# RENAISSANCE
# Pre-IPO Fund

**Consolidated Financial Statements 2014**
**International Financial Reporting Standards**

**Consolidated Financial Statements and Report of the Independent Auditor's for the year ended December 31, 2014**

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# Fund Information

| | |
|---|---|
| **Directors** | David Blair (appointed on April 11, 2006)<br>James Keyes (appointed on July 9, 2009)<br>John Elder (appointed September 22, 2010) |
| **Registered office** | Appleby Corporate Services (Cayman) Ltd<br>Clifton House<br>P.O. Box 1350 GT<br>75 Fort Street<br>Grand Cayman<br>KY1-1104<br>Cayman Islands |
| **Investment manager** | (From November 12, 2013)<br>Renasset Managers Limited<br>190 Elgin Avenue<br>George Town<br>Grand Cayman KY1-9005<br>Cayman Islands<br><br>(Before November 12, 2013)<br>Renaissance Asset Managers (Guernsey) Limited<br>Hirzel Court<br>St Peter Port<br>Block F<br>GY1 2NH<br>Guernsey |
| **Administrator, registrar, transfer agent** | TMF Custom House Global Fund Services Limited<br>Smartcity Malta,<br>SCM 01, Floor 4,<br>Ricasoli, SCM 1001<br>Malta |
| **Secretary** | Reid Services Limited<br>PO Box 1350 GT<br>75 Fort Street<br>Grand Cayman, Cayman Islands |
| **Independent auditors** | Ernst & Young Ltd.<br>62 Forum Lane<br>Camana Bay<br>P.O. Box 510<br>Grand Cayman<br>KY1-1106<br>Cayman Islands |

# Fund Information (continued)

**General legal advisors**

| | |
|---|---|
| *Bermuda Law* | Appleby (Bermuda) Limited<br>Canon's Court<br>22 Victoria Street<br>P.O. Box HM 1179<br>Hamilton HM EX<br>Bermuda |
| *Cayman Islands Law* | Appleby (Cayman) Limited<br>Clifton House<br>P.O. Box 1350 GT<br>75 Fort Street<br>Grand Cayman, Cayman Islands |
| Listing Sponsor | Appleby Securities (Bermuda) Ltd.<br>41a Cedar Avenue<br>PO Box HM 1179<br>Hamilton HM EX<br>Bermuda |

# Investment Manager's Report

*(in thousands of US Dollars unless otherwise stated)*

The Renaissance Pre-IPO Fund (the "Fund") raised $132.5 million in 2006 to capitalize on the growth opportunities in the potential investment into private companies prior to any public offering. The Fund invested in a wide range of enterprises from commodities through to 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 companies 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 the divestment stage. As of December 31 2014, the Fund had three equity investments in its portfolio representing a minority equity stake in a Russian bank (Probusinessbank), a chemical company (UCP) and a coal deposit operation in the Ukraine (Lubel).

Overall, 2014 was a mixed year for the global asset classes that we track; with the MSCI World Index +2.1%, the MSCI Emerging Markets Index down -4.63%. Along with other emerging markets Russia had a difficult year, as of the end of 2014, the Russian market (RTS) was down -45.2% and MICEX Financials was down -53.9%.

In 2014 several waves of sanctions were imposed which adversely affected the banking sector and economy as a whole.

The 1st wave, directed at particular Russian banks, cut them off from Western financing and affected the whole sector as Western banks and their counterparts started treating all Russian banks much more cautiously.

The 2nd wave of sanctions affected the largest Russian financial institutions and ceased access to foreign lending, making them switch to domestic financing which greatly decreased the liquidity of the sector and caused problems with capital adequacy.

In November the Central Bank announced it would no longer control the USD/RUR rate. Following this decision, the Rouble fell sharply, reaching almost 80 RUR per USD intraday. While this helped banks to increase earnings from FX operations, the overall effect was negative.

In order to support the Ruble and fight inflation the CBR sharply increased the key rate on Dec 16th. This caused an even sharper fall in federal bonds and further deterioration of banks capital, along with aggravating the liquidity crisis.

To cope with the financial sector crisis, at the end of December the Central Bank introduced a set of stabilizing measures, including a standstill on negative revaluations of securities.

The trend to reduce the amount of banks in the country continued in 2014, when around 80 banks had their licenses taken away. Around 12 banks were included in the bailout list as some of these were major players whose combined deposits exceeded the whole deposit insurance fund.

It is expected that in 2015 the Russian banking sector will have to deal with the challenges of rising NPLs and high interest rates.

At present, there is an ongoing threat of further sanctions against Russia and Russian officials the impact of which, if they were to be implemented, is at this stage difficult to determine. In 2014 and now in 2015 there are no individuals or entities within the Funds that have been specifically targeted.

The Russian banking sector demonstrated lower profitability than the previous year: profits decreased by 1.8% from 993.6 billion Rubles ($30.35 billion) in 2013 to 589.1 billion Rubles ($10.47 billion) in 2014. The ROA and ROE fell from 1.9% to 0.9% and from 15.2% to 7.9% respectively. The equity growth rate slowed from 15.6% to 12.2%, the average capital adequacy ratio decreased from 13.5% to 12.5% (all in Ruble terms). This is principally due to the Russian consumer sector declining as a result of declining growth and rising inflation in the Russian economy.

**Probusiness Bank (IFRS data)**

Probusinessbank is a bank and the parent entity for a number of other financial institutions.

- The bank is Moscow based and focusses on serving mid-market businesses in Moscow, and also has significant retail operations.
- The bank was the most negatively effected by economic downturn as it had oversized (compared to others) Ruble denominated securities portfolio and retail business
- Also, the bank is trying to streamline its structure and strengthen management
- Net interest income fell by 54% from $624 mln in 2013 to $288mln in 2014
- Equity decreased by 49% from $530million in 2013 to $271mln in 2014
- The CAR increased slightly from 12.3% in 2013 to 12.5% in 2014

A spin-off of Bank24 occurred in 2014 and the management of Probusinessbank offered to buy out the Fund's stake in Bank24. 457 000 USD was received as a first tranche, while the remainder (680 000 USD) was received in May 2015.

# Investment Manager's Report

*(in thousands of US Dollars unless otherwise stated)*

**Lubel (IFRS data)**

- The Company's strategy is to create a profitable coking coal mining company through development of the Lubelska 1, 2 and 3 License areas (the 'Lubel Coal Project').
- These licences are part of the Lvov-Volyn coal basin in western Ukraine. Commercial production is currently expected to begin in 2019.
- In October 2014 the Company completed and updated BFS (carried out by CCMC, world-leading coal mine construction company, and Hefei Project and Research Mining Institute, China) which includes detailed engineering design, financial model of the project, capacities of coal output confirmed by prospective general constructor (CCMC).
- As at 31 December 2014 the Company had cash balances amounting to $6.3 million
- The Company has not started production and the devaluation of the local currency has helped the Company's pre-production cost base.

The worsening economic situation in the Ukraine as well as the military conflict going on (though it does not directly affect the region where the mine is being developed) makes the Investment Manager doubt the ability of the Company to attract financing from either the state budget or the external parties.

The Company has been negotiating with CCMC (a Chinese corporation) and China Development Bank over the terms of financing for over a year. This financing is only possible providing the Company can present some guarantees by either an international banking group or a sovereign guarantee of Ukraine. Currently international banks refrain from opening any credit lines for Ukraine, so the Company is trying to get such a guarantee from the government.

In order to apply for the guarantee they have to pass an expertise conducted by the Ministry of Fuel and Energy & the Ministry of Economy. Even though the Company claims to have submitted documents for such an expertise, it is unclear how much time it will take the Ministries to review and process them considering a high level of bureaucracy and inefficiency in the state bodies of Ukraine. It's been acknowledged by the management of Lubel that official deadlines are most likely not going to be met.

Even after getting a positive opinion on the project, it has to be included into the register of projects that can be provided with a state guarantee, which may take several months. Only after that can Lubel request from CCMC to apply for financing at a Chinese bank which is going to take over a year according to the estimates.

**UCP (IFRS data)**

UCP Chemicals is one the leading producers of synthetic resins and other chemical products.

- Major production is located in Nizhniy Tagil (OAO Uralchimplast subsidiary)
- Sales are located in major Russian cities and the head office is in Vienna.
- The impact of the recent change in macroeconomic condition had a mixed effect on the company. While mostly negative, it benefited from slowing foreign competition
- Turnover fell by 4.8% from €83 million in 2013 to €79.5million in 2014
- EBITDA increased by 15% from €5.2 million in 2013 to €6 million 2014
- Equity increased in 2014 to €45.6 million from €41.8 million in 2013

As all of the Company's operations take place in Russia, the devaluation of the RUR had a negative impact on the results along with the general decline in business activity. Even though the company is working hard to continue generating solid cash flow, control and cut unnecessary costs, the general downturn is likely to affect the performance.

The investment manager is actively looking for a buyer and is in constant communication with the Company's management and other shareholders. The main exit option remains sale to the controlling shareholders.

Renasset Managers Limited
*The Investment Manager*

Building a better working world

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# Independent Auditor's Report

The Board of Directors
Renaissance Pre-IPO Fund

We have audited the accompanying consolidated financial statements of Renaissance Pre-IPO Fund (the "Fund") which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to shareholders and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the directors, as a body. Our audit work has been undertaken so that we might state to the directors those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the directors as a body, for our audit work, for this report, or for the opinions we have formed.

**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.

**Auditor's 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 about 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of Renaissance Pre-IPO Fund as at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Ltd.

July 30, 2015

# Consolidated Statement of Financial Position as at December 31, 2014

*(in thousands of US Dollars)*

| | Notes | 2014 | 2013 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 653 | 284 |
| Accounts receivable | 5 | 856 | – |
| Other accounts receivable | 6 | 1,675 | 15,785 |
| Investment securities available-for-sale | 5 | 6,385 | 20,579 |
| Other assets | | 6 | 17 |
| **Total assets** | | **9,575** | **36,665** |
| **Liabilities** | | | |
| Management fee payable | 7 | 2,751 | 1,850 |
| Accounts payable and accrued expenses | | 458 | 493 |
| **Total liabilities excluding net assets attributable to shareholders** | | **3,209** | **2,343** |
| **Net assets attributable to shareholders** | 8 | **6,366** | **34,322** |
| **Total liabilities and net assets attributable to shareholders** | | **9,575** | **36,665** |
| Number of participating shares in issue | 8 | **1,324,932** | **1,324,932** |
| **Net asset value per participating share (in US dollars)** | 8 | **4.80** | **25.90** |

Signed and authorized for release on behalf of the Directors of the Fund on June 30, 2015

*Director*

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

# Consolidated Statement of Comprehensive Income for the year ended December 31, 2014

*(in thousands of US Dollars)*

| | *Notes* | **2014** | **2013** |
|---|---|---|---|
| **Results from operations** | | | |
| Dividend income | | 84 | 13 |
| Net realized gain/(loss) on investment securities available for sale | 5 | 1,227 | - |
| Net gain/(loss) on financial assets designated at fair value through profit or loss | | - | (157) |
| Net Interest income | 6 | 132 | 560 |
| Net foreign exchange loss | 5 | (477) | (5) |
| **Total operating income** | | **966** | **411** |
| Management fee | 7 | (901) | (907) |
| Administration fee | | (30) | (30) |
| Impairment of investment securities available for sale | 5 | (10,106) | – |
| Recovery of allowance/(allowance) for loan and accounts receivable impairment | 6 | (14,249) | 144 |
| Other operating expenses | | (196) | (343) |
| **Total expenses** | | **(25,482)** | **(1,136)** |
| **Decrease in net assets attributable to shareholders from operations before income tax** | | **(24,516)** | **(725)** |
| Income tax expense | 8 | (8) | (1) |
| **Decrease in net assets attributable to shareholders from operations** | | **(24,524)** | **(726)** |
| Distributions to shareholders | 9 | (765) | - |
| **Decrease in net assets attributable to shareholders** | | **(25,289)** | **(726)** |
| Other comprehensive income/(loss) for the year | 5 | (2,667) | 646 |
| **Total comprehensive loss for the year** | | **(27,956)** | **(80)** |

*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, 2014

*(in thousands of US Dollars)*

| | *Notes* | Number of participating shares | Net assets attributable to shareholders (calculated in accordance with IFRS) |
|---|---|---|---|
| **January 1, 2013** | **8** | **1,324,932** | **34,402** |
| Net gain on investment securities available for sale | 5 | – | 646 |
| Decrease in net assets attributable to shareholders from operations | | – | (726) |
| **Total loss for the year** | | **–** | **(80)** |
| **December 31, 2013** | **8** | **1,324,932** | **34,322** |
| **January 1, 2014** | | | |
| Net loss on investment securities available for sale | 5 | – | (2,667) |
| Decrease in net assets attributable to shareholders from operations | | – | (24,524) |
| Distributions to shareholders | | | (765) |
| **Total loss for the year** | | **–** | **(27,956)** |
| **December 31, 2014** | **8** | **1,324,932** | **6,366** |

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

# Consolidated Statement of Cash Flows for the year ended December 31, 2014

*(in thousands of US Dollars)*

| | 2014 | 2013 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Decrease in net assets attributable to shareholders from operations | (24,524) | (726) |
| | | |
| **Adjustments to reconcile net change in net assets attributable to shareholders to net cash (used in)/provided by operating activities** | | |
| *Non-cash:* | | |
| Net gain/(loss) on investment securities available for sale | (2,667) | 646 |
| Impairment of investment securities available for sale | 10,106 | - |
| Allowance/(Recovery of allowance) for loan and accounts receivable impairment | 14,249 | (144) |
| | | |
| *Net changes in operating assets and liabilities:* | | |
| Decrease/(increase) in financial assets designated at fair value through profit or loss | - | 662 |
| Decrease/(increase) in investment securities available for sale | 2,790 | (646) |
| Decrease/(increase) in loans receivable | - | 19 |
| Decrease/(increase) of other accounts receivable | (139) | (558) |
| Decrease/(increase) of accounts receivable | (856) | - |
| Decrease/(increase) in other assets | 11 | 22 |
| Increase in management fee payable | 901 | 907 |
| Increase/(decrease) in accounts payable and accrued expenses | (35) | 46 |
| **Net cash flows provided (used in)/by operating activities** | **(164)** | **228** |
| | | |
| **Cash flows from investing activity** | | |
| Proceeds from sale of securities available-for-sale | 1,298 | - |
| **Net cash from investing activity** | **1,298** | **-** |
| | | |
| **Financing activities** | | |
| Distributions paid to shareholders | (765) | - |
| **Net cash flows used in financing activities** | **(765)** | **-** |
| | | |
| **Net increase in cash and cash equivalents** | **369** | **228** |
| | | |
| **Cash and cash equivalents at the beginning of the year** | **284** | **56** |
| **Cash and cash equivalents at the end of the year** | **653** | **284** |

**Supplementary information:**

| | | |
|---|---|---|
| Interest received | - | 2 |
| Dividends received, net of withholding tax | 76 | 31 |

*(in thousands of US Dollars)*

## Notes to the Financial Statements

### 1. Principal Activities

These consolidated financial statements include the financial statements of Renaissance Pre-IPO Fund and its 100% owned subsidiary Agrera Investments Limited (the "Subsidiary"), together referred to as the "Fund".

Renaissance Pre-IPO Fund was incorporated under the laws of the Cayman Islands on April 4, 2006, as a closed-end limited liability exempted Fund. It has voluntarily registered with the Cayman Islands Monetary Authority pursuant to the Mutual Funds Law on May 26, 2006. Its registered office is Clifton House, 75 Fort Street, P.O. Box 1350 GT, Grand Cayman, KY1-1104, Cayman Islands.

Agrera Investment Limited was incorporated in Cyprus as a private limited liability Company on September 16, 2005.

The Fund is listed on Bermuda Stock Exchange.

The initial investment objective of the Fund was to achieve medium term capital growth through investments in listed and unlisted equity and equity-related securities and other instruments in companies that are located in Russia or other states of the Commonwealth of Independent States ("CIS") and are planning to undertake an initial public offering ("IPO"). 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. Considering the short term of its maturity, the Fund will not make any new investments. For majority of the investments, the Fund is following an exit strategy. The Fund makes all investments through the Subsidiary.

Up to November 12, 2013 the Fund's investment activities were managed by Renaissance Asset Managers (Guernsey) Limited (the "Investment Manager"). On that date a new investment manager was appointed by the Fund –Renaissance Managers Limited.

In accordance with the Offering memorandum, the Fund had a term of three years from the commencement date of May 25, 2006, provided that the Directors might extend the term, which was done in 2009 and 2010. On May 13, 2011 the Fund's maturity was extended to June 30, 2013 by the extraordinary general meeting of the shareholders. On July 9, 2014 the Fund's term was extended to December 31, 2015 by the extraordinary general meeting of the shareholders. The latest extension was made on May 18, 2015 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, 2014 (the "consolidated financial statements") were authorized for issue on June 30, 2015.

### 2. Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies in Note 3. For example financial assets designated at fair value through profit or loss, investment securities available for sale have been measured at fair value.

The consolidated financial statements are presented in United States dollars ("US") unless otherwise stated. This is the functional and presentation currency of the Fund. The Fund's performance is evaluated and its liquidity is managed in US Dollar.

Financial information presented in US Dollars has been rounded to the nearest thousand ("USD").

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 judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement 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 except currency risk disclosure in Note 11. Management believes that Fund's investments denominated in currency other that its functional currency should be included in currency risk calculation.

### 2.1 Statement of Compliance

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.

*(in thousands of US Dollars)*

Notes to the Financial Statements

## 2.2 Basis of Consolidation

The Fund owns 100% of the Subsidiary at December 31, 2014 and 2013.

Subsidiaries are those entities in which the Fund has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Fund and are no longer consolidated from the date that control ceases. 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 these consolidated financial statements are set out below.

### (A) Financial Instruments

### (I) Classification

The Fund classifies its financial assets and financial liabilities into the categories below in accordance with IAS 39 *Financial Instruments: Recognition and Measurement ("IAS 39")*. The Fund determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

***Financial Assets and Liabilities at Fair Value through Profit or Loss***

The category of financial assets and liabilities at fair value through profit or loss is sub-divided into:

*Financial Assets and Liabilities Held for Trading*

Financial assets and liabilities at fair value are classified as held for trading if they are acquired or incurred for the purpose of selling or repurchasing in the near term. The financial assets and liabilities at fair value held for trading are measured at fair value. These financial instruments are acquired principally for the purposes of generating profit from short-term fluctuation in price. Gains or losses on financial assets and liabilities at fair value held for trading are recognized in the consolidated statement of comprehensive income. Hedge accounting is not applied by the Fund.

*Financial instruments designated as at fair value through profit or loss upon initial recognition*

These include financial assets and liabilities that are not held for trading, including equity securities and debt instruments. These financial assets and liabilities are designated on the basis that they are part of a group of financial assets and liabilities which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund.

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

*Other financial liabilities*
The Fund includes in this category other accounts payable and accrued expenses and interest bearing borrowings. The Fund determines the classification of liabilities at initial recognition.

### (II) Recognition

The Fund recognises financial assets and liabilities on the date it becomes party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Fund commits to purchase or sell the asset.

### (III) Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recognised initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and liabilities are recognised on the date they are originated. Financial assets and financial liabilities at fair value through profit or loss are measured initially at fair value, with transaction costs recognised in the statement of comprehensive income.

Loans and receivables, investment securities available-for-sale and other financial liabilities are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue.

*(in thousands of US Dollars)*
*Notes to the Financial Statements*

3. **Summary of Significant Accounting Policies (continued)**

**(IV)Subsequent measurement**

After initial measurement, the Fund measures financial instruments which are designated at fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in "Net gain/(loss) from financial instruments designated at fair value through profit or loss" in the consolidated statement of comprehensive income. Interest earned and dividend revenue elements of such instruments are recorded separately in "Net Interest income" and "Dividend income", respectively.

After initial recognition investment securities available-for-sale are measured at fair value with gains or losses being recognised as a separate component of net assets attributable to shareholders 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 net assets attributable to shareholders is included in the consolidated statement of comprehensive income. However, interest calculated using the effective interest method is recognised in the consolidated statement of comprehensive income.

Loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortization process.

**(V) Derecognition**

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

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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.

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

**(B) Fair value measurement principles**

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 to 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.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. 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. Valuation techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible.

*(in thousands of US Dollars)*
*Notes to the Financial Statements*

## 3. Summary of Significant Accounting Policies (continued)

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 the categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the beginning of each reporting period.

An analysis of fair values of financial instruments and further details how they are measured are provided in Note 11.

### (C) Impairment of financial assets

At each reporting date the Fund assesses whether a financial asset or group of financial assets classified as loans and receivables is impaired. 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 reorganization 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. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate.

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.

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. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income – is removed from net assets attributable to shareholders and recognised in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income, increases in their fair value after impairment are recognised directly in net assets attributable to shareholders.

### (D) Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amount is reported on the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Company intends to either 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.

### (E) Foreign currency translations

Transactions during the reporting 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.

*(in thousands of US Dollars)*
*Notes to the Financial Statements*

### 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 on financial assets designated 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)".

#### (F) Participating Shares

The shares are not redeemable at the option of the shareholders. 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.

For the purpose of calculating the net assets attributable to shareholders in accordance with the Fund's Offering Memorandum, the value of securities which are quoted or traded on any stock exchange is based on the last trade price.

This valuation of net assets value is different from the IFRS valuation requirements. The difference between the two valuations is reported in the Note 8.

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

#### (G) 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.

#### (H) Interest Revenue and Interest Expense

Interest income and expense are recognised in the consolidated statement of comprehensive income for all interest-bearing financial instruments using the effective interest method.

#### (I) Dividend Income

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

#### (J) Net Gain/(Loss) on Financial Assets Designated at Fair Value through Profit or Loss

This item includes changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as "at fair value through profit or loss" and excludes interest and dividend income and expenses.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealised gains and losses for financial instruments which were realised in the reporting year.

Realised gains and losses on disposals of financial instruments classified as "at fair value through profit or loss" are calculated using the First-In, First-Out (FIFO) method. They represent the difference between an instrument's initial carrying amount and disposal amount.

*(in thousands of US Dollars)*
*Notes to the Financial Statements*

3. Summary of Significant Accounting Policies (continued)

(K) Fees and Commissions

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".

(L) Income taxes

The Fund is exempt from all forms of taxation as there are no taxes on income, profits or capital gains in the Cayman 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% (2013: 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).

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.

(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

During the year the Company adopted the following new and revised IFRS which are effective for accounting periods beginning on 1 January 2014:

- IAS 27 Separate Financial Statements (Revised)
- IAS 28 Investments in Associates and Joint Ventures (Revised)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Involvement with Other Entities
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

This adoption did not have any impact on the financial position or performance of the Fund.

(O) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's consolidated financial statements are disclosed below. The Fund intends to adopt these standards, if applicable, 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 1 January 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 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Fund's financial assets, but will not have an impact on classification and measurements of the Fund's financial liabilities.

*(in thousands of US Dollars)*
Notes to the Financial Statements

3. Summary of Significant Accounting Policies (continued)

**IFRS 14 Regulatory Deferral Accounts**

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Fund is an existing IFRS preparer, this standard would not apply.

**Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. These amendments are not expected to be relevant to the Fund.

**Annual improvements 2010-2012 Cycle**

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Fund. They include:

- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures

**Annual improvements 2011-2013 Cycle**

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Fund. They include:

- IFRS 3 Business Combinations
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Property

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. This standard is not expected to be relevant to the Fund.

**Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests**

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Fund.

*(in thousands of US Dollars)*
*Notes to the Financial Statements*

3. Summary of Significant Accounting Policies (continued)

**Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Fund.

**Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants**

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Fund.

**Amendments to IAS 27: Equity Method in Separate Financial Statements**

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Fund's financial statements.

4. Significant Accounting Judgments and Estimates

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.

*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.

*(in thousands of US Dollars)*
*Notes to the Financial Statements*

## 4. Significant Accounting Judgments and Estimates (continued)

### *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.

### *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.

### *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 and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The models are calibrated regularly and tested for validity using prices from any observable current market transactions in the same instrument (without modification or repackaging) or based on any available observable market data.

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 judgment, considering factors specific to the asset or liability. To assess the significance of a particular input to the entire measurement, the fund performs sensitivity analysis.

### *Impairment of Investments available for sale*

The Fund holds 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.

### *Allowance for loan impairment*

The Fund regularly reviews its loans and receivables to assess impairment. The Fund uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Fund estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses its experienced judgment to adjust available data to reflect current circumstances.

### *Taxation*

Uncertainties exist with respect to the interpretation of complex tax regulations and changes in tax laws on foreign withholding tax. Given the wide range of international investments, differences arising between the actual investment income and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense already recorded. The Fund establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it invests. The amounts of such provisions are based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective investment's domicile. As the Fund assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

*(in thousands of US Dollars)*
*Notes to the Financial Statements*

## 5. Investment Securities Available for Sale

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Cost | Fair value | Cost | Fair value |
| | USD | USD | USD | USD |
| **Ordinary unquoted shares** | | | | |
| UCP Chemicals AG | 7,952 | 1,494 | 7,952 | 2,164 |
| Golden League Ltd. | - | - | 5,257 | 840 |
| Karavan Real Estate Ltd. | 12,302 | - | 12,302 | - |
| | **20,254** | **1,494** | **25,511** | **3,004** |
| **Unquoted equity participation note** | | | | |
| Rekha Holdings Ltd. | 14,567 | 4,891 | 15,065 | 17,575 |
| | **34,821** | **6,385** | **40,576** | **20,579** |

In December 2007 the Fund sold 124,151 ordinary shares of JSCB Probusinessbank to Rekha Holdings Ltd, a related party. On the same date the Fund purchased an Equity Linked Note issued by the same related party, under which the Fund retains the right to receive any dividends and other distributions arising from the JSCB Probusinessbank shares and the right to receive any proceeds resulting from the disposal of those shares by the related party. In these consolidated financial statements this equity participation note was recognized at fair value of the underlying asset.

In April 2014 JSCB Probusinessbank performed a partial buy back of its shares through its related party Privera Holdings Limited and Rekha Holdings Ltd disposed a portion of its stake in the bank. Rekha Holdings Ltd sold 8,203 shares of JSCB Probusinessbank for 128,396,898 Rubles (or USD 3,600).

In June 2014 the Fund received 16,049,612 Rubles (USD 458) as a first part of payment from the sale. The Net realized gain from disposal of Probusinessbank shares equal to USD 1,227 and was recognized in Net realized gain/(loss) on investment securities available for sale.

As of December 31, 2014 amount receivable from sale of Probusinessbank shares is equal to 48,148,837 Rubles (USD 856). Due to significant depreciation of Russian Ruble against US Dollar in the second half of 2014 revaluation of receivable amount created Net foreign exchange loss equal to USD 486.

As of December 31, 2014 the Fund identified objective evidence of an impairment of UCP Chemicals AG and JSCB Probusinessbank and recognized respective impairment loss of USD 10,106 in the Consolidated Statement of Comprehensive Income (please refer to Note 12).

In January 23, 2014 the Fund sold all shares held in Golden League Ltd. for USD 840. In May 2014 the Fund received a full repayment.

Movements in unrealized gain/(loss) on investment securities available for sale were as follows:

| | Unrealized gain/(loss) on investment securities available for sale |
|---|---|
| | USD |
| **January 1, 2013** | **2,021** |
| Net unrealized gain on investment securities available for sale | 646 |
| **December 31, 2013** | **2,667** |
| Net unrealized loss on investment securities available for sale | (12,773) |
| Impairment of investment securities available for sale recognised in the consolidated statement of comprehensive income | 10,106 |
| **December 31, 2014** | **-** |

Net loss on investment securities available for sale after effect of the impairment, amounting to USD 2,667 was recognised within "Other comprehensive income/(loss) for the year" (2013: net gain on investment securities available for sale, amounting to USD 646).

*(in thousands of US Dollars)*

Notes to the Financial Statements

## 6. Other accounts receivable

As of December 31, 2014 and 2013 the Fund had a receivable ("Lubel receivable") under the put option agreement with shareholders of Lubel Coal Company Ltd. (the "writers of the put option") with a carrying value of USD 1,675 (2013: USD 15,785).

On May 17, 2010 the Fund exercised its put option on the investment in Lubel Coal Company Ltd., and provided the writers of the put option with put option notice, claiming USD 20,094. As the obligation of the writers of the put option was not repaid on maturity, the Fund renegotiated the terms of repayment, and changed the maturity date of settlement under put option agreements to April 28, 2011. The Fund and the writers of the put option signed a security deed in accordance with which the writers of the put option pledged 7.46% of the ordinary shares of Lubel Coal Company Ltd as security against obligations under a membership interest purchase agreement.

On the renegotiated maturity date the writers of the put option failed to repay their obligation to the Fund. As a result the Fund filed a claim to the International Arbitration Tribunal (the "Tribunal"). In December 2011 according to the decision of the Tribunal the writers of the put option were obliged to repay their obligations in amount of USD 19,189 30 days after the Tribunal's decision (the Award). It was decided that interest of 12% per annum will accrue from April 28, 2011 up to the date of actual repayment. In accordance with the Tribunal's decision the Fund is awarded the cost of arbitration and arbitration fees, including reasonable legal fees and expenses incurred in the arbitration. Total amount of reimbursement established by the Tribunal amounted to USD 550 and was recognized by the Fund in consolidated statement of comprehensive income as "Other income" in the year 2012. The amount was added to amount receivable from writers of the put option. As of December 31, 2014 total amount receivable was USD 28,218 (2013: USD 25,915).

Shares of Lubel Coal Company Ltd pledged to the Fund were transferred to the Fund as of December 31, 2010. In the event if the consideration received from the sale of these shares is higher than the amount of the receivable, the Fund is obliged to transfer the surplus to the writers of the put option. If consideration received is lower, the writers of the put option are obliged to reimburse the difference to the Fund.

For the year ended December 31, 2014 the Fund recognized interest income within consolidated statement of comprehensive income in amount of USD 139 (2013: 558). For the year ended December 31, 2014 the total charge for accounts receivable and loan impairment amounted to USD 14,246 was recognised within "Recovery of allowance/(allowance) for loan and accounts receivable impairment" (2013: Nil).

The fair value of the shares of Lubel Coal Company Ltd. held by the Fund for the repayment of the receivable from the writers of the put option was USD 1,675 (2013: USD 15,785). It was calculated using a valuation model based on non-market observable inputs (Note 14).

## 7. Performance and Management Fees

The Fund pays the Investment Manager a performance fee equal to 20% of all amounts otherwise distributable to the shareholders (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, unless the Directors decide otherwise.

As of December 31, 2014 the Fund's net assets amounted to USD 9,575 (2013: USD 36,665) which was less than the total aggregate issue price for the participating shares. As a result no performance fees were recognized.

Management fees are equal to 2% per annum of the aggregate net assets value of the Fund calculated in accordance with the Offering memorandum. 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.

During 2014 a management fee of USD 901 (2013: USD 907) was incurred. As of December 31, 2014, the management fee payable amounted to USD 2,751 (2013: USD 1,850).

## 8. Net Assets Attributable to Shareholders

*Incorporation and Share Capital*

The Fund's authorized share capital is USD 50. The Fund is authorised to issue 100 non-participating voting Management shares of US Dollar 0.01 each and 4,999,900 profit participating, non-voting participating shares of US Dollar 0.01 each.

The Investment Manager owns 100% of the Management shares.

As of December 31, 2014 and 2013, 100 Management shares have been issued at US Dollar 0.01 each and 1,324,932 profit participating, non-voting shares have been issued at US Dollar 0.01 each.

The Fund does not have any externally imposed capital requirements.

*(in thousands of US Dollars)*

*Notes to the Financial Statements*

## 8. Net Assets Attributable to Shareholders (continued)

*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 the Management shares 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. 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 of 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 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 holders of participating shares 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 or as a partial compulsory redemption of shares.

In the year 2014 the Fund did declare distributions to shareholders in amount of USD 765 (2013: Nil). Such distribution was categorized as a return of capital. Distributions were fully paid to the shareholders on June 30, 2014.

*Capital Management*

The Fund's objectives for managing capital are:

- To invest the capital in investments meeting the description, risk exposure and expected return indicated in its Offering memorandum;
- To achieve consistent returns while safeguarding capital by investing in diversified portfolio, by participating in derivative and other capital markets and by using various investment strategies and hedging techniques;
- To maintain sufficient liquidity to meet the expenses of the Fund;
- To maintain sufficient size to make the operation of the Fund cost-efficient.

As at December 31, 2014 and 2013, the Fund's operations were funded by issued share capital.

*Reconciliation of Audited Net Assets to Net Assets as Reported to Shareholders*

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

- A net unrealized loss on financial assets designated at fair value through profit or loss and investment securities available for sale has been recognized;
- An impairment charge of investment securities available for sale has been recognized;
- Other adjustments for expense accruals have been recorded.

*(in thousands of US Dollars)*
*Notes to the Financial Statements*

## 8. Net Assets Attributable to Shareholders (continued)

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

| | 2014 | 2013 |
|---|---|---|
| | | USD |
| **Net assets as reported to shareholders** | **45,520** | **44,674** |
| Net gain/(loss) on investment securities available for sale | (2,667) | 687 |
| Allowance for loan impairment | (23,112) | (8,863) |
| Impairment of investment securities available-for-sale | (12,971) | (2,865) |
| Other adjustments and accruals | (404) | 689 |
| **Adjusted net assets per consolidated financial statements** | **6,366** | **34,322** |
| **Net asset value per participating share as reported to shareholders (in US Dollars)** | **34.36** | **33.72** |
| Adjustments per participating share (in US Dollars) | (29.55) | (7.82) |
| **Net asset value per participating share per these consolidated financial statements (in US Dollars)** | **4.80** | **25.90** |

## 9. Income Tax Expense

The operations of the Fund are subject to multiple taxation jurisdictions, as follows.

### Cayman Islands

Renaissance Pre-IPO Fund is registered in the Cayman Island as tax exempt Fund.

### Cyprus

The Subsidiary is subject to corporation tax under the laws of Cyprus on its taxable profits at the rate of 12.5% (2013: 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 benefit/(expense) calculated at domestic rate applicable to the Fund, to income tax expense at the Fund's effective income tax rate is as follows:

| | 2014 | 2013 |
|---|---|---|
| Accounting loss before tax | **(24,516)** | **(725)** |
| Theoretical income tax expense at the Fund's statutory rate | – | – |
| Tax benefit calculated at domestic rate applicable to the Subsidiary (2013: 12.5%) | (3,065) | (91) |
| Tax effect of non deductible expenses | 3,065 | 91 |
| Tax effect of income exempt from tax | - | - |
| Withholding tax | 8 | 1 |
| **Income tax expense** | **8** | **1** |

## 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 its 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 2014, the Russian economy was 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 December 2014, the Rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%.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.

*(in thousands of US Dollars)*
*Notes to the Financial Statements*

## 10. Commitments and Contingencies(continued)

As a result of the political tensions over the crisis in Ukraine, subsequent to December 31, 2014 the European Union, the United States and certain other countries have imposed sanctions against Russia, including sanctions on the Russian financial sector. The largest Russian state-owned banks were cut from US and EU's debt and capital markets. In January 2015 the rating agency Standard & Poor's estimated Russia's sovereign debt rating as the highest speculative grade with a negative outlook and at the time of reporting there were no changes in ratings.

At present, there is an uncertainty regarding the continuance of sanctions, however overall negative effect on economic situation in Russia and on the stability and profitability of the Russian financial sector are noticeable. This might have a significant effect on the valuation of the Fund's investments, which is not currently determinable.

Management believes it is taking appropriate measures to support the sustainability of the Fund's business in the current circumstances.

As a result of the political tensions over the crisis in Ukraine, subsequent to December 31, 2014 the European Union, the United States and certain other countries have imposed sanctions against Russia, including sanctions on the Russian financial sector. The largest Russian state-owned banks were cut from US and EU's debt and capital markets. In January 2015 the rating agency Standard & Poor's estimated Russia's sovereign debt rating as the highest speculative grade with a negative outlook and at the time of reporting there were no changes in ratings.

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 is 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.

## 11. Financial Risk Management

*General*

The Fund maintains positions in a variety of financial instruments as dictated by its investment management strategy.

According to its initial investment strategy the Fund intended to invest in companies which were planning to undertake an IPO in the next few years. Initially, the Fund intended to hold such investments until the IPO and sell them in or following the IPO. However, considering the remaining term to 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.

In 2014 and 2013 the Fund's investment portfolio comprised unlisted equities which it intends to sell in accordance with exit strategy adopted by the Investment Manager.

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 credit risk, liquidity risk and market risk.

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 carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. This relates also to financial assets carried at amortised cost, as they have a short-term to maturity.

*(in thousands of US Dollars)*
*Notes to the Financial Statements*

## 11. Financial Risk Management (continued)

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 December 31, 2014 | Maximum exposure December 31, 2013 |
|---|---|---|
| | USD | USD |
| Cash and cash equivalents | 653 | 284 |
| Accounts receivable | 856 | - |
| Other accounts receivable | 1,675 | 15,785 |
| **Total credit risk exposure** | **3,184** | **16,069** |

Amounts in the above table are based on the carrying value of all accounts.

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 asset for consolidated statement of financial position lines, based on the Fund's credit risk monitoring approach.

| As at December 31, 2014 | BBB+* | BBB-* | Not rated | Total |
|---|---|---|---|---|
| Cash and cash equivalents | 107 | 546 | – | 653 |
| Accounts receivable | – | – | 856 | 856 |
| Other accounts receivable | – | – | 1,675 | 1,675 |
| **Total** | **107** | **546** | **2,531** | **3,184** |

| As at December 31, 2013 | High rated* | Low rated* | Not rated | Total |
|---|---|---|---|---|
| Cash and cash equivalents | 70 | 214 | – | 284 |
| Other accounts receivable | – | – | 15,785 | 15,785 |
| **Total** | **70** | **214** | **15,785** | **16,069** |

* Equivalent to investment rating grade with Standard and Poor's, Moody's or Fitch

Note 6 provide further information regarding Other accounts receivable.

Cash held by the Fund is held by Raiffeisen Bank to facilitate any payments or proceeds received in US Dollars and Rubles. The Fund also established a bank account with Royal Bank of Scotland (Isle of Man) to facilitate redemption and other payments. Bankruptcy or insolvency of the banks may cause the Fund's rights with respect to 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.

As of December 31, 2014 the Fund has a receivable from Rekha Holdings Ltd in amount of USD 856. The receivable occurred from sale of Probusinessbank shares in April 2014. The account receivable was fully repaid in May 2015 (please refer to Note 5).

*(in thousands of US Dollars)*

*Notes to the Financial Statements*

## 11. Financial Risk Management (continued)

### *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:

| | December 31, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| **Assets** | ***Russia and CIS*** | ***Cyprus*** | ***Other*** | ***Total*** | ***Russia and CIS*** | ***Cyprus*** | ***Other*** | ***Total*** |
| Cash and cash equivalents | 546 | – | 107 | 653 | 214 | – | 70 | 284 |
| Accounts receivable | 856 | – | – | 856 | – | – | – | – |
| Other accounts receivable | 1,675 | – | – | 1,675 | 15,785 | – | – | 15,785 |
| Investment securities available for sale | 4,891 | – | 1,494 | 6,385 | 18,415 | – | 2,164 | 20,579 |
| Other assets | – | – | 6 | 6 | – | – | 17 | 17 |
| **Total assets** | **7,968** | **–** | **1,607** | **9,575** | **34,414** | **–** | **2,251** | **36,665** |
| **Liabilities** | | | | | | | | |
| Management fee payable | – | – | 2,751 | 2,751 | – | – | 1,850 | 1,850 |
| Accounts payable and accrued expenses | 45 | 13 | 400 | 458 | 67 | 14 | 412 | 493 |
| **Total liabilities** | **45** | **13** | **3,151** | **3,209** | **67** | **14** | **2,262** | **2,343** |
| **Net position** | **7,923** | **(13)** | **(1,544)** | **6,366** | **34,347** | **(14)** | **(11)** | **34,322** |

### *Liquidity Risk and Funding Management*

In 2014 the Fund's term was extended to December 31, 2015 with subsequent extension to December 31, 2018. Prior to the expiration of the Fund's term, the net assets will not be distributed to shareholders.

Being a closed-end investment fund, the Fund's shares are not redeemable at the option of shareholders, therefore it has limited exposure to the liquidity risk.

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 consolidated financial statements. The Fund intends to hold its investments until disposed of via a private transaction with one or more investors or in or following an IPO. There is no assurance that the Fund will be able to dispose of any investments by way of an IPO. If no IPO takes place in relation to a particular investment, the Fund will seek to dispose of such investment by means of a sale on a secondary market, if any exists, or otherwise. However, there is no assurance that the Fund will be able to dispose of any investment at a price or on terms that the Fund finds acceptable.

The current liquidity requirements including payments of operating expenses and fees are managed in accordance with policies and procedures in place. The Fund uses cash flow forecasting, carried out by the Treasury department, which allows to control and manage its liquidity and undertake proper measures if liquidity shortages or excessive liquidity are anticipated.

*(in thousands of US Dollars)*

*Notes to the Financial Statements*

## 11. Financial Risk Management (continued)

*Analysis of Financial Assets and Liabilities by Remaining Maturities*

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.

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 653 | – | – | **653** | 284 | – | – | **284** |
| Accounts receivable | 856 | – | – | **856** | – | – | – | – |
| Other accounts receivable | – | – | 1,675 | **1,675** | – | – | 15,785 | **15,785** |
| Investments securities available-for-sale | – | – | 6,385 | **6,385** | 20,579 | – | – | **20,579** |
| Other assets | 6 | – | – | **6** | 17 | – | – | **17** |
| **Total assets** | **1,515** | – | **8,060** | **9,575** | **20,880** | – | **15,785** | **36,665** |
| **Liabilities:** | | | | | | | | |
| Management fee payable | 2,751 | – | – | **2,751** | 1,850 | – | – | **1,850** |
| Accounts payable and accrued expenses | 458 | – | – | **458** | 493 | – | – | **493** |
| **Total liabilities** | **3,209** | – | – | **3,209** | **2,343** | – | – | **2,343** |

*Market Risk*

Market risk embodies the potential for loss and includes currency risk, interest rate risk and price risk.

The Fund's strategy on the management of market risk is driven by the Fund's investment objective. The investment objective of the Fund is defined in Note 1 of the consolidated financial statements.

The Fund's market risk is managed on a regular basis by the Investment Manager in accordance with policies and procedures in place. The following guidelines and policies are established:

1. The total amount of leverage will not exceed 50% of the Fund's capital;
2. The Fund may invest up to 50% of its capital into one company.

Accordingly, the Fund's portfolio may be highly concentrated and its performance may be materially and adversely affected by the performance (either positive or negative) of a single investment.

The exposure to market risk of the Fund's financial asset and liability positions is measured using sensitivity analysis. The details of the method including its main assumptions and limitations are disclosed later on in this note.

Details of the nature of the Fund's investment portfolio at the reporting date are disclosed in Note 5 of the consolidated financial statements.

*Currency Risk*

The Fund may invest in financial instruments denominated in currencies other than its functional currency – US dollars. According to the Fund's investment policy, it may invest in securities and other instruments that are principally denominated in Russian Rubles. Consequently, the Fund may be exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than US dollars but the Investment Manager does not intend to seek to hedge the Fund's currency risks. If the Investment Manager were to seek to hedge against such risks there can be no assurance that such hedging transactions would be effective or beneficial.

Normally, any cash balances or proceeds in Russian Rubles and other non-US Dollars currencies are immediately converted into US Dollars.

*(in thousands of US Dollars)*
*Notes to the Financial Statements*

## 11. Financial Risk Management (continued)

The Fund operates with instruments denominated in Russian Rubles, Euro and US Dollars. At the year end, the majority of its investments were denominated in Russian Rubles. However, those securities are priced and traded in US Dollars. All settlements on securities trading are predominantly performed in US Dollars.

Sensitivity analysis for the year 2014 and 2013 is based on consideration for up and down scenario according to parameters stated in the following table:

| *Currency* | *UP Scenario* | *Down Scenario* |
|---|---|---|
| RUR | 20% | (10%) |

As of December 31, 2014, had the foreign currency changed its exchange rates in accordance with reasonable possible changes provided in the table above with all other variables held constant, equity and comprehensive income of the Company would have changed by the amounts shown below:

| *Scenario* | *31 December 2014* | *31 December 2013* |
|---|---|---|
| UP Scenario | 1,150 | 3,516 |
| DOWN Scenario | (575) | (1,758) |

### *Interest Rate Risk*

The Fund does not have debt securities carried at fair value, or loans and receivables at floating interest rates, and therefore is not exposed to interest rate risk.

### *Other Price Risk*

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 total comprehensive income.

At December 31, 2014 and 2013 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 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* | |
|---|---|---|---|---|
| | *2014* | *2013* | *2014* | *2013* |
| Increase in fair value of investments by 15% (2013: 15%) | - | 3,087 | 958 | - |
| Decrease in fair value of investments by 15% (2013: 15%) | (958) | (2,561) | - | (526) |

*(in thousands of US Dollars)*
*Notes to the Financial Statements*

## 12. Fair Value of Financial Instruments

*Financial Instruments Recorded at Fair Value*

As of December 31, 2014 and 2013 fair value of the investment securities available-for-sale and financial assets 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. Combinations of observable and non-observable inputs were used for fair value determination. As of December 2014 and 2013 all financial instruments of the Fund were classified as Level 3. There were no transfers between the levels of the fair value hierarchy during 2014.

As of December 31, 2014 and 2013 all of the Fund's assets recorded at fair value were estimated using pricing models or discounted cash flow techniques, or a combination of both. The investments can therefore be classified as Level 3 investments. The following table shows the movement of the investment securities classified as Level 3:

| | Investment securities available for sale 2014 | Investment securities available for sale 2013 |
|---|---|---|
| **As at January 1** | **20,579** | **19,789** |
| Total loss recognised in profit or loss | (11,527) | 144 |
| Total loss recognised directly in net assets | (2,667) | 646 |
| **As at December 31** | **6,385** | **20,579** |
| **Total loss for the year included in profit or loss for assets held at the end of the reporting year** | **(11,527)** | **144** |

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 consults 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 above checks have been performed the Investment Manager presents the valuation results to the Directors of the Fund for their review and approval. As of December 31, 2014 and 2013 the fair value of the investment securities available for sale are valued using pricing models. Inputs are based on the composition of market observable and non-observable inputs which may vary according to the specific industry that the investee operates in at the reporting date.
For the purpose of valuing the Fund's investment in the equity participation note issued by Rekha Holdings Ltd the Fund's management applied guideline companies methodology under a market approach based on transaction multiples. The most significant key assumptions used in estimating the fair value of investment were:

| | 2014 | 2013 |
|---|---|---|
| Discount for lack of control | 26% | 23% |
| Discount for lack of liquidity | 23% | n/a |
| Net asset multiple* | 0.50 | 1.02 |

* *Net asset multiple after discounts application*

As of December 31, 2014 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 USD 757 or USD 1,048, respectively (2013: USD 224 or USD 1,926).

For the purpose of valuing the Fund's investment in UCP Chemicals AG as of December 2014 the Fund's management applied guideline companies method under market approach based on transaction multiples. The most significant key assumptions used in estimating the fair value of investment were:

| | 2014 |
|---|---|
| Lack of marketability discount | 23% |
| EBITDA multiple | 7.94 |

For the purpose of valuing the Fund's investment in UCP Chemicals AG as of December 31, 2013 the Fund's management applied net assets method under the cost approach. Key assumption used in fair value calculation was lack of control discount of 30% and lack of marketability discount 15%.

*(in thousands of US Dollars)*

*Notes to the Financial Statements*

## 12. Fair Value of Financial Instruments (continued)

Increase or decrease in the discount for lack of marketability by 15% would have caused a respective decrease or increase in fair value by USD 293, respectively.

*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.

For the purpose of valuing the Fund's shares of Lubel Coal Fund Ltd. as of December 2014 the Fund's management applied guideline companies method under market approach based on transaction multiples. The most significant key assumptions used in estimating the fair value of investment were:

| | 2014 |
|---|---|
| Lack of control discount | 10% |
| Reserves multiple | 0.07x |

For the purpose of valuing of shares of Lubel Coal Fund Ltd. As of December 31, 2013 the Fund's Management used pricing model based on discounted cashflow method. Key assumption used in fair value calculated was forecasted coal price: as of December 31, 2013 135.2 USD/t for Block 1 and 2 and 121.7 USD/t for Block 3.

## 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 2014 and 2013.

During the year the Fund was involved into transactions with related parties which are classified as follows:

- Investment Manager – Renaissance Asset Managers (Guernsey) Limited (before November 12, 2013);
- Renaissance Managers Limited (from November 12, 2013):
- Other entities under common control;
- Directors – the list of the Fund's Directors in shown on page 3.

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

| | | | 2014 | | | 2013 |
|---|---|---|---|---|---|---|
| | Investment Manager | Directors | Entities under common control | Investment Manager | Directors | Entities under common control |
| | USD | USD | USD | USD | USD | USD |
| **Management fee payable at January 1** | **1,850** | – | – | **943** | – | – |
| Management fee accrued | 901 | – | – | 907 | – | – |
| Management fee paid | – | – | – | – | – | – |
| **Management fee payable at December 31** | **2,751** | – | – | **1,850** | – | – |
| Investment securities available for sale | – | – | 4,891 | – | – | 17,575 |
| Other operating expenses | – | 50 | 50 | – | 38 | 38 |

*(in thousands of US Dollars)*
Notes to the Financial Statements

## 14. Events after the Reporting Date

With the exception of the information disclosed in the notes to these financial statements, there were no other events occurring subsequent to the reporting date requiring disclosure in these financial statements.