock exchange.

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.

**OIF “Citadele Russian Equity Fund”
Annual report for the year ended 31 December 2012**

**Notes
(LVL)**

13. 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: interest rates, securities prices, exchange rates, interest rates or other market risk factors. 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, in Russian Federation these are the changes in RTSI) 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 0.78. The beta was calculated on the basis of the data for the year 2012. 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
25.51%	19.92%

At the end of the year 2011 the beta was 0.84. The beta was calculated on the basis of the data for the year 2011. 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
34.66%	28.95%

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.

OIF “Citadele Russian Equity Fund”
Annual report for the year ended 31 December 2012

Notes
(LVL)

13. Risk management (continued)

The following table shows the Fund’s assets and liabilities by currency profile as at 31 December 2012.

	USD	GBP	RUB	LVL	Total
Assets					
Demand deposits with credit institutions	327,780	1,395	11,675	-	340,850
Financial assets held for trading Shares	5,035,641	562,610	-	-	5,598,251
Total assets	5,363,421	564,005	11,675	-	5,939,101
Liabilities					
Accrued liabilities	(9,520)	-	-	(1,089)	(10,609)
Total liabilities	(9,520)	-	-	(1,089)	(10,609)
Net assets	5,353,901	564,005	11,675	(1,089)	5,928,492
<i>Net long / (short) position</i>	<i>90.31%</i>	<i>9.51%</i>	<i>0.20%</i>	<i>(0.02)%</i>	<i>100.00%</i>

The following table shows the Fund’s assets and liabilities by currency profile as at 31 December 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 effect of changes in currency exchange rates on the Fund’s value in 2012 is shown in the table below.

Currency	Share (% of assets)	Change in currency rate against USD	Effect on the Fund’s value
USD	90.31%	0.00%	0.00%
GBP	9.51%	6.27%	0.60%
RUB	0.20%	10.83%	0.02%
LVL	-0.02%	8.17%	0.00%
Total	100.00%		0.62%

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012
Notes
(LVL)

13. Risk management (continued)

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 USD	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	100.00%		0.42%

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 31 December 2012.

	Latvia	Other non-OECD region countries	Total
Assets			
Demand deposits with credit institutions	340,850	-	340,850
Financial assets held for trading			
Shares	-	5,598,251	5,598,251
Total assets	340,850	5,598,251	5,939,101
Liabilities			
Accrued liabilities	(10,609)	-	(10,609)
Total liabilities	(10,609)	-	(10,609)
Net assets	330,241	5,598,251	5,928,492

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

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012

Notes
(LVL)

13. Risk management (continued)

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

Country	Carrying amount as at 31.12.2012.	Carrying amount as at 31.12.2011.	% of Fund's net assets as at 31.12.2012.
Russia	5,598,251	4,426,564	94.43%
Latvia	330,241	192,499	5.57%
USA	-	12,730	0.00%
Total	5,928,492	4,631,793	100.00%

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

	31.12.2012.	31.12.2011.	% of Fund's net assets as at 31.12.2012.
Energy resources	1,994,763	1,560,708	33.65%
Raw materials	1,446,351	964,472	24.40%
Commercial banks	444,431	334,089	7.50%
Retail of foods and consumer goods	317,114	231,064	5.35%
Telecommunication services	263,084	256,920	4.44%
Public utilities	197,401	262,631	3.33%
Production of cars and car spare parts	176,324	76,810	2.97%
Pharmacy	167,433	153,980	2.82%
Retail	148,526	58,684	2.51%
Transportation	137,856	192,423	2.33%
Durable goods	114,057	227,621	1.92%
Software and maintenance	88,491	-	1.49%
Real estate	83,180	38,180	1.40%
Consumer services	19,240	20,941	0.32%
Foods, beverages, tobacco	-	48,041	0.00%
Total shares	5,598,251	4,426,564	94.43%

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 31 December 2012.

	Within 1 month	1-6 months	No maturity	Total
Assets				
Demand deposits with credit institutions	340,850	-	-	340,850
Financial assets held for trading				
Shares	-	-	5,598,251	5,598,251
Total assets	340,850	-	5,598,251	5,939,101
Liabilities				
Accrued liabilities	(9,520)	(1,089)	-	(10,609)
Total liabilities	(9,520)	(1,089)	-	(10,609)
Net assets	331,330	(1,089)	5,598,251	5,928,492
<i>% of net assets</i>	<i>5.59%</i>	<i>(0.02%)</i>	<i>94.43%</i>	<i>100.00%</i>

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012

Notes
(LVL)

13. Risk management (continued)

The following table shows the Fund's assets and liabilities by maturity profile as at 31 December 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>% of net assets</i>	<i>4.45%</i>	<i>(0.02)%</i>	<i>95.57%</i>	<i>100.00%</i>

14. Information on holders of investment certificates

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

	31.12.2012.	31.12.2011.	% of total certificates as at 31.12.2012.
Investment certificates held by other related parties	70	65	0.01%
Investment certificates held by other persons	497,378	442,981	99.99%
Investment certificates issued as at the end of the period	497,448	443,046	100.00%

15. Related party disclosures

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 remuneration paid to the investment management company during the reporting period is disclosed in the statement of comprehensive income (see Note 5). Since 10.11.2012 the amount of remuneration paid to the investment management company was changed, it was set at 0.18%. From the moment an amendment has entered into force in accordance with LR law regulations and Directive 2009/65/EK, the remuneration fee is calculated as a share of the fund's net asset value to two decimal places.

During the reporting period related parties have not carried out any transactions with the Fund's investment certificates. During 2011 related parties have acquired 5.0059 shares of the Fund. 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 2012 and 31 December 2011.

OIF "Citadele Russian Equity Fund"
Annual report for the year ended 31 December 2012

Notes
(LVL)

16. Dynamics of the Fund's performance

	31.12.2012.	31.12.2011.	31.12.2010.
Net assets(LVL)	5,928,492	4,631,793	7,935,968
Number of the investment certificates	497,448	443,046	562,515
Value of investment certificates (LVL)	11.92	10.45	14.11
Performance on investment certificates**	14.03%	(25.94)%	47.44%

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

	31.12.2012.	31.12.2011.	31.12.2010.
Net assets (USD)*	11,165,778	8,516,181	14,833,571
Number of the investment certificates	497,448	443,046	562,515
Value of investment certificates (USD)	22.45	19.22	26.37
Performance on investment certificates**	16.76%	(27.11)%	34.68%

* 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 of AIF Citadele Russian Equity Fund set out on pages 10 to 26 of the accompanying annual report, which comprise the statement of financial position as of 31 December 2012 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.

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 2012, 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 for 2012 set out on pages 5 to 6 of the accompanying annual report for 2012 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2012.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

A handwritten signature in blue ink, appearing to read 'Ilandra Lejiņa'.

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
26 April 2013

* 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.