RENFIN LIMITED

Consolidated Financial Statements 2015
International Financial Reporting Standards
Consolidated Financial Statements and Report of the Independent Auditor's for the year ended December 31, 2015

Contents

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	Renasset Managers Limited 190 Elgin Avenue George Town Grand Cayman KY1-9005 Cayman Islands
Administrator, registrar, transfer agent	TMF Custom House Global Fund Services Limited Smartcity Malta, SCM 01, Floor 4, Ricasoli, SCM 1001, Malta
Secretary	Appleby Corporate Services (BVI) Limited Palm Grove House PO Box 3190 Road Town Tortola British Virgin Islands
Custodian	Citibank CJSC 8-10 bld. 1 Gasheka Street Moscow 125047 Russia
Independent auditors	Ernst & Young LLC Sadovnicheskaya nab.77, bld.1 Moscow 115035 Russia

Company Information (continued)

General legal advisors

Bermuda Law	Appleby Spurling Bailhache Canon's Court 22 Victoria Street P.O. Box HM 1179 Hamilton HM EX Bermuda
British Virgin Islands Law	Appleby Hunter Bailhache Palm Grove House P.O. Box 3190 Road Town Tortola British Virgin Islands
Listing sponsor	Appleby Securities (Bermuda) Ltd. Canon's Court 22 Victoria Street PO Box HM 1179 Hamilton HM EX Bermuda

Investment Manager's Report

RenFin Limited (the "Fund") raised USD 200 million in November 2006 to capitalize on the growth opportunities in the financial sector in Russia and the Commonwealth of Independent States ("CIS"). The Fund's strategy at inception was to build a diversified portfolio comprising fast-growing banks and non-banking financial institutions with sound strategies and strong management teams looking for ways to strengthen their performance and market share ahead of an IPO or a private sale. Currently the Fund is in divestment stage. As at December 31, 2015 the Fund had two equity investments in its portfolio representing mostly minority equity stakes in Russian regional banks.

Economy Update

The Russian economy performed poorly in 2015 reflecting lower commodity prices exacerbated by the impact of Western sanctions.

The oil price averaged $52.46 per barrel in 2015 compared with $98.95 in 2014, a drop of 47.0%. The average RUB/USD exchange rate was RUB 60.95 in 2015 compared with RUB 38.42 in 2014, a drop of 37.0%.

Russian GDP contracted by 3.7% in 2015. Current Bloomberg consensus calls for a GDP decline of 1.0% in 2016. However, this decline could be more pronounced should the price of oil remain depressed.

Consumers were hit especially hard in 2015 as real wages fell by approximately 10%. Industrial production declined as well, but certain sectors benefitted from rouble devaluation and import substitution.

In the fourth quarter of 2015, consumer demand fell by 9.4% year-on-year while industrial output dropped by approximately 3.4%.

Banking Sector

2015 was a very challenging year for the Russian banking sector as worsening macroeconomic trends hampered credit growth and resulted in a higher share of non-performing loans (NPLs).

According to the CBR, lending to consumers contracted by 6.3% in 2015 while corporate sector loan growth was just 2.5%.

Compared with 2014, the share of NPLs increased from 5.9% to 8.1% in the consumer segment, and from 4.2% to 6.2% in the corporate segment. Provisions for bad loans increased by 33%.

Consolidated sector earnings declined by approximately 67% in 2015 based on CBR data.

The CBR revoked 74 banking licenses in 2015. Many banks still appear at risk.

The outlook for 2016 remains muted. Sberbank, Russia's largest bank, projects that consumer lending in Russia will contract by 3%-5% while lending to corporates may rise by 6%-8%. In January 2016, sector NPLs continued to rise, according to CBR data.

Center-invest Bank (IFRS Data)

- Center-invest Bank is the second largest bank in Southern Russia with market share among regional banks of circa 30% (excluding national banks).
- The bank's focus is on the agricultural sector.
- 65% of total liabilities are retail deposits.
- Total loan portfolio is split almost equally between corporate and retail clients.
- Center-invest occupied the 28th place among Russian banks based on Net Income (IFRS-based).
- Net Income fell by 62.7% from US$ 19.68 million in 2014 to US$ 7.34 million in 2015.
- Equity decreased by 15% from US$ 170.4 million in 2014 to US$ 145.4 million in 2015.
- The capital adequacy ratio (CAR) increased from 14.5% in 2014 to 17.1% in 2015.
- ROAA (Return on Average Assets) in RUB was 0.6% as at 2015 end (vs. 1.3% in 2014).
- ROAE (Return on Average Equity) in RUB was 5.3% as at 2015 end (vs. 12.1% in 2014).

Investment Manager’s Report (continued)

Khlynov Bank (IFRS data)

- Khlynov Bank is a regional bank focusing on medium and small businesses.
- The key competition has been larger state owned banks that have slowed their push into these areas.
- 72% of liabilities are retail deposits.
- Retail and corporate loans make up 63% of total assets.
- Net income fell by 7% from US$ 3.6 million to US$ 3.3 million.
- Equity decreased by 14% from US$ 40.5 million to US$ 34.5 million.
- CAR stayed flat at 13.0% in 2014 and 12.9% in 2015.
- ROAA (Return on Average Assets) in RUB was 1.5% as at 2015 end (vs. 1.3% in 2014).
- ROAE (Return on Average Equity) in RUB was 10.1% as at 2015 end (vs. 9.2% in 2014).

Kashtan Limited
Investment manager of RenFin Limited

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Independent auditors' report

To the Shareholders and Board of Directors of RENFIN LIMITED

Introduction

We have audited the accompanying consolidated financial statements of RENFIN LIMITED (the "Fund"), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to shareholders and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

November 10, 2016

Moscow, Russia

Consolidated Statement of Comprehensive Income
for the year ended December 31, 2015

(in thousands of US dollars)

	Notes	**2015**	**2014**
Income			
Dividend income		725	564
Reduction of accounts payable	6	264	–
Net realized (loss)/gain on investments classified as available-for-sale	8, 9	(1,382)	1,258
Net foreign exchange gain/(loss)		40	(2,188)
Interest income		1	139
Total income		**(352)**	**(227)**
Expense			
Management fee	10	(1,756)	(2,206)
Impairment of investment securities available-for-sale	8, 9	(6,621)	(48,920)
Administration fee		(39)	(64)
Write-off of accounts receivable	6	(528)	–
Other operating expenses		(121)	(167)
Total expenses		**(9,065)**	**(51,357)**
Operating loss before income tax expense		**(9,417)**	**(51,584)**
Income tax expense	12	(36)	(27)
Decrease in net assets attributable to shareholders from operations		**(9,453)**	**(51,611)**
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Unrealized loss on investment securities available-for-sale	9	–	(19,650)
Other comprehensive loss for the year		–	(19,650)
Decrease in net assets attributable to shareholders from operations after other comprehensive loss		**(9,453)**	**(71,261)**

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

Consolidated Statement of Financial Position as of December 31, 2015

(in thousands of US Dollars)

	Notes	2015	2014
Assets			
Cash and cash equivalents	5	1,309	2,425
Accounts receivable	6	–	1,712
Financial assets designated at fair value through profit or loss	7, 9	–	4,891
Investment securities available-for-sale	8, 9	9,258	30,969
Other assets		7	11
Total assets		**10,574**	**40,008**
Liabilities			
Management fee payable	10	195	570
Accounts payable and accrued expenses	6	48	963
Financial liabilities designated at fair value through profit or loss	7	–	4,891
Total liabilities excluding net assets attributable to shareholders		**243**	**6,424**
Net assets attributable to shareholders	11	**10,331**	**33,584**
Number of redeemable shares in issue	11	1,099,974	1,099,974
Net asset value per redeemable share (in US Dollars)		**9.39**	**30.53**

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

John Elder
Director

David Blair
Director

November 10, 2016

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

Consolidated Statement of Changes in Net Assets Attributable to Shareholders for the year ended December 31, 2015

(in thousands of US dollars)

	Notes	**Number of participating shares**	**Net assets attributable to shareholders**
January 1, 2014	11	**1,099,974**	**104,845**
Unrealized loss on investment securities available-for-sale	9	–	(19,650)
Decrease in net assets attributable to shareholders from operations		–	(51,611)
December 31, 2014	11	**1,099,974**	**33,584**
Decrease in net assets attributable to shareholders from operations		–	(9,453)
Dividends paid		–	(13,800)
December 31, 2015	11	**1,099,974**	**10,331**

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

Consolidated Statement of Cash Flows for the year ended December 31, 2015

(in thousands of US dollars)

	2015	2014
Cash flows from operating activities		
Decrease in net assets attributable to shareholders from operations	(9,453)	(51,611)
Non-cash:		
Realized loss/(gain) on investments classified as available-for-sale	1,382	(1,258)
Unrealized foreign exchange (loss)/gain	(40)	2,188
Impairment of investment securities available-for-sale	6,621	48,920
Write-off of accounts receivable	528	–
Reduction of accounts payable	(264)	–
Net changes in operating assets and liabilities		
Decrease in financial assets designated at fair value though profit or loss	–	457
Decrease in financial liabilities designated at fair value through profit or loss	–	(457)
Decrease in accounts receivable	1,364	87
Increase in other assets and prepaid expenses	(741)	(5)
(Decrease)/increase in management fee payable	(375)	7
Decrease in accounts payable and accrued expenses	(714)	(247)
Net cash flows used in operating activities	**(974)**	**(1,892)**
Cash flows from investing activity		
Proceeds from sale of securities available-for-sale	13,708	457
Net cash flows obtained from investing activity	**13,708**	**457**
Cash flows used in financing activity		
Distributions to shareholders	(13,800)	–
Net cash flows used in financing activities	**(13,800)**	**–**
Effect of exchange rates changes on cash and cash equivalents	(50)	(1,573)
Net decrease in cash and cash equivalents	**(1,116)**	**(3,008)**
Cash and cash equivalents at the beginning of the year	**2,425**	**5,433**
Cash and cash equivalents at the end of the year	**1,309**	**2,425**
Supplementary information to operating activities:		
Dividend income, net of withholding tax	689	537
Interest received	1	139

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

Notes to Consolidated Financial Statements

(in thousands of US dollars)

1. Corporate Information

These consolidated financial statements include the financial statements of RENFIN LIMITED (the "Fund") and its wholly owned subsidiary Rekha Holdings Ltd. (the "Subsidiary").

The Fund was incorporated under the laws of the British Virgin Islands on September 14, 2006 as a closed-end limited liability exempted company. Its registered office is at Jayla Place, VG1110, Wickhams Cay 1, Tortola, the British Virgin Islands.

The Fund makes all its investments through the Subsidiary. The Fund owned 100% of the Subsidiary at December 31, 2015 and 2014.

Rekha Holdings Ltd. was incorporated under Cyprus Companies Law, CAP.113 on July 13, 2006, as a private limited liability company.

In accordance with the Offering Memorandum the 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 Commonwealth of Independent States ("CIS") region and are planning to undertake an initial public offering ("IPO") 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 CIS region.

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 – Renasset Managers Limited (Cayman Islands).

As at December 31, 2015 the Fund had no employees (2014: nil).

In accordance with the Offering Memorandum the Fund had a term of three years from the commencement date of November 27, 2006, provided that the Directors might extend the term of the Fund for up to two successive one year periods. On March 4, 2010 the maturity of the Fund has been extended for the second time for one year until November 27, 2011.

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:

- June 29, 2011, establishing a new term of October 30, 2012;
- July 25, 2012, establishing a new term of October 31, 2013;
- June 17, 2013, establishing a new term of October 30, 2014.

The latest extension was made on July 18, 2014 amending the Fund's term to December 31, 2018.

The consolidated financial statements of the Fund as at and for the year ended December 31, 2015 (the "consolidated financial statements") were authorized for issue on November 10, 2016.

2. Basis of Preparation

2.1 General

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, investment securities available-for-sale and financial instruments at fair value through profit or loss have been measured at fair value.

The consolidated 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 consolidated 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 consolidated financial statements are detailed in Note 4.

All disclosure amounts within comparative information did not change.

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

2. Basis of Preparation (continued)

2.2 Statement of Compliance

The consolidated 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 consolidated financial statements and detailed below have been applied consistently to the years presented.

2.3 Basis of Consolidation

As the Fund meets the definition of investment entity in accordance with IFRS 10, it consolidates only subsidiaries that provide services that relate to the Fund's investment activities, and measures all other subsidiaries at fair value through profit or loss. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries are changed to ensure consistency with the policies adopted by the Fund.

3. Summary of Significant Accounting Policies

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

(A) Fair Value Measurement Principles

The Fund measures financial instruments, such as trading and available-for-sale securities at fair value 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 9.

(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.

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

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

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

These include equity securities and debt instruments that are not held for trading. These financial assets are designated 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category generally applies to trade and other receivables.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated statement of profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss.

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 above 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.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Fund has the intention and ability to hold it for the foreseeable future or until maturity.

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

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

(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 other entities and subordinated loans. After initial recognition, borrowings 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.

(F) Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated 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 consolidated statement of financial position.

(G) Impairment of Financial Assets

The Fund assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

Impaired debts together with the associated impairment are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the impairment account.

Interest revenue on impaired financial asset is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Fund assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is reclassified from other comprehensive income to the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

(H) 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.

(I) 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. However, the Subsidiary is liable for income tax in Cyprus on its taxable income (which excludes capital gains on trading of securities either of a revenue or capital nature) at a flat rate of 12.5% (2014: 12.5%). All expenses wholly and exclusively incurred in the production of taxable income are deductible for Cypriot tax purposes (expenses relating to the trading of securities will not be allowed for tax purposes).

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted at the reporting date.

(J) 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 11.

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.

(K) 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 or available-for-sale, 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 income

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 consolidated statement of comprehensive income.

(L) 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.

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at 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.

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

(M) Segment Information

For management purposes, the Fund is organised into one main operating segment, which invests in equity securities, debt instruments. 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.

(N) Changes in Accounting Policies and Disclosures

New and amended standards and interpretations

The Fund has adopted the following amended IFRS which are effective for annual periods beginning on or after January 1, 2015:

Annual Improvements 2010-2012 Cycle

These improvements are effective from July 1, 2014 and the Fund has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is consistent with the Fund’s current accounting policy, and thus this amendment does not impact the Fund’s accounting policy.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This is consistent with the Fund’s current accounting policy, and thus this amendment does not impact the Fund’s accounting policy

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Fund’s financial statements are listed below. The Fund intends to adopt applicable standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Fund financial assets, but no impact on the classification and measurement of the Fund`s financial liabilities.

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Fund's consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the amounts recognised in the consolidated 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 consolidated 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 the Fund had several investors.

The Fund monthly prepares Net asset value (hereinafter the "NAV") reports. All investments are reported in NAV at fair value to the extent allowed by IFRS in the Fund's consolidated financial statements. The Fund has a clearly documented exit strategy for all of its investments.

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

However, the Fund's only Subsidiary provides services that relate to the Fund's investment activities. According IFRS 10 it requires the Subsidiary to be consolidated by Fund rather than measured at fair value through profit or loss.

These conclusions will be reassessed on an annual basis, if any of these criteria or characteristics changes.

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 consolidated 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 dollar, its capital-raising currency. The term of the Fund is limited and thus its liquidity is managed on a regular basis in US dollar 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 dollar. Therefore, the management considers the US dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

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

4.4 Fair Value of Financial Instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated 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.

4.5 Impairment of Investments

The Fund holds available-for-sale investments in several companies that do not trade in an active market. Future adverse changes in market conditions, poor operating results could result in losses that may not be reflected in an investment's current carrying value, thereby requiring an impairment charge in the future. The Fund regularly reviews its investments to determine if there have been any indicators that the value may be impaired. These reviews require estimating the outcome of future events and determining whether factors exist that indicate impairment has occurred. Based on the results of regular impairment assessment, the Fund estimates certain financial investments as impaired.

4.6 Income Taxes

Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Fund recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and defence tax provisions in the period in which such determination is made.

5. Cash and Cash Equivalents

Outstanding balances of Cash and cash equivalents as at December 31, 2015 and 2014 are represented by current bank accounts in large European and Russian banks in total amount of 1,309 thousand US dollars (2014: 2,425 thousand US dollars). There are no amounts of restricted cash as at December 31, 2015 and 2014.

6. Accounts Receivable and Accounts Payables

In April 2014 JSCB Probusinessbank performed a partial buy back of its shares through its related party Privera Holdings Limited and the Fund disposed of its proportional stake in the bank. The Fund sold 8,203 shares of JSCB Probusinessbank for 128,397 thousand Russian roubles (or 3,600 thousand US dollars). Taking into consideration the terms of the Equity Linked Note with Argera Holdings Limited, the half of the sold shares and relevant receipts belong to Agrera Investments Limited. In June 2014 the Fund received 32,099 thousand Russian roubles (915 thousand US dollars) as a first payment from the sale. The net realized gain from the disposal of Probusinessbank shares in 2014 was equal to 1,258 thousand US dollars and recognized in net realized gain on investments classified as available-for-sale.

As at December 31, 2014 amount receivable from sale of Probusinessbank shares was equal to 1,712 thousand US dollars (96,298 thousand Russian roubles). Amount payable to Agrera Investments Ltd. was equal to 856 thousand US dollars (48,149 thousand Russian roubles).

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

6. Accounts Receivable and Accounts Payables (continued)

In 2015 contract price was reduced under the amendments to the share sale agreement which resulted in decrease of receivable amount to 69,439 thousand Russian roubles (1,363 thousand US dollars) and amount payable to Agrera Investments Ltd. was reduced to 34,719 thousand Russian roubles (682 thousand US dollars). The effect recognised in consolidated statement of comprehensive income is account receivable write-off loss in amount 528 thousand US dollars, reduction of accounts payable in amount of 264 thousand US dollars and net foreign exchange gain 89 thousand US dollars. In May 2015 the Fund received 69,439 thousand Russian roubles as the second payment from the sale and discharged corresponding obligation to Agrera Investments Ltd.

7. Financial Instruments Designated at Fair Value through Profit or Loss

	2015	2014
Assets		
Probusinessbank JSCB ordinary shares (120,058 ordinary shares)	–	4,891
Total	**–**	**4,891**
Liabilities		
Equity Linked Note Issued (Unlisted)	–	4,891
Total	**–**	**4,891**

In 2007 the Fund acquired 124,151 ordinary shares of Probusinessbank JSCB for 23,281 thousand US dollars from Agrera Investments Ltd. (Cyprus), a related party. On the same date the Fund issued an Equity Linked Note for 23,281 thousand US dollars purchased by the same related party. The Equity Linked Note gives Agrera Investments Ltd. the right to receive any dividends or other distributions arising from the Probusinessbank JSCB shares, and the right to receive any proceeds resulting from the disposal of those shares.

In April 22, 2014 Probusinessbank repurchased a portion of its shares from shareholders following which the number of shares designated at fair value through profit or loss in assets and liabilities decreased to 120,058.

In 2015 the Central Bank of the Russian Federation revoked the banking license of Probusinessbank JSCB. In October 2015 according to the court decision the bank was declared bankrupt. As a result, the fair value of the Company's share decreased to nil as at December 31, 2015.

An unrealized loss resulted from a decrease in the fair value of assets designated at fair value through profit or loss amounting to 4,891 thousand US dollars in 2015 (2014: loss 12,684 thousand US dollars) and a corresponding unrealized gain from the decrease in respective financial liability (Equity Linked Note Issued) fair value amounting to 4,891 thousand US dollars were included within the same line of the consolidated statement of comprehensive income (2014: gain 12,684 thousand US dollars). Consequently, the net effect of changes in the fair value of these financial instruments at fair value through profit or loss comprised nil in 2015 (2014: nil).

8. Investment Securities Available-for-Sale

As at December 31, 2015 and 2014, investment securities available-for-sale comprised of the following non-traded ordinary shares:

			2015			2014
	Percentage of ownership, %	**Cost**	**Fair value**	**Percentage of ownership, %**	**Cost**	**Fair value**
OJSC Centre Invest CB	7.49%	27,957	5,667	8.15%	27,957	6,943
JSCB Probusinessbank	3.61%	14,727	–	3.61%	14,727	4,891
OJSC Hlynov CB	19.99%	8,101	3,591	19.99%	8,101	4,045
OJCS Rosevrobank ACB	–	–	–	8.05%	42,952	15,090
JCS InvestBank	12.23%	26,982	–	12.23%	26,982	–
		77,767	**9,258**		**120,719**	**30,969**

In August 2015 the Fund sold 23,214,574 shares of OJCS Rosevrobank ACB for 13,708 thousand US dollars and recognized loss in the amount of 1,382 thousand US dollars in the consolidated statement of comprehensive income as "Net realized loss on investments classified as available-for-sale".

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

8. Investment Securities Available-for-Sale (continued)

As at December 31, 2015 the Fund identified evidence of impairment to its investment in OJSC Centre Invest CB, JSCB Probusinessbank and OJSC Hlynov CB and recognized the impairment loss of 6,621 thousand US dollars in the consolidated statement of comprehensive income as “Impairment of investment securities available-for-sale”.

As at December 31, 2014 the Fund identified evidence of impairment to its investment in OJCS Rosevrobank ACB, OJSC Centre Invest CB, JSCB Probusinessbank and OJSC Hlynov CB and recognized the impairment loss of 48,920 thousand US dollars in the consolidated statement of comprehensive income as “Impairment of investment securities available-for-sale”.

Refer to Note 9 for detailed disclosures on fair value of investment securities classified as available-for-sale.

9. Fair Value of Financial Instruments

Financial Instruments Recorded at Fair Value

As at December 31, 2015 and 2014 the fair value of investment securities available-for-sale and financial assets/liabilities designated at fair value through profit and loss which are not traded on an active market was estimated using valuation models or based on the over-the-counter (“OTC”) transactions information. Therefore, as at December 31, 2015 and 2014 all the investments are classified as Level 3 investments. During the years 2015 and 2014 there were no transfers between the levels in the fair value hierarchy.

December 31, 2015	**Level 3**
Assets	
Investment securities available-for-sale	9,258
Total	**9,258**

December 31, 2014	**Level 3**
Assets	
Financial assets designated at fair value through profit or loss	4,891
Investment securities available-for-sale	30,969
Total	**35,860**
Liabilities	
Financial liabilities designated at fair value through profit or loss	4,891
Total	**4,891**

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.

Investment securities available-for-sale:

	2015	**2014**
Opening balance	**30,969**	**100,081**
Net unrealized (loss)/gain recognized in other comprehensive income	–	(19,650)
Realized gain recognized in consolidated statement of comprehensive income (Note 8)	(1,382)	1,258
Impairment of investment securities classified as available-for-sale (Note 8)	(6,621)	(48,920)
Sale of investment securities available-for-sale during the year	(13,708)	(1,800)
Closing balance	**9,258**	**30,969**

The impairment recognized in the year is mainly caused by the negative impact of external and internal economic factors in Russia which negatively affected the Russian banking sector.

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

9. Fair Value of Financial Instruments (continued)

Financial assets and liabilities designated at fair value through profit and loss:

		2015		2014	
	Notes	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Opening balance		**4,891**	**(4,891)**	**17,575**	**(17,575)**
Revaluation of Probusinessbank JSCB ordinary shares	7	(4,891)	–	(12,684)	–
Revaluation of Equity Linked Note Issued	7	–	4,891	–	12,684
Closing balance		**–**	**–**	**4,891**	**(4,891)**

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.

In 2015 and 2014 fair value of investments in financial institutions was calculated using guideline companies method under market approach based on transaction multiples.

In 2015 and 2014 the most significant key assumptions used in estimating fair value of investments in financial institutions using pricing models were the following:

	2015	**2014**
Net assets multiple*	0.52	0.50
Discount for lack of control	23%	23%
Discount for lack of liquidity	23%	23%

* *Net asset multiple after discounts application.*

As at December 31, 2015 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 1,707 thousand US dollars or 820 thousand US dollars, respectively (2014: 4,794 thousand US dollars or 6,637 thousand US dollars).

Financial Assets and Liabilities Not Carried at Fair Value

Cash and cash equivalents, accounts payable, accrued and prepaid expenses 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.

10. 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.

Such performance fee, if owed, will be payable within 30 days of the date of any distribution.

As at December 31, 2015 and 2014, the Fund's net assets value per share (before deduction of management and performance fees) did not exceed initial issue price. The Fund did not accrue performance fee in 2015 and 2014. As at December 31, 2015 the amount of performance fee payable amounted to nil US dollars (2014: nil).

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

10. Performance and Management Fees (continued)

In 2014 and during first 9 months of 2015 the Fund paid the Investment Manager a management fee equal to 2% per annum of the total capital invested, provided that such fees will not exceed 2% of the aggregate issue price for the participating shares. From the 4th quarter of 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. 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, 2015 the amount of Management fee expense amounted to 1,756 thousand US dollars (2014: 2,206 thousand US dollars). The amount of management fee payable was equal to 195 thousand US dollars as at December 31, 2015 (2014: 570 thousand US dollars).

11. Net assets Attributable to Shareholders

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

The Investment Manager owns 100% of the Management shares.

As at December 31, 2015 and 2014 100 Management shares have been issued at USD 0.01 each and 1,099,974 profit participating shares have been issued at USD 0.01 each.

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

The Fund does not have externally exposed capital requirements.

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 Management shares.

Rights of the Participating Shares

The participating shares have no voting rights, are not participating at the option of the shareholder. The Fund's Directors may declare and pay dividends on the participating shares, at their sole discretion.

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

Distributions from the Fund may be made at any time as determined by the Directors. The Fund is not required to distribute the net proceeds of investments disposed of by the Fund and may re-invest 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 declared and made distributions of 13,800 thousand US dollars in 2015 (no distributions in 2014).

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

11. Net assets Attributable to Shareholders (continued)

Capital Management

The Fund is not subject to externally imposed capital requirements and has no restrictions on the issue and redemption of 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 Offering Memorandum of the Fund
- 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 (Note 14) for the policies and processes applied by the Fund in managing its capital.

As at December 31, 2015 and 2014, the Fund's operations were funded by issued non-voting participating shares.

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

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

- Net loss on investment securities available-for-sale
- Impairment of investment securities available-for-sale
- Other adjustments including accruals.

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 consolidated financial statements:

	2015	2014
Net assets attributable to shareholders as reported to shareholders	**11,935**	**101,156**
Net loss on investment securities available-for-sale	23,353	25,297
Impairment of investment securities available-for-sale	(23,937)	(91,420)
Net foreign exchange loss	(2,146)	(2,187)
Write-off of accounts receivable	(528)	–
Reduction of accounts payable	264	–
Dividends paid	1,289	564
Other adjustments	101	174
Adjusted net assets attributable to shareholders per consolidated financial statements	**10,331**	**33,584**
Net asset value per participating share as reported to holders of participating shares (in US Dollars)	10.85	91.96
Adjustments per participating share (in US dollars)	(1.46)	(61.43)
Net asset value per participating share per these consolidated financial statements (in US Dollars)	**9.39**	**30.53**

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

12. Income Tax Expense

British Virgin Islands

At present the British Virgin Islands impose no taxes on income, profits, capital gains or appreciations in value of the Fund. There are also no taxes currently imposed in the British Virgin Islands on income, profits, capital gains or appreciation in the value of the participating shares, nor any taxes on the shareholders in the nature of estate duty, inheritance or capital transfer tax.

Cyprus

The Subsidiary is subject to corporation tax under the laws of Cyprus on its taxable profits at the rate of 12.5% (2014: 12.5%). Capital gains derived on sale of securities are tax exempted (except for capital gains realized in connection with sale of shares in companies deriving their fair value or the greater part of their value from immovable property located in Cyprus). Similarly interest on borrowings to finance acquisitions of securities is not a tax allowable expense.

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Fund's effective income tax rate is as follows:

	2015	2014
Accounting loss before tax	(9,417)	(51,584)
Tax benefit calculated at domestic rate applicable to the Fund's subsidiary	(943)	(6,149)
Tax effect of non-deductible expense less tax exempt income	943	5,908
Tax effect for losses	–	241
Withholding tax	36	27
Income tax expense	**36**	**27**

As at December 31, 2015 the Company had cumulative tax losses available to be carried forward of 1,876 thousand US dollars (2014: 2,085 thousand US dollars). Tax losses available to be carried forward are accounted in euro. The decrease in amount of cumulative tax losses available to be carried forward was due to appreciation of US dollar.

13. 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.

In 2015, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian rouble, as well as sanctions imposed on Russia by several countries in 2014. The rouble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation 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.

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

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

14. Financial Risk Management

General

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 in financial institutions (banks, 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 to three years.

Investments in financial institutions may take the form unlisted equity and equity-related securities and 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 or 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.

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 consolidated 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 2015	**Maximum exposure 2014**
Cash and cash equivalents	1,309	2,425
Accounts receivable	–	1,712
Total credit risk exposure	**1,309**	**4,137**

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

14. Financial Risk Management (continued)

Credit Quality per Class of Financial Assets

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.

As at December 31, 2015	**A-**	**BBB**	**Total**
Cash and cash equivalents	1,274	35	1,309
Total	1,274	**35**	1,309

As at December 31, 2014	**BBB+**	**BBB-**	**Not rated**	**Total**
Cash and cash equivalents	446	1,979	–	2,425
Accounts receivable	–	–	1,712	1,712
Total	**446**	**1,979**	**1,712**	**4,137**

As at December 31, 2015 and 2014 the Fund had neither past due financial assets, nor individually impaired assets except the partial write off of accounts receivable in the amount of 528 thousand US dollars.

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.

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 investments of the Fund are held by Citibank CJSC (before December 31, 2013 – ING Bank (Eurasia, Russia) CJSC). 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 Company is held by Barclays Bank. The Fund also established a bank account with Reiffeisenbank to facilitate redemption and other payments in US dollars. 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.

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 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 15.

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

14. Financial Risk Management (continued)

Market Risk

Market risk embodies the potential for both losses and gains and includes currency risk, interest rate risk and other 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 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 consolidated statement of comprehensive income, all changes in market conditions will directly affect "Increase/(decrease) in investment securities available-for-sale" and "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, 2015 and 2014 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.

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

The Fund holds both – financial instruments designated through profit or loss and financial assets available-for-sale. Management's best estimate of the effect on the profit or loss for a year and "Other comprehensive income" 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 net assets attributable to shareholders and on the change in net assets attributable to shareholders from operations for the year		**Effect on other comprehensive income for the year**	
	2015	**2014**	**2015**	**2014**
Increase in fair value of investments by 13% (2014: 20%)	–	–	1,204	6,194
Decrease in fair value of investments by 29% (2014: 10%)	(2,685)	(3,161)	–	–

Currency Risk

As at December 31, 2015 and 2014 the monetary assets and liabilities subject to currency risk were not significant.

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

14. 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 at December 31, 2015 and 2014 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 and is tied to country of incorporation of bank or counterparty:

				2015				2014
	Russia and CIS	**Cyprus**	**Other**	**Total**	**Russia and CIS**	**Cyprus**	**Other**	**Total**
Assets:								
Cash and cash equivalents	–	–	1,309	1,309	344	–	2,081	2,425
Accounts receivable	–	–	–	–	–	–	1,712	1,712
Financial assets designated at fair value through profit or loss	–	–	–	–	4,891	–	–	4,891
Investments securities available-for-sale	9,258	–	–	9,258	30,969	–	–	30,969
Other assets	–	–	7	7	–	–	11	11
Total assets	**9,258**	**–**	**1,316**	**10,574**	**36,204**	**–**	**3,804**	**40,008**
Liabilities:								
Management fee payable	–	–	195	195	–	–	570	570
Accounts payable and accrued expenses	–	–	48	48	82	–	881	963
Financial liabilities designated at fair value through profit or loss	–	–	–	–	–	4,891	–	4,891
Total liabilities	**–**	**–**	**243**	**243**	**82**	**4,891**	**1,451**	**6,424**
Net position	**9,258**	**–**	**1,073**	**10,331**	**36,122**	**(4,891)**	**2,353**	**33,584**

Geographical classification of assets and liabilities is tied to country of incorporation of a bank or counterparty.

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

15. 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.

	2015				2014			
	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	1,309	–	–	1,309	2,425	–	–	2,425
Accounts receivable	–	–	–	–	–	–	1,712	1,712
Financial assets designated at fair value through profit or loss	–	–	–	–	–	–	4,891	4,891
Investments securities available-for-sale	–	–	9,258	9,258	–	–	30,969	30,969
Other assets	7	–	–	7	11	–	–	11
Total assets	**1,316**	**–**	**9,258**	**10,574**	**2,436**	**–**	**37,572**	**40,008**
Liabilities:								
Management fee payable	195	–	–	195	570	–	–	570
Accounts payable and accrued expenses	48	–	–	48	963	–	–	963
Financial liabilities designated at fair value through profit or loss	–	–	–	–	–	–	4,891	4,891
Total liabilities	**243**	**–**	**–**	**243**	**1,533**	**–**	**4,891**	**6,424**

16. 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 2015 and 2014.

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

	2015		2014	
	Investment Manager	Entities under common control	Investment Manager	Entities under common control
Management fee payable at January 1	570	–	563	–
Management fee accrued	1,756	–	2,206	–
Management fee paid	(2,131)	–	(2,199)	–
Management fee payable at December 31	**195**	**–**	**570**	**–**
Financial liabilities designated at fair value through profit or loss	–	–	–	4,891
Accounts payable and accrued expenses	–	–	–	870

In 2015 and 2014 the Fund had no significant transactions with its Directors, except for directors fees accrued during the year 2015 in amount of 41 thousand US dollars (2014: 43 thousand US dollars).

Notes to Consolidated Financial Statements (continued)

(in thousands of US dollars)

17. Events after the Reporting Date

No significant events were identified after the Reporting Date.