RenFin II Limited

Financial Statements 2017
International Financial Reporting Standards
Financial Statements and Report of the Independent Auditor's
for the year ended December 31, 2017

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Company Information

Directors	David Blair (appointed on June 13, 2007) John Elder (appointed on September 22, 2010) James Keyes (appointed on January 1, 2014)
Registered office	Jayla Place Wickhams Cay 1 Road Town Tortola VG1110 British Virgin Islands
Investment manager	Kashtan Limited Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108
Advisor to Investment manager	Petrarca Management Limited (formerly Renasset Managers Limited) 190 Elgin Avenue George Town Grand Cayman KY1-9005 Cayman Islands
Administrator, registrar, transfer agent	Custom House Global Fund Services Limited Smartcity Malta, SCM 01, Floor 4, Ricasoli, SCM 1001, Malta
Secretary	Estera Corporate Services (BVI) Limited Palm Grove House PO Box 3190 Road Town Tortola British Virgin Islands
Custodian	Citibank JSC 8-10 bld. 1 Gasheka Street Moscow 125047 Russia
Independent auditors	Ernst & Young LLC Sadovnicheskaya nab., 77, bld. 1 Moscow 115035 Russia
General legal advisors	
Bermuda Law	Appleby Canon's Court 22 Victoria Street P.O. Box HM 1179 Hamilton HM EX Bermuda
British Virgin Islands Law	Appleby Palm Grove House P.O. Box 3190 Road Town Tortola British Virgin Islands
Listing sponsor	Estera Securities (Bermuda) Ltd. Canon's Court 22 Victoria Street PO Box HM 1179 Hamilton HM EX Bermuda

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Independent auditor's report

To the Shareholders and the Board of Directors of
RenFin II Limited

Opinion

We have audited the financial statements of RenFin II Limited (hereinafter "the Fund"), which comprise the statement of comprehensive income for the year ended December 31, 2017, the statement of financial position as at December 31, 2017, the statement of changes in net assets attributable to shareholders and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).
Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments not quoted in an active market	
We considered this matter to be of the most significance in the audit of the reporting period due to the magnitude of the balance value and complex and subjective judgments of Fund's management over the determination of the fair value of financial instruments not quoted in an active market. The Fund holds the financial instruments carried at fair value for which quoted prices in an active market are unavailable and whose value are determined by internal valuation techniques that use non-observable data. Applied internal valuation techniques can be subjective in nature, involve various complex assumptions and estimates. Information on valuation of financial instruments not quoted in an active market is included in Note 7, Fair value measurement, to the financial statements.	Our audit procedures in respect of the fair value of the financial instruments for which quoted prices in an active market are unavailable included evaluating the calculation methods, inputs and assumptions used by the Fund. We assessed the objectivity and competence of the Fund's valuation specialists responsible for the development of the internal valuation models. For these financial instruments we assessed, with the assistance of our valuation specialists, the assumptions and modelling techniques used by the Fund's specialists. We also assessed the Fund's disclosures in relation to the valuation of financial instruments not quoted in an active market.

Responsibilities of management and the Board of Directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Petr Tsebernyak.

P.P. Tsebernyak
Partner
Ernst & Young LLC

September 7, 2018

Details of the audited entity

Name: RenFin II Limited (Company)
Record made in the State Register of Legal Entities (British Virgin Islands) on September 14, 2006, State Registration Number 1051451.
Address: Jayla Place, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on December 5, 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Statement of Comprehensive Income
For the year ended December 31, 2017

(in thousands of US dollars)

	Notes	**2017**	**2016**
Income/(loss) from operations			
Net gain/(loss) on financial assets at fair value through profit and loss	7	809	(1,156)
Dividend income	6	2,399	–
Total income/(loss) from operations		**3,208**	**(1,156)**
Expenses			
Management fee	8	(963)	(970)
Net foreign exchange loss		–	(2)
Administration fee		(16)	(22)
Other operating expenses		(117)	(102)
Total expenses		**(1,096)**	**(1,096)**
Operating income /(loss) before income tax expense		**2,112**	**(2,252)**
Income tax expense		–	–
Increase/(decrease) in net assets attributable to shareholders from operations		**2,112**	**(2,252)**
Other comprehensive income for the year		–	–
Increase/(decrease) in net assets attributable to shareholders from operations after other comprehensive income		**2,112**	**(2,252)**

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

Statement of Financial Position
As of December 31, 2017

(in thousands of US dollars)

	Notes	December 31, 2017	December 31, 2016
Assets			
Cash and cash equivalents	5	1,749	473
Financial assets at fair value through profit or loss	7	8,938	8,129
Other assets		12	1
Total assets		**10,699**	**8,603**
Liabilities			
Management fee payable	8	287	294
Accounts payable and accrued expenses		56	65
Total liabilities excluding net assets attributable to shareholders		**343**	**359**
Net assets attributable to shareholders	9	**10,356**	**8,244**
Number of participating shares in issue	9	1,033,521	1,033,521
Net asset value per participating share (US dollar)		**10.02**	**7.98**

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

John Elder
Director

David Blair
Director

September 7, 2018

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

Statement of Changes in Net Assets Attributable to Shareholders For the year ended December 31, 2017

(in thousands of US dollars)

	Notes	**Number of participating shares**	**Net assets attributable to shareholders**
January 1, 2016		**1,033,521**	**10,496**
Decrease in net assets attributable to shareholders from operations		–	(2,252)
December 31, 2016	9	**1,033,521**	**8,244**
Increase in net assets attributable to shareholders from operations		–	2,112
December 31, 2017	9	**1,033,521**	**10,356**

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

Statement of Cash Flows
For the year ended December 31, 2017

(in thousands of US dollars)

	2017	2016
Cash flows from operating activities		
Increase/(decrease) in net assets attributable to shareholders from operations	2,112	(2,252)
Non-cash:		
Net (gain)/loss on financial assets at fair value through profit or loss	(809)	1,156
Foreign exchange loss	–	2
Net changes in operating assets and liabilities		
Decrease of Management fee payable	(7)	–
Increase/(decrease) of accounts payable and accrued expenses	(9)	17
Decrease/(increase) in other assets	(11)	6
Net cash flows (used in) / generated from operating activities	**1,276**	**(1,071)**
Cash flows from investing activity		
Net cash flows obtained from investing activity	**-**	**–**
Cash flows used in financing activity		
Distributions to shareholders	–	(5)
Net cash flows used in financing activities	**–**	**(5)**
Effect of exchange rates changes on cash and cash equivalents	–	(2)
Net increase/(decrease) in cash and cash equivalents	**1,276**	**(1,078)**
Cash and cash equivalents at the beginning of the year	473	1,551
Cash and cash equivalents at the end of the year	**1,749**	**473**
Supplementary information to operating activities:		
Dividend income, net of withholding tax	2,399	–

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

Notes to the Financial Statements

(in thousands of US dollars)

1. Corporate Information

RenFin II Limited (hereinafter the "Fund") was incorporated under the laws of the British Virgin Islands on June 4, 2007, as a closed-end limited liability exempted company. The Fund is listed on the Bermuda Stock Exchange. Its registered office is at Jayla Place, VG1110, Wickhams Cay 1, Tortola, the British Virgin Islands.

As at December 31, 2017 and 2016 the Fund makes all its investments through the its wholly owned company Ratto Holdings Limited (hereinafter the "Subsidiary"). Ratto Holdings Limited was incorporated under Cyprus Companies Law, CAP.113 on April 28, 2007, as a private limited liability company.

In accordance with the Offering Memorandum the initial investment objective of the Fund is to achieve medium term capital growth through investments in financial institutions whose principal operations are performed in Russia or other states of the Commonwealth of Independent States ("CIS") and are planning to undertake an initial public offering or a private placement of their shares. Investments might also be made in companies that derive a substantial portion of their revenue from, or have substantial assets in Russia or other states of the CIS.

The Fund appointed Kashtan Limited (the "Investment Manager"), an investment management company incorporated on Cayman Islands, to implement the investment strategy of the Fund. Up to November 12, 2013 the Advisor to Investment Manager was Renaissance Asset Managers (Guernsey) Limited. On that date a new investment manager was appointed by the Fund – Petrarca Management Limited (formerly Renasset Managers Limited, Cayman Islands).

As of December 31, 2017 the Fund had no employees (December 31, 2016: nil).

In accordance with the Offering Memorandum the Fund has a term of four years from the commencement date of June 18, 2007, provided that the Directors might extend the term of the Fund for one year. On October 28, 2010 the maturity of the Fund has been extended for one year till June 18, 2012.

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

- September 19, 2011, establishing a new term of July 18, 2013;
- June 17, 2013, establishing a new term of July 18, 2014;
- July 18, 2014 amending the Fund's term to December 31, 2018.

The latest extension was made on June 12, 2018 amending the Fund's term to December 31, 2022.

The financial statements of the Fund as at and for the year ended December 31, 2017 (the "financial statements") were authorized for issue by the Board of Directors on September 7, 2018.

2. Basis of Preparation

2.1 General

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, financial instruments at fair value through profit or loss have been measured at fair value.

The financial statements are presented in United States dollars ("US dollar") unless otherwise stated. This is the functional and presentation currency of the Fund, as this is the Fund's capital raising currency and its performance is evaluated and its liquidity is managed in US dollars. Financial information presented in US dollars has been rounded to the nearest thousand ("thousand US dollars"), unless otherwise stated.

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

2.2 Statement of Compliance

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

Notes to the Financial Statements (continued)

(in thousands of US dollars)

3. Summary of Significant Accounting Policies

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

(A) Fair value measurement principles

The Fund measures financial instruments, such as financial assets at fair value through profit or loss at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

An analysis of fair values of financial instruments and further details how they are measured are provided in Note 7.

(B) Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Fund determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Fund commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

These include equity securities and debt instruments designated at fair value at initial recognition on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund. The financial information about these financial assets is provided internally on that basis to the Fund's Directors. Gains or losses on financial assets held for trading are recognised in profit or loss.

Notes to the Financial Statements (continued)

(in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Financial assets at fair value through profit or loss are initially recorded at fair value. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Financial assets at fair value through profit or loss are subsequently carried at fair value. The changes in the fair value and gains or losses on derecognition are recorded in the statement of comprehensive income as “Net gain/(loss) on financial instruments at fair value through profit or loss” in the period in which they arise.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- A financial asset that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Fund has the intention and ability to hold it for the foreseeable future or until maturity;
- Other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

(C) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise current accounts, demand deposits, short-term deposits in banks with original maturities of three months or less.

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

(D) Borrowings and payables

Financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Fund having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowed funds and subordinated loans. After initial recognition, borrowings and payables are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

(E) Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Fund determines that the fair value at initial recognition differs from the transaction price, then:

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Fund recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Fund recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Notes to the Financial Statements (continued)

(in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

(F) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

(G) Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Fund has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Fund's continuing involvement is the amount of the transferred asset that the Fund may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Fund's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(H) Income Taxes

The Fund is exempt from all forms of taxation as there are no taxes on income, profits or capital gains in the British Virgin Islands.

No provision is made for local or foreign income taxes, since income and losses are allocated to the individual Shareholders who are responsible for reporting such and paying any taxes thereon. However, certain items of income distributed to certain Shareholders may be subject to withholding on behalf of those Shareholders. The Fund has not recorded a liability for any uncertain tax positions pursuant to the provisions of IAS 12.

Notes to the Financial Statements (continued)

(in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

(I) Share capital

The shares are not redeemable at the option of the shareholders but may be repurchased at the option of the Fund. In case of winding-up of the Fund the shares carry a right to a return of the nominal amount paid up in respect of such shares and surplus assets remaining.

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

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

Net assets attributable to shareholders are calculated in accordance with the Fund's Offering Memorandum. Valuation of net assets attributable to shareholders as reported to shareholders is different from the IFRS valuation requirements. The difference between the two valuations is reported in Note 9.

The Fund's net asset value per share is calculated by dividing the net assets attributable to shareholders by the number of shares in issue.

(J) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Fund revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission expenses

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

Dividend income

Dividend income is recognised when the Fund's right to receive the payment is established. Dividend income is presented gross of any non-recoverable withholding taxes, which are disclosed separately in statement of comprehensive income.

(K) Foreign currency translation

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

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

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

Notes to the Financial Statements (continued)

(in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in the statement of comprehensive income as part of the "Net loss from financial instruments at fair value through profit or loss". Foreign exchange differences on other financial instruments are included in the statement of comprehensive income as "Net foreign exchange loss".

(L) Segment information

For management purposes, the Fund is organised into one main operating segment, which invests in equity securities. All of the Fund's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Fund as one segment. The financial results from this segment are equivalent to the financial statements of the Fund as a whole.

M) Changes in accounting policies and disclosures

Adoption of new and revised IFRS

During the current year the Fund adopted all the changes to IFRS that are relevant to its operations and are effective for accounting periods beginning on January 1, 2017. This adoption did not have a material effect on the financial statements of the Fund.

Standards issued by the IASB and adopted by the European Union not yet effective

Up to the date of approval of the financial statements, certain new Standards, Interpretations and Amendments to existing standards have been published that are not yet effective for the current reporting period and which the Fund has not early adopted. These are expected to have no significant impact on the Fund's financial statements when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

The Fund plans to adopt the new standard by recognizing the cumulative transition effect in opening retained earnings on January 1, 2018 and will not restate comparative information. The Fund quantified the effect of adoption of IFRS 9 and concluded that the effect is insignificant.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortized cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realized and unrealized gains and losses, except for dividend income, are recognized in other comprehensive income with no subsequent reclassification to profit and loss.

Notes to the Financial Statements (continued)

(in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements.

The Fund expects to continue measuring at fair value all financial assets currently held at fair value. The Fund expects to continue designating shares in non-listed companies as FVPL.

(b) Impairment

IFRS 9 requires the Fund to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL. The Fund quantified the effect of adoption of IFRS 9 and concluded that the effect is insignificant.

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

4.1 Assessment as Investment entity

Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them. The criteria which define an investment entity are, as follows:

- An entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both;
- An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Fund's activity is mainly focused on investments in entities in the financial sector of the Russian Federation with the purpose of profit from further disposal and investment income. During the term of the Fund, the Fund had several investors. The Fund has a clearly documented exit strategy for all of its investments.

Notes to the Financial Statements (continued)

(in thousands of US dollars)

4. Significant Accounting Judgments, Estimates and Assumptions (continued)

4.1 Assessment as Investment entity (continued)

The Fund measures an investment in its subsidiary Ratto Holdings Limited at fair value through profit or loss as the subsidiary is itself an investment entity.

The Fund's Management has also concluded that the Fund meets the additional characteristics of an investment entity: it has more than one investment and investor; it has investors that are not related parties of the Fund; the investments are predominantly in the form of equities or similar interests.

Thus, Management has concluded that the Fund meets the definition of an investment entity.

4.2 Going Concern

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

4.3 Functional Currency

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

4.4 Fair Value of Financial Instruments

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

IFRS 13 requires disclosures relating to fair value measurements using a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, then that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

5. Cash and Cash Equivalents

At December 31, 2017 and 2016 outstanding balances of cash and cash equivalents are represented by a current bank account in large European in the total amount of 1,749 thousand US dollars (December 31, 2016: of 473 thousand US dollars). There are no amounts of restricted cash as of December 31, 2017 and 2016.

6. Financial Assets at Fair Value through Profit or Loss

The Fund invested in its 100% subsidiary Ratto Holdings Ltd. (Cyprus), the fair value of which is:

	2017	**2016**
Assets		
Investment in subsidiary	8,938	8,129
Total	**8,938**	**8,129**

Notes to the Financial Statements (continued)

(in thousands of US dollars)

6. Financial Assets at Fair Value through Profit or Loss (continued)

As at December 31, 2017 and 2016 the main assets of Ratto Holdings Ltd. (Cyprus) comprise of the following financial assets at fair value through profit or loss the majority of which represent equity securities of the companies operating in the Russian Federation:

	December 31, 2017			December 31, 2016		
	Percentage of ownership, %	**Cost**	**Fair value**	**Percentage of ownership, %**	**Cost**	**Fair value**
Levoberezhny Bank PJSC	10.00%	12,275	3,577	10.00%	12,275	2,561
Chelindbank PJSC	5.59%	15,975	2,946	5.59%	15,975	2,494
FCB Holding Cooperatief U.A.	6.18%	3,323	1,888	6.18%	3,323	1,422
Insurance Company Universalna JSC	3.57%	15,000	252	3.57%	15,000	198
First Republic Bank OJSC	20.00%	18,064	–	20.00%	18,064	–
Latvijas Kraibanka JSC	4.70%	12,923	–	4.70%	12,923	–
CB Hlynov JSC (Unqoted equity participation note)	–	–	–	9.33%	1,919	1,339
Total		**77,560**	**8,663**		**79,479**	**8,014**

In May 2009 the Subsidiary purchased a note issued by Quest Advisory Restructuring Limited with the sole purpose to acquire 1,129,049 ordinary shares representing approximately 9.33% stake in CB Hlynov OJSC. On the same date the shares of CB Hlynov JSC acquired by Quest Advisory Restructuring Limited were pledged to the Subsidiary. Under the note's terms, the Subsidiary retains the right to receive any dividends and other distributions arising from the shares of CB Hlynov JSC and the right to receive any proceeds resulting from the disposal of those shares by Quest Advisory Restructuring Limited. In the financial statements the equity participation note was recognized at fair value of the underlying asset.

In November 2017 the Subsidiary sold the investment for 2,177 thousand US dollars, and incurred transaction-related expenses of 153 thousand US dollars.

In November 2011 Lithuanian based Snoras banking group – the main shareholder of Latvijas Krajbanka JSC – initiated the bankruptcy procedure, which was in process during 2012, and Latvijas Krajbanka JSC was taken under the control of the Latvian government. As a result, the fair value of the Subsidiary's share in Latvijas Krajbanka JSC was USD nil as of December 31, 2013 and did not change as of December 31, 2016 and 2017.

In May 2013 the Central Bank of the Russian Federation revoked the banking license of First Republic Bank OJSC. As a result, the fair value of the Subsidiary's share decreased to USD nil as of December 31, 2013 and did not change as of December 31, 2016 and 2017.

There were no purchases or sales of the Subsidiary's investments in 2017 except the sale of the investment in CB Hlynov JSC described above.

Restrictions

The Fund receives income in the form of dividends and interest from its investments in unconsolidated subsidiary, and there are no significant restrictions on the transfer of funds from this entity to the Fund.

Support

The Fund has no contractual commitments or current intentions to provide any financial or other support to its unconsolidated subsidiaries.

Refer to Note 7 for detailed disclosures on fair value of the Fund's financial assets designated at fair value through profit or loss.

Notes to the Financial Statements (continued)

(in thousands of US dollars)

7. Fair value measurement

Financial Instruments Recorded at Fair Value

As at December 31, 2017 and 2016 all the investments are classified as Level 3 investments. During the years 2017 and 2016 there were no transfers between the levels in the fair value hierarchy.

The Fund invests in the Subsidiary which is also investment entity. The NAV of the Subsidiary is used as an input into measuring its fair value. The investments of the Subsidiary are not quoted in an active market.

	Level 3	
	December 31, 2017	**December 31, 2016**
Assets		
Financial Assets at Fair Value through Profit or Loss	8,938	8,129
Total	**8,938**	**8,129**

Valuation techniques

In the absence of observable market prices, the fair value of the investment in Subsidiary is deemed to approximate its net assets, which are predominantly carried at fair value. The Fund determines the fair value of the Subsidiary's investments using industry accepted valuation methodologies applied on a consistent basis. The fair value of investments, held by the Subsidiary, were estimated using valuation models or based on the over-the-counter ("OTC") transactions information. Management's estimation of its fair value is then based on the best information available in the circumstances and may incorporate Management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate discounts for lack of control and for lack of liquidity.

Valuation process for Level 3 valuations

The valuation of financial instruments is performed annually by the Investment Manager and reviewed by the Directors of the Fund.

The valuations are subject to quality assurance procedures. The Investment Manager verifies the major inputs applied in the valuation by agreeing the information in the valuation computation to relevant documents and market information, reviews inputs for significant changes, and will consult with external appraisers if considered appropriate. In addition, the accuracy of the computation is tested. The latest valuation is also compared with the valuations in the preceding periods, if fair value changes (positive or negative) are significant, reasons for the changes are further considered. After the checks above have been performed the Investment Manager presents the valuation results to the Directors of the Fund for their review and approval.

Investments in Banks

In 2017 and 2016 the fair value of investments in financial institutions was calculated using guideline companies method under market approach based on transaction multiples.

In 2017 and 2016 the most significant key assumptions used in fair value estimating of investments in banks were the following:

	2017	**2016**
Discount for lack of control	33.5%	23.0%
Discount for lack of liquidity	27.5%	23.0%
Price to net assets multiple*	0.30	0.30

* *Net asset multiple after discounts application.*

As of December 31, 2017 an increase or decrease in the discount for lack of control embedded in the price to net assets multiple by 15%, which was considered a reasonably possible alternative assumption, would have caused a respective decrease or increase in fair value by 1,452 thousand US dollars and 1,472 thousand US dollars, respectively (December 31, 2016: 875 thousand US dollars and 1,023 thousand US dollars).

Notes to the Financial Statements (continued)

(in thousands of US dollars)

7. Fair value measurement (continued)

Investment in Insurance Company

In 2017 and 2016 the fair value of the investment in Insurance Company Universalna JSC was determined based on guideline companies method under market approach based on trading multiples. The most significant assumptions used in fair value estimating of investments in Insurance Company Universalna JSC were the following:

	2017	2016
Discount for lack of liquidity	27.5%	23.0%
Country specific discount	33.5%	30.0%
Gross written premium multiple*	0.31	0.30

* *Gross written premium multiple after discounts application.*

As of December 31, 2017 an increase or decrease in the discount for lack of liquidity (27,5%) applied to gross written premium multiple by 15%, which is considered a reasonably possible alternative assumption, would have caused a respective decrease or increase in fair value by 52 thousand US dollars respectively (2016: 37 or 42 thousand US dollars respectively).

Investment in Collection Bureau

In 2017 the fair value of the investment in FCB Holding Cooperatief U.A. was calculated as average value using guideline companies method under market approach based on transaction net asset multiples and market exchange net asset multiples. In 2016 the fair value of the investment in FCB Holding Cooperatief U.A. was calculated as average value using guideline companies method under market approach based on transaction sales multiples and market exchange sales multiples. In 2017 and 2016 the most significant key assumptions used in fair value estimating of investments in FCB Holding Cooperatief U.A. were the following:

	2017	2016
Discount for lack of control	33.5%	23.0%
Discount for lack of liquidity	27.5%	23.0%
Market exchange multiple*	1.67	1.95
Transaction multiple*	1.22	1.71

* *Multiples after discounts application.*

As of December 31, 2017 an increase or decrease in the discount for lack of liquidity (27.5%) applied to gross written premium multiple by 15%, which is considered a reasonably possible alternative assumption, would have caused a respective decrease or increase in fair value by 391 thousand US dollars, respectively (2016: 303 and 325 thousand US dollars).

The following table shows a reconciliation of all movements in the fair value of financial instruments categorized within Level 3 between the beginning and the end of the reporting period.

	2017	2016
Opening balance	**8,129**	**9,285**
Net gain/(loss) on financial instruments at fair value through profit and loss	809	(1,156)
Closing balance	**8,938**	**8,129**

Financial Assets and Liabilities Not Carried at Fair Value

Cash in banks and accounts payable are liquid or have a short-term maturity (less than three months), therefore it is assumed that the carrying amounts of these financial assets and liabilities approximate to their fair value.

Notes to the Financial Statements (continued)

(in thousands of US dollars)

8. Performance and Management Fees

In accordance with the Investment Management Agreement the Fund pays the Investment Manager a performance fee equal to 20% of all amounts otherwise distributable to the holders of participating shares (whether as dividends, distributions or upon liquidation) in excess of the aggregate issue price for the participating shares. Pursuant to a resolution of the Board of Directors of the Fund dated June 9, 2011 scheme of performance fee calculation was changed and hurdle amount of US dollar 75.82 (the “revised reference value”) resolved to be applied in calculations instead of the aggregate issue price for the participating shares. Such performance fee, if owed, will be payable within 30 days of the date of any distribution.

As of December 31, 2017 and 2016 the Fund’s net assets value per share (before deduction of management and performance fees) were below revised reference value, thus no performance fees were accrued.

As of December 31, 2017 the amount of performance fee payable amounted to US dollars nil (2016: nil).

From the 4th quarter 2015 the Fund pays the Investment Manager a management fee equal to 2% per annum of the cost of assets remaining in the Fund that have a positive value. Before this date the Fund paid the Investment Manager a management fee equal to 2% per annum of the total capital invested, provided that such fees wouldn’t exceed 2% of the aggregate issue price for the participating shares.

Management fees are generally paid quarterly in arrears or at such other times as the Directors, with the consent of the Investment Manager, may determine.

For the year ended December 31, 2017 the amount of Management fee expense amounted to 963 thousand US dollars (2016: 970 thousand US dollars). The amount of management fee payable was equal to 287 thousand US dollars as of December 31, 2017 (December 31, 2016: 294 thousand US dollars).

9. Net Assets Attributable to Shareholders

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

The Investment Manager owns 100% of the Management shares.

As of December 31, 2017 and 2016, 100 Management shares have been issued at US dollar 0.01 each and 1,033,521 profit participating, non-voting shares have been issued at US dollar 0.01 each.

Quantitative information about the Fund’s capital is also provided in the statement of changes in net assets attributable to shareholders.

Rights of the Management Shares

The Management shares carry one vote each at annual and general meetings of the Fund and have no rights to any dividends. On liquidation of the Fund the nominal amount paid up on them will be returned after the return of the nominal amount paid up on the participating shares.

Rights of the Participating Shares

The participating shares have no voting rights, are not redeemable at the option of the shareholder.

Winding up

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

Distributions

The Fund’s Directors may declare and pay distributions on the participating shares, at their sole discretion.

Notes to the Financial Statements (continued)

(in thousands of US dollars)

9. Net Assets Attributable to Shareholders (continued)

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

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

The Fund didn't declare and make any distributions in 2017 and 2016.

Capital Management

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

As of 31 December 2017 and 2016, the Fund's operations were funded by issued non-voting participating shares.

The Fund's objectives for managing capital are:

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

Refer to Financial risk management objectives and policies for the policies and processes applied by the Fund in managing its capital (Note 11).

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

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

- A net unrealized loss on unquoted financial assets at fair value resulted from the revaluation of the fair value of these financial assets;
- Other adjustments for expense accruals have been recorded.

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

	December 31, 2017	**December 31, 2016**
Net assets attributable to shareholders as reported to shareholders	**8,574**	**9,721**
Net gain/(loss) on financial instruments at fair value through profit and loss	1,824	(1,426)
Other adjustments	(42)	(51)
Adjusted net assets attributable to shareholders per these financial statements	**10,356**	**8,244**
Net asset value per participating share as reported to holders of participating shares (in US dollars)	8.30	9.41
Adjustments per participating share (in US dollars)	1.72	(1.43)
Net asset value per participating share per these financial statements (in US dollars)	**10.02**	**7.98**

Notes to the Financial Statements (continued)

(in thousands of US dollars)

10. Commitments and Contingencies

Operating Environment

The Fund's activity is mainly focused on investments in entities in the financial sector of the Russian Federation.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The Rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Fund's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Fund's business in the current circumstances.

Legal

In the ordinary course of business, the Fund might be subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Fund.

Management is unaware of any significant actual, pending or threatened claims against the Fund.

11. Financial Risk Management

The Fund is subject to all risk management policies and procedures implemented by the Investment Manager and other parties and bodies involved in managing the Fund's risk.

Risk is inherent in the Fund's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Fund's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Fund is exposed are market risk, credit risk and liquidity risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Fund's strategic planning process.

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

Investments in financial institutions may take the form of unlisted equity, equity-related securities or other instruments of financial institutions. Investments may also be made in companies that derive a substantial portion of their revenue from, or have substantial assets in Russia or other states of the CIS.

The Fund initially pursued the following strategies:

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

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

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

Notes to the Financial Statements (continued)

(in thousands of US dollars)

11. Financial Risk Management (continued)

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

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

Credit Risk

Credit risk represents the potential loss that the Fund would incur if counterparty to a financial instrument failed to perform pursuant to the terms of their obligations to the Fund. Credit risk is generally higher when a non-exchange-traded financial instrument is involved, because the counterparty is not backed by an exchange clearing house.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Maximum exposure 2017	Maximum exposure 2016
Cash and cash equivalents	1,749	473
Total credit risk exposure	**1,749**	**473**

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

		A-
	As at December 31, 2017	As at December 31, 2016
Cash and cash equivalents	1,749	473
Total	**1,749**	**473**

As of December 31, 2017 and 2016 the Fund had neither past due financial assets, nor individually impaired assets.

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

Non-delivery risk, prepayment risk and pre-settlement risk, incurred in non-exchange-settled transaction, are subject to monitoring. The risks are aggregated and utilised against counterparty limit. At the reporting date no unsettled transactions were in place.

Substantially all of the subsidiary's investments are held by Citibank JSC. Bankruptcy or insolvency of the custodian may cause the Fund's rights with respect to securities held by the custodian to be delayed or limited. The Fund monitors its risk by monitoring the credit quality and financial position of the custodian the Fund uses.

Substantially all of the cash held by the Fund is held by Barclays Bank. Bankruptcy or insolvency of these banks may cause the Funds's rights in respect of the cash held by the banks to be delayed or limited. The Fund monitors its risk by monitoring the credit quality and financial position of the banks.

Liquidity Risk and Funding Management

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected.

The Fund's shares could not be redeemed at the will of shareholders before the Fund's liquidation date and it is therefore not exposed to the liquidity risk of meeting shareholder redemptions upon the expiration of the Funds' term.

Notes to the Financial Statements (continued)

(in thousands of US dollars)

11. Financial Risk Management (continued)

The majority of the Fund's investments are unlisted and can be illiquid, thereby making it difficult to acquire or dispose of investments at values stated in the current financial statements. The Fund intends to hold its investments until disposed of via a private transaction with one or more investors or in following an IPO.

The current liquidity requirements including payments of operating expenses and fees are managed in accordance with policies and procedures in place. The Fund uses detailed cash flow forecasting, which allows controlling and managing its liquidity and undertaking proper measures if liquidity shortages or excessive liquidity are anticipated. The maturity profile of the Fund`s financial liabilities at December 31 based on contractual undiscounted repayment obligations is approximated by the carrying values of respective liabilities disclosed in Note 12.

Market Risk

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and price risk. The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The investment objective of the Fund is to achieve medium term capital growth through investments in listed and unlisted equity and equity-related securities and other instruments of, primarily, banks but also insurance companies and other companies providing financial services that are located in Russia or other states of the CIS and which are planning to undertake an initial public offering or a private placement of their shares in the next two to three years. Investments may also be made in companies that derive a substantial portion of their revenue from, or have substantial assets in Russia or other states of the CIS.

Other Price Risk

Other price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Fund's financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect "Net gain/(loss) on financial instruments at fair value through profit or loss".

Price risk is managed by the Fund's Investment Manager by diversifying the portfolio. The Fund's overall price risk exposure is monitored by Investment Manager on a regular basis. As at December 31, 2017 and 2016 no investments in any single instrument exceeded the set limits.

Sensitivity analysis

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

The majority of the Fund's investment portfolio comprises investments in banks operating in the Russian Federation and companies in the Russian Federation and Ukraine. Fair value of the investments is determined by the Fund in US dollars, and is dependent on the financial performance of the individual investee banks and companies, level of market prices for similar investments, and the currency fluctuations of Russian Rouble and Ukraine's hryvnia against US dollar. The following table purports to illustrate the combined effect of those factors on the financial position and performance of the Fund.

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

	Effect on the net assets attributable to shareholders and on the change in net assets attributable to shareholders from operations for the year	
	2017	**2016**
Increase in fair value of investments by 11% (2016: 20%)	983	1,626
Decrease in fair value of investments by 11% (2016: 20%)	(983)	(1,626)

Currency Risk

As of December 31, 2017 and 2016 the monetary assets and liabilities, subject to currency risk, were not significant.

Notes to the Financial Statements (continued)

(in thousands of US dollars)

11. Financial Risk Management (continued)

Interest Rate Risk

The Fund primarily invests in equity securities, which are not exposed to interest rate risk. Cash and cash equivalents of the Fund are represented by the current bank accounts not exposed to interest rate risk. As of December 31, 2017 and 2016 the Fund had no loans and receivables at floating interest rates, and therefore is not exposed to interest rate risk.

Geographical Concentration

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

				2017				2016
	Russia and CIS	Isle of Man	Other	Total	Russia and CIS	Isle of Man	Other	Total
Assets								
Cash and cash equivalents	–	1,749	–	1,749	–	473	–	473
Financial assets designated at fair value through profit or loss	8,938	–	–	8,938	8,129	–	–	8,129
Other assets	–	–	12	12	–	–	1	1
Total assets	**8,938**	**1,749**	**12**	**10,699**	**8,129**	**473**	**1**	**8,603**
Liabilities								
Management fee payable	–	–	287	287	–	–	294	294
Accounts payable and accrued expenses	33	–	23	56	34	–	31	65
Total liabilities	**33**	**–**	**310**	**343**	**34**	**–**	**325**	**359**
Net position	**8,905**	**1,749**	**(298)**	**10,356**	**8,095**	**473**	**(324)**	**8,244**

Geographic classification of the Fund's assets and liabilities is tied to country of incorporation of banks, investee or counterparty.

12. Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. The Fund's contractual undiscounted repayment obligations are approximated by the carrying values of respective liabilities.

				2017				2016
	Less than 1 year	More than 1 year	No stated maturity	Total	Less than 1 year	More than 1 year	No stated maturity	Total
Assets								
Cash and cash equivalents	1,749	–	–	1,749	473	–	–	473
Financial assets designated at fair value through profit or loss	–	–	8,938	8,938	–	–	8,129	8,129
Other assets	12	–	–	12	1	–	–	1
Total assets	**1,761**	**–**	**8,938**	**10,699**	**474**	**–**	**8,129**	**8,603**
Liabilities								
Management fee payable	287	–	–	287	294	–	–	294
Accounts payable and accrued expenses	56	–	–	56	65	–	–	65
Total liabilities	**343**	**–**	**–**	**343**	**359**	**–**	**–**	**359**

Notes to the Financial Statements (continued)

(in thousands of US dollars)

13. Related Party Transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Fund's related party transactions were made on terms equivalent to those that prevail in arm's length transactions in 2017 and 2016.

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

	2017	**2016**
	Investment Manager	**Investment Manager**
Management fee payable at January 1	294	294
Management fee expensed	963	970
Management fee paid	(970)	(970)
Management fee payable at December 31	**287**	**294**

In 2017 and 2016 the Fund had no significant transactions with its Directors, except for directors fees accrued during the year 2017 in amount of 39 thousand US dollars (2016: 38 thousand US dollars).

14. Events after the Reporting Date

On June 12, 2018 the latest extension was approved with resolutions of the Board of Directors amending the Fund's term to December 31, 2022.