

**INVESTMENT FUND
CBL Russian Equity Fund**

ANNUAL REPORT FOR 2016
(13th financial year)

PREPARED IN ACCORDANCE WITH
FCMC NORMATIVE REGULATIONS ON PREPARATION OF ANNUAL REPORTS, CONSOLIDATED
ANNUAL REPORTS AND SEMI-ANNUAL REPORTS OF INVESTMENT FUND AND OPEN
ALTERNATIVE INVESTMENT FUND
AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED BY THE EUROPEAN UNION

Riga, 2017

IF CBL Russian Equity Fund
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**IF CBL Russian Equity Fund
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Information on the investment fund**

| | |
|--|--|
| Name of the Fund: | CBL Russian Equity Fund |
| Type of the Fund: | Investment fund |
| Registration date of the Fund: | 5 March 2004 |
| Number of the Fund: | F41 |
| Investment management company name: | CBL Asset Management IPAS (former Citadele Asset Management IPAS) |
| Investment management company's registered office: | Republikas laukums 2a, Riga, LV-1010, Latvia |
| Investment management company's registration number: | 40003577500 |
| Number of the license for investment management company operations: | 06.03.07.098/367 |
| Name of the Fund's Custodian | AS Citadele Banka |
| Registered office of the Fund's Custodian | Republikas laukums 2a, Riga, LV-1010, Latvia |
| Registration number of the Fund's Custodian: | 40103303559 |
| Investment management company's Council and Board members and their positions: | <p><i>Council of the investment management company:</i> Chairperson of the Council – Juris Jākobsons – appointed on 30.09.2010. Deputy Chairperson of the Council - Vladimirs Ivanovs - appointed on 01.11.2012. Member of the Council - Peter Meier - appointed on 30.09.2015. Member of the Council - Aldis Paegle – appointed on 04.07.2014, dismissed on 24.08.2016.</p> <p><i>Board of the investment management company:</i> Chairperson of the Board – Uldis Upenieks – appointed on 01.11.2012. Board Member - Zigurds Vaikulis - appointed on 30.03.2007. Board Member - Andris Kotāns - appointed on 11.05.2015. Board Member - Lolita Sičeva - appointed on 11.05.2015.</p> |
| Rights and responsibilities related to investment fund management: | Council and Board members shall perform all duties prescribed in laws and regulations of the Republic of Latvia and in the Articles of Association of the investment management company, which must be performed by members of the Council and the Board. |
| Fund managers (members of the Investment Committee): | Kristiāna Janvare – appointed on 15.08.2008, dismissed on 19.08.2016. Andris Kotāns - appointed on 26.01.2011. Elchin Jafarov - appointed on 25.09.2011. Igors Lahtadirs - appointed on 21.11.2013. |
| Rights and responsibilities related to the Fund's management: | The Fund Manager shall perform all duties prescribed in laws and regulations of the Republic of Latvia, in the Articles of Association of the investment management company and in the prospectus of the Fund, which must be performed by the Fund's manager. |
| Auditor: | KPMG Baltics SIA Vesetas iela 7 Riga, LV-1013 License No 55 Latvia |

IF CBL Russian Equity Fund
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Investment management company report

The manager of the investment fund CBL Russian Equity Fund (hereinafter the Fund) is investment management company CBL Asset Management, registered office Republikas laukums 2a, Riga, LV-1010 (hereinafter the Company). The Company was founded on 11 January 2002. The Company's registration number is 40003577500. The Company's operating license number is 06.03.07.098/367, which was last re-registered on 19 January 2015.

The Fund aims to achieve long-term capital appreciation by investing primarily in equities of companies that are registered or carry out principal activities in the Russian Federation. Income of the Fund consists of appreciation of equity shares and dividends received. The base currency of the Fund is US dollar.

Russian equities posted impressive performance during 2016, as RTS index surged by 52.2% over the year, thereby delivering the strongest return after Brazil among the core Emerging Markets space, which on aggregate gained 8.6% (MSCI EM index).

Such solid results primarily reflected substantial recovery of commodity markets, and particularly oil, which skyrocketed by 52.4% in 2016 and contributed to faster than expected economic recovery in Russia. In addition, we witnessed stabilization of geopolitical risks and change of leadership in the US, which built up hopes for gradual sanctions relief. Last but not least, Russian equities also benefited from improvement in appetite for risk, as following the Trump's victory and significant economic reform promises, investors started to expect acceleration in global economic growth.

Russian equities demonstrated rather volatile start of the year, as the sentiment around the Emerging markets space was undermined by concerns about slowing global economic growth and prospects of the US Federal Reserve monetary policy tightening, which intensified commodity rout and triggered Chinese equity market freefall. Nevertheless, Russian equity market started its ascend from the second part of February owing to positive momentum in oil prices and decision by the president Putin to start withdrawing Russian military from Syria. Unfortunately, in May investors had to sharply re-price the Fed's monetary policy intentions, which triggered a correction of risk assets, bringing impressive three month rally of Russian equity market to a halt. In addition, investors were disappointed by the failure of the Russian government's initiative to push a 50% dividend payout based on IFRS net income from the state companies, as Gazprom successfully lobbied much more modest dividend payments. Meanwhile, in June global headlines were dominated by the Britain's referendum on the EU membership. However, the turbulence caused by the unexpected 'Leave' camp winning the vote has been surprisingly short-lived, and Russian equities closed the month above the waterline. Russian equities continued trading sideways until the end of summer, reacting to volatile oil prices. Nevertheless, the market entered autumn period on a positive note, as the State Duma elections expectedly produced a constitutional majority for the ruling United Russia party. However, the strongest market rally started in November, when the last minute deal between OPEC members and Russia to cut output propelled oil prices. Russian equity market got additional momentum from Donald Trump's victory in the US presidential elections. Investors started to expect faster normalization of political ties between the two countries and more pragmatic approach to international issues, as well as built-up hopes for partial sanctions removal. The rally strengthened in December on the back of another jump in oil price, which continued to digest the agreement on output cut. Investors were also encouraged by the privatization of the 19.5% Rosneft stake to the Glencore and Qatar Investment Authority consortium for USD 11bn, which became the biggest international investment in Russia since the Ukrainian crisis.

During the year, we increased the share of Consumer sector of the Fund's net asset value due to signs of recovery in domestic consumption. Also, the weight of Financial sector was substantially increased on the back of improvement in overall macroeconomic stability in Russia. In particular, we increased allocation to Sberbank, which demonstrated a pick-up in profit margins and stabilization of asset quality over the year. On the other hand, the weights of Energy and Telecommunication sectors were reduced.

In the end of the reporting period, Energy (28.5%), Materials (19.0%), and Consumer (12.1%) sectors were the largest within the Fund. During the reporting period, Energy, Materials, and Financials contributed the most to the Fund's performance. All other sectors with exception of Information Technology also contributed positively to the performance, but to a lesser extent.

In 2016, the Fund's net assets increased by 10.11% or by EUR 380,645 and represented EUR 4,146,492 at the end of the year. As at 31 December 2016, gross assets amounted to EUR 4,155,285. At the same time, the value of the unit of the Fund over the year increased by EUR 5.45, amounting to EUR 16.04. The total return of the Fund in 2016 was 51.29% in euro terms and 45.74% in terms of the Fund's base currency (USD).

IF CBL Russian Equity Fund
Annual Report for 2016
Investment management company report

During the reporting period, the Fund's assets were used to cover the management costs in the amount of USD 106,219 (EUR 100,622), which is equal to 2.39% of the average net asset value and does not exceed the ceiling of 4.00% prescribed in the Fund prospectus.

Since the end of the reporting year to the date of the approval of the report, there have been no events that would significantly affect the financial position of the Fund.


Looking forward to 2017, the manager expects the performance of Russian equities to be determined by combination of oil prices, geopolitical developments, and global demand for risk. On the other hand, we expect to witness further improvement in macro data. Preliminary estimates by the Federal State Statistics Service showed that in 2016 Russia's GDP contracted by modest 0.2%, comfortably beating forecasts. Moreover, the economy is expected to return to growth in 2017, which should provide some degree of support to local equity market.



Uldis Upenieks
Chairman of the Board



Andris Kotāns
Investment Committee Member



Igors Lahtadirs
Investment Committee Member



Elchin Jafarov
Investment Committee Member

Riga,
27 April 2017

**IF CBL Russian Equity Fund
Annual Report for 2016**

Statement of responsibility of the Board of the investment management company

The Board of Investment Management Company (hereinafter - the Company) is responsible for preparation of financial statements of the investment fund CBL Russian Equity Fund (hereinafter - the Fund).

The financial statements on pages 8 to 24 are prepared based on source documents and present fairly the financial position of the Fund as at 31 December 2016 and the results of its operations in 2016.

Financial statements mentioned above are prepared in accordance with the International Financial Reporting Standards adopted by the European Union, as required by the regulation of the Financial and Capital Market Commission (FCMC) "On preparation of annual reports, consolidated annual reports and semi-annual reports of investment fund and open alternative investment fund" on a going concern basis. Appropriate accounting methods have been consistently applied in the reporting period. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The Board of the Company is responsible for the maintenance of proper accounting records, the safeguarding of CBL Russian Equity Fund assets and the prevention and detection of fraud and other irregularities. The Board is also responsible for ensuring compliance with the Law on Investment Management Companies, regulations of the Financial and Capital Market Commission and other laws and regulations of the Republic of Latvia.



Uldis Upenieks
Chairman of the Board

Riga,
27 April 2017

Riga, February 18, 2017

CUSTODIAN BANK REPORT

For holders of IF "CBL Russian Equity fund"
Investment fund applications

With this Citadele Bank JSC, which is registered in LR Enterprise register on June 30, 2010 with No. 40103303559 and located at 2a Republikas square, Riga, certifies, that:

According to the law "On investment companies" of Republic of Latvia, regulations of Financial and Capital Market Commission (FCMC), other requirements of LR legislation and contract with Custodian bank, which is concluded on the April 13, 2007, Citadele Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for the IF "CBL Russian Equity fund" (further in the text – Fund) founded by IPAS "CBL Asset Management";

Custodian is responsible for fulfilling of Custodian bank contract and requirements of LR legislation related to custodian banks. The main obligations of the Custodian are the following:

- to store assets of the Fund, as well as documents, which confirm title according to the requirements of LR legislation;
- to ensure maintenance of the Fund account, reception and execution of Company's orders, as well as performance of transactions according with requirements of LR legislation and current market practice;
- to ensure the Company with regular reports on assets of the Fund and its value (prices of the securities);
- to follow the correctness of the value of the Fund and its certificates set by the Company and its conformity with LR legislation acts;
- to follow the correctness and legal status of issuing, sales and repurchasing of investment certificates performed by the Company;

Issuing, sales and repurchasing of the investment certificates is performed according to the requirements of the law "On investment companies", fund prospect and Fund management regulations; Storage of the Fund assets is performed according to the requirements of the law "On investment companies" and Custodian bank contract;

Calculation of the net value of the Fund assets is performed according to the requirements of the law "On investment companies", regulations of Financial and Capital Market Commission (FCMC), Fund prospect and Fund management regulations;

Orders of the Company, as well as transactions with the assets of IF "CBL Russian Equity fund" are performed according to the requirements of the law "On investment companies", Fund prospect and Fund management regulations and Custodian bank contract .

In the accounting period no mistakes and illegal matters were observed in performance of the Company with Fund assets. Citadele bank JSC is very satisfied with co-operation in performing of the functions of Custodian bank.

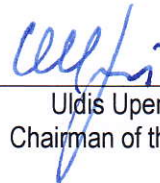


Guntis Beļavskis
Chairman of the Board, p.p.

IF CBL Russian Equity Fund
Annual Report for 2016
Statement of assets and liabilities
(EUR)

| Note | <u>31.12.2016</u> | <u>31.12.2015</u> |
|--|-------------------|-------------------|
| Assets | | |
| 3 | 256,555 | 236,208 |
| <i>Financial assets held for trading</i> | | |
| 4 | 3,898,351 | 3,537,951 |
| | 379 | - |
| | <u>4,155,285</u> | <u>3,774,159</u> |
| Liabilities | | |
| 5 | (8,793) | (8,312) |
| | <u>(8,793)</u> | <u>(8,312)</u> |
| | <u>4,146,492</u> | <u>3,765,847</u> |

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.




Uldis Upenieks
Chairman of the Board

Riga,
27 April 2017

IF CBL Russian Equity Fund
Annual Report for 2016
Statement of income and expenses
(EUR)

| Note | 2016 | 2015 |
|-------------------------------------|------------------|------------------|
| Income | | |
| 6 | 515 | 952 |
| | 159,075 | 198,759 |
| | 243 | - |
| | 159,833 | 199,711 |
| Expenses | | |
| | (84,165) | (87,828) |
| | (7,169) | (7,402) |
| | (9,288) | (12,070) |
| | (100,622) | (107,300) |
| Increase in investment value | | |
| 7 | 569,832 | (307,574) |
| 8 | 730,304 | 670,861 |
| | 1,300,136 | 363,287 |
| | 331,122 | 113,134 |
| | 1,690,469 | 568,832 |

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.



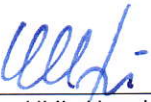
 Uldis Upenieks
 Chairman of the Board

Riga,
 27 April 2017

IF CBL Russian Equity Fund
Annual Report for 2016
Statement of changes in net assets
(EUR)

| | 2016 | 2015 |
|---|------------------|------------------|
| Net assets at the beginning of the reporting period | 3,765,847 | 3,583,380 |
| Increase in net assets from investment | 1,690,469 | 568,832 |
| Transactions with share certificates | | |
| <i>Inflow from sale of share certificates</i> | 147,723 | 203,414 |
| <i>(Outflow) on redemption of share certificates</i> | (1,457,547) | (589,779) |
| Decrease in net assets from transactions in share certificates | (1,309,824) | (386,365) |
| Net asset increase during the reporting period | 380,645 | 182,467 |
| Net assets at the end of the reporting period | 4,146,492 | 3,765,847 |
| The number of share certificates issued as at the beginning of the reporting period | 355,707 | 385,544 |
| The number of share certificates issued at the end of the reporting period | 258,490 | 355,707 |
| Net assets per investment certificate as at the beginning of the reporting period | 10.59 | 9.29 |
| Net assets per investment certificate as at the end of the reporting period | 16.04 | 10.59 |

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.



 Uldis Upenieks
 Chairman of the Board

Riga,
 27 April 2017

IF CBL Russian Equity Fund
Annual Report for 2016
Cash flow statement
(EUR)

| | 2016 | 2015 |
|--|--------------------|------------------|
| Interest income | 515 | 952 |
| Other income | 243 | - |
| Dividend income | 159,075 | 198,759 |
| Investment management expenses | (95,518) | (107,450) |
| Acquisition of financial investments | (2,125,609) | (2,218,914) |
| Sale of financial investments | 3,394,306 | 2,154,998 |
| Foreign currency translation result | (436) | 209 |
| Increase in cash and cash equivalents from operating activities | 1,332,576 | 28,554 |
| Inflow from sale of share certificates | 147,723 | 203,414 |
| (Outflow) on redemption of share certificates | (1,457,547) | (589,779) |
| (Decrease) in cash and cash equivalents from financing activities | (1,309,824) | (386,365) |
| Increase/(decrease) in cash and cash equivalents | 22,752 | (357,811) |
| Cash at the beginning of the reporting period | 236,208 | 555,783 |
| Result of revaluation of foreign currency | (2,405) | 38,236 |
| Cash at the end of the reporting period | 256,555 | 236,208 |

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.



Uldis Upenieks
Chairman of the Board

Riga,
27 April 2017

IF CBL Russian Equity Fund
Annual Report for 2016
Notes
(EUR)

1. General information

| | |
|-------------------------------------|--|
| Name of the Fund: | CBL Russian Equity Fund |
| Type of the Fund: | Investment fund |
| Scope of the Fund: | Investing primarily in equities of companies that are registered or carry out their core activities in the Russian Federation. |
| Investment management company name: | CBL Asset Management IPAS (hereinafter the Company) Republikas laukums 2a, Riga, LV-1010, Latvia |

2. Summary of significant accounting policies

Basis of preparation

Financial statements of IF CBL Russian Equity Fund (hereinafter - the Fund) are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS), as required by the regulation of the Financial and Capital Market Commission (FCMC) On preparation of annual reports, consolidated annual reports and semi-annual reports of investment fund and open alternative investment fund.

The financial statements are prepared on a historical cost basis and adjusted for the fair value of the financial instruments held for trading.

The monetary unit used in the financial statements is the euro (EUR), the official currency of the Republic of Latvia. The financial statements cover the period 1 January 2016 through 31 December 2016.

Opening balances of Statement of assets and liabilities as at 1 January 2016 agree with the closing balances of the published financial statements for the year 2015.

Functional and financial reporting currency

The functional currency of the Fund is US dollar, but in accordance with FCMC requirements, the Fund also maintains accounts in Latvian currency - euro.

Significant estimates and assumptions

The preparation of financial statements in conformity with IFRS as adopted by the EU requires making of substantial assumptions. Moreover, when preparing the financial statements, the management of the Company has to make assumptions and judgments to apply the Fund's accounting policy. Preparation of financial statements in compliance with IFRS as adopted by EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures in the financial statements at the date of financial statements, as well as income and expenses recognized in the reporting period.

The most significant estimates and assumptions relate to determination of fair value of financial assets.

Income and expense recognition

All interest income and expenses are recognized on an accrual basis.

Interest income and expenses are recognized in the income statement based on the effective interest rate of on the asset/liability. Interest income and expenses include discount or premium amortization or other difference between the book value of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.

Income from dividends is recognized as received; in certain cases income from dividends may be recognized following a decrease in stock prices after the issuer has announced the dividend payment.

Remuneration for Fund's management and Custodian fee is calculated as a certain part of the value of Fund's assets, accrued on a daily basis but paid out on a monthly basis.

Foreign currency revaluation

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**Notes
(EUR)**

Transactions in foreign currencies are translated into euro at the foreign exchange rate published by the European Central Bank as at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into euro according to the foreign exchange rate published by the European Central Bank as at the end of the last day of the reporting period. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to both functional and presentation currency at the exchange rate at the date that the fair value was determined. Profit or loss arising from changes in foreign exchange rate is charged to the profit and loss statement as profit or loss on revaluation of foreign exchange positions.

The exchange rates (foreign currency units against EUR) published by the European Central Bank that were mainly applied when preparing the Statement of Assets and Liabilities of the Fund were as follows:

| <u>Currency</u> | <u>31.12.2016</u> | <u>31.12.2015</u> |
|-----------------|-------------------|-------------------|
| USD | 1.05410 | 1.0887 |
| GBP | 0.85618 | 0.73395 |
| RUB | 64.3000 | 80.6736 |
| HKD | 8.17510 | 8.43760 |

Cash and cash equivalents

The Fund's cash and cash equivalents represent all balances due from credit institutions.

Fair value of financial assets and liabilities

Fair value of financial assets and liabilities represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

Financial instruments

Financial instruments are classified into the following categories: instruments measured at fair value through profit or loss and loans and receivables. Classification depends on the purpose of acquisition of the financial instrument. Management determines the classification of the financial instrument at initial recognition.

Financial instruments measured at fair value through profit and loss

Financial assets measured at fair value through profit and loss are financial assets that are purchased or acquired for the purpose of selling in the near future or that are classified as measured at fair value through the profit or loss after initial recognition. All Fund's investments in securities are classified as securities held for trading. The result of re-measuring trading securities at fair value is included in the statement of income and expense as increase/ (decrease) in investment.

Securities are revalued on the basis of financial information provided by Bloomberg and Russian Stock Exchange on the market demand (bid) prices of these securities. Unlisted securities are assessed according to the custodian's information on effected transactions, but in case such information is not available, the securities are assessed at amortized cost. Purchase and sales transactions with securities are recognized at the settlement date. The historical cost is measured using the FIFO (first in, first out) method.

IFRS as adopted by EU determines the hierarchy of financial instrument fair value assessment techniques, based on whether observable market data are used when determining the fair value of financial instruments or whether such data are unavailable. All financial assets at fair value are classified in the 1st level category of this assessment technique. In order to determine the fair value, quoted market prices in an active market are used (unadjusted). This level includes publicly traded equities and debt securities, as well as other financial instruments traded on the stock exchange.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include amounts due from credit institutions. Fund's claims against credit institutions are carried at their amortized cost using the effective interest rate method less impairment, if any.

Provision for impairment of receivables is created when there is objective evidence that the Fund will not be able to collect the full amount due according to the original repayment terms. Provision for impairment is defined as the difference between the amortized cost and the recoverable amount.

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Derivative financial instruments

For risk management purposes the Fund may engage in transactions with derivatives. For accounting purposes, all derivatives are classified as held for trading and are accounted for as follows,

Subsequent to initial recognition and determination of value, agreements are recognized in the balance sheet at their fair value. The fair value of these agreements is included in the statement of assets and liabilities as *Derivatives* and their relative value is disclosed in the Notes to the financial statements.

Profit or loss arising from changes in claims and liabilities that arise from the agreements are charged to the profit or loss statement as the result of foreign currency revaluation.

Taxes

Fund's income is subject to taxes in the country where it has been generated. The Fund is not subject to Latvian corporate income tax payments.

Changes in accounting policies

The Fund has consistently applied the accounting policies through all the periods presented in these financial statements, except for the changes described below.

The Fund has considered the following new standards and amendments to standards, including the resulting amendments to other standards, whose initial effective date was 1 January 2016, and have concluded that they do not apply to the Fund.

- IFRS 11 : *Accounting for Acquisition of Interests in Joint Operations*
- IAS 1: *Presentation of Financial Statements*
- IAS 16: *Property, Plant and Equipment* and IAS 38: *Intangible Assets*
- IAS 16: *Property, Plant and Equipment* and IAS 41: *Agriculture*
- IAS 19: *Benefit Plans: Employee Benefits*
- IAS 27: *Separate Financial Statements*
- Annual amendments to IFRS

New standards and interpretations

Several new standards, amendments and interpretations of standards enter into force in the period after 1 January 2017, and they have not been applied in these financial statements. Standards and interpretations applicable to the Fund are described below. There are no plans to apply these standards to the Fund before the prescribed time.

(i) IFRS 9: *Financial instruments* (2014) (In force for the period beginning on January 1, 2018 or later, and with certain exceptions will be applied retrospectively. There is no requirement to reclassify comparative data and it is only allowed if the information is available without revaluation. Earlier application is permitted.)

This standard is the replacement of IAS 39 *Financial Instruments: Recognition and Measurement* specifying an exception with regard to hedge accounting where IAS 39 can still be applied and companies may choose whether to apply the IFRS 9 or IAS 39.

Although permissible basic categories of financial asset classification are similar to those provided for in IAS 39 - amortized cost, fair value reported in other comprehensive income (FVOCI) or fair value reported at profit or loss statement (FVPL), the classification in the respective valuation category is based on significantly different criteria.

Financial assets are valued at amortized cost if they meet the following two criteria:

- the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In addition, the Fund may permanently choose to charge any changes in fair value (including profit or loss from fluctuations in foreign exchange rates) of equity instruments that are not actively traded to other comprehensive income. They may not, in any circumstances, be charged to the profit or loss statement.

Interest income, expected credit losses or gains or losses from foreign exchange fluctuations of debt instruments that are measured at fair value through other comprehensive income are recognized in the profit or loss statement in the same way as those derived from the assets recognized at amortized cost. Other gains and losses are recognized in other comprehensive income and transferred to profit or loss after the respective instruments are derecognized.

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Notes
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IFRS 9 introduces a new expected loss impairment model replacing the 'incurred loss model' of IAS 39, which means that the impairment provision will have to be recognized before the loss event.

IFRS 9 introduces a new comprehensive hedge accounting model, aligning the hedge accounting with risk management. The risk hedging methods: fair value hedge, cash flow hedge and hedge of a net investment in a foreign operation remain unchanged, yet, additional judgments will have to be made for classification purposes.

The standard includes new requirements, based on which the hedge accounting shall be commenced, continued and terminated, and this allows for additional exposures to be designated as hedged items.

The Fund will have to disclose extensive additional information on risk management and the performed hedging transactions.

It is not expected that IFRS 9 (2014) will significantly affect the financial statements of the Fund. Taking into account the activities of the Fund and its financial instruments, it is not expected that the introduction of the requirements specified in IFRS 9 will change classification and valuation of financial instruments.

(ii) IFRS 15 *Revenue from Contracts with Customers* (effective for accounting periods beginning on 1 January 2018 or later. Earlier application is permitted.)

The new standard replaces the currently effective IFRS guidelines on the recognition of revenue. To determine when and to what extent revenue shall be recognized, companies will have to use a five-step model. The new model provides that the entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Depending on whether certain criteria are met, revenue is recognized:

- over time, reflecting the company's financial results; or
- when the control over goods or services is transferred to the customer.

IFRS 15 prescribes principles that should be followed to provide useful qualitative and quantitative information to users of financial statements, enabling them to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Even though the initial assessment of the potential impact of IFRS 15 on financial statements have not yet been completed, the management does not expect that the initial application of the new standard will significantly affect financial statements of the Fund.

(iii) IFRS 16 *Leases* (effective for accounting periods beginning on 1 January 2019 or later. Earlier application is permitted if the company also applies IFRS 15). IFRS

16 replaces IFRS 17 *Leases* and its interpretations. This standard cancels the double accounting model currently applied by lessees and instead prescribes that most leases shall be recognized in the balance sheet under a single model, abolishing classification of leases as operating or finance.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new lease model prescribes that in the case of such contract a lessee recognizes a right-of-use asset and a lease liability. With regard to the right-of-use asset depreciation must be assessed and interest expense must be recognized with regard to the liability on accrual basis. As a result, most of the lease expenses will be recognized at the beginning of the lease period, even in cases where the lessee will pay the same amount each year.

The new standard offers the lessees several exceptions restricted as to their volume, which include:

- lease with a term not exceeding 12 months without a buy-out option, and
- lease of an asset with a low value.

The introduction of the new standard will not affect the accounts of lessors where the difference between the operational and financial lease will be retained.

It is not expected that application of the new standard will significantly affect financial statements of the Fund, as no contracts within the scope of IFRS 16 have been concluded

(iv) Amendments to IFRS 2 : *Classification and Measurement of Share-based Payment* (effective for the reporting period that begins on 1 January 2018 or later; must be applied retrospectively. Earlier application is permitted).

Amendments clarify the accounting for share-based payments in the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and

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- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

It is expected that at the time of the initial application these amendments will not substantially affect the Fund's financial statements as no share-based payments are being performed.

(iv) Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (IASB has not yet determined the effective date but earlier application is permitted).

The Amendments clarify that recognition of gains or losses from a transaction with associate or joint venture depends on whether the sold or invested assets constitute a business, thus:

- the full amount of gain or loss resulting from a transaction between the investor and its associate or a joint venture is recognized if in the framework of the transaction an asset or assets that constitute a business (disregarding whether it is a part of the subsidiary) are being transferred, but
- only a part of the gain or loss resulting from the transaction between the investor and its associate or a joint venture is recognized if in the framework of the transaction assets that do not constitute a business are being transferred, even if these assets are a part of the subsidiary).

It is not expected that at the time of the initial application these amendments will significantly affect financial statements of the Fund, as the Fund has no subsidiaries, associated companies or joint ventures.

(vi) Amendments to IFRS 7 (effective for accounting periods beginning on 1 January 2017 or later. Earlier application is permitted).

The Amendments prescribe additional disclosures that will help users to assess the changes in liabilities from financing activities, including changes resulting from cash flows and other changes (for example, profit or loss from foreign exchange fluctuations, changes incurred in gaining or losing control over subsidiaries, changes in fair value).

It is expected that at the time of the initial application these amendments will not substantially affect the Fund's financial statements.

(vii) Amendments to IAS 12 : *Recognition of Deferred Tax Assets for Unrealized Losses* (effective for reporting periods beginning on or after 1 January 2017; must be applied retrospectively. Earlier application is permitted).

The Amendments clarify how and when, in specific circumstances, the deferred tax assets must be recognized, and explain how to determine future taxable income to consider the recognition of the deferred tax asset.

It is expected that at the time of the initial application these amendments will not affect the Fund's financial statements as the Fund is not subject to corporate income tax.

(viii) Amendments to IAS 40 *Transfers of Investment Property* (effective for accounting periods beginning on or after 1 January 2018; must be applied retrospectively).

The Amendments reinforce the principle prescribed in IAS 40, *Investment property*, regarding the transfer of assets to, or from, investment property, stating that reclassification may only be performed when there has been a change in use of the property. In accordance with the Amendments, reclassification may only be performed when the type of use has actually changed, i.e. the asset meets, or ceases to meet, the definition of investment property and there was an evident change in use. Reclassification may not be based solely on management's intentions for the use of a property.

It is expected that at the time of the initial application these amendments will not affect the Fund's financial statements as the Fund does not hold investment property.

(ix) IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (effective for reporting periods beginning on or after 1 January 2018).

The Interpretation clarifies how to determine the date of transaction in order to establish the effective foreign exchange rate to be used for the initial recognition of an underlying asset, expense or revenue (or its part) or derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in foreign currency. In these circumstances, the date of the transaction is the date of initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

It is not expected that at the time of its initial application this interpretation will have significant impact on the financial statements of the Fund because, for initial recognition, the Fund uses the foreign currency exchange rate effective on the transaction date.

Annual improvements — 2014-2016 cycle were published on 8 December 2016 introducing two amendments in two standards and further amendments to other standards and interpretations resulting thereof, changing the accounting principles applicable to

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information disclosure, recognition or valuation. Amendments to IFRS 12, *Disclosure of Interests in Other Entities* are effective for reporting periods starting on or after 1 January 2017, and Amendments to IAS 28, *Investments in Associates and Joint Ventures* are effective for reporting periods starting on or after 1 January 2018 and must be applied retrospectively. Earlier application is permitted.

It is not expected that either of these amendments will significantly affect the financial statements of the Fund.

It is planned to implement the above standards and interpretations of their effective date.

3. Due on demand from credit institutions

| | 31.12.2016 | 31.12.2015 | % of the Fund's net assets as at 31.12.2016 |
|--|----------------|----------------|---|
| Due on demand from credit institutions, AS Citadele Banka | 256,555 | 236,208 | 6.19% |
| Total demand deposits with credit institutions | 256,555 | 236,208 | 6.19% |

For cash on demand the Fund received interest income (until 30.11.2016) calculated at fixed rate.

4. Shares

| | 31.12.2016 | 31.12.2015 | % of the Fund's net assets as at 31.12.2016 |
|---|------------------|------------------|---|
| Corporate shares | 3,898,351 | 3,537,951 | 94.02% |
| Shares of companies in non-OECD countries | 3,834,771 | 3,537,951 | 92.48% |
| Shares of companies in OECD countries | 63,580 | - | 1.54% |
| Total shares | 3,898,351 | 3,537,951 | 94.02% |

All commercial company shares are classified as held for trading securities.

As at 31 December 2016, all shares owned by the Fund are traded on regulated markets.

The following table presents the distribution of the shares by the issuer's country of origin:

| Financial instrument | ISIN code | Currency | Amount | Acquisition value (EUR) | Carrying value as at 31.12.2016 | % of the Fund's net assets as at 31.12.2016 |
|--|--------------|----------|-----------|-------------------------|---------------------------------|---|
| Financial instruments traded in regulated markets | | | | 2,980,164 | 3,898,351 | 94.02% |
| Shares of Russian issuers: | | | | 2,925,606 | 3,834,771 | 92.49% |
| SBERBANK | US80585Y3080 | USD | 33,800 | 236,009 | 369,232 | 8.90% |
| LUKOIL | US69343P1057 | USD | 6,670 | 234,739 | 354,982 | 8.56% |
| X5 RETAIL GROUP | US98387E2054 | USD | 9,000 | 147,712 | 276,122 | 6.66% |
| GAZPROM OAO | US3682872078 | USD | 55,000 | 228,542 | 263,129 | 6.35% |
| NOVATEK OAO | US6698881090 | USD | 1,600 | 111,008 | 196,414 | 4.74% |
| SURGUTNEFTEGAZ | RU0009029524 | RUR | 390,000 | 187,895 | 195,576 | 4.72% |
| YANDEX NV | NL0009805522 | USD | 10,000 | 153,571 | 192,961 | 4.65% |
| MOSCOW EXCHANGE MICEX-RTS OAO | RU000A0JR4A1 | RUR | 97,000 | 118,578 | 189,067 | 4.56% |
| ALROSA AO | RU0007252813 | RUR | 123,500 | 124,568 | 185,673 | 4.48% |
| MAGNIT PJSC | US55953Q2021 | USD | 4,300 | 146,043 | 179,938 | 4.34% |
| UNIPRO PJSC | RU000A0JNGA5 | RUR | 3,866,603 | 213,374 | 172,464 | 4.16% |
| ROSNEFT OIL | US67812M2070 | USD | 28,000 | 153,806 | 172,394 | 4.15% |
| NORILSK NICKEL | US55315J1025 | USD | 9,800 | 127,342 | 155,958 | 3.76% |
| MAGNITOGORSK IRON & STEEL WORKS | US5591892048 | USD | 23,500 | 62,883 | 155,611 | 3.75% |
| MEGAFON PJSC | US58517T2096 | USD | 15,800 | 153,360 | 141,647 | 3.42% |
| NOVOLIPETSK STEEL OJSC | US67011E2046 | USD | 8,000 | 85,561 | 141,163 | 3.40% |
| SISTEMA JSFC | US48122U2042 | USD | 13,500 | 88,960 | 114,880 | 2.77% |

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| Financial instrument | ISIN code | Currency | Amount | Acquisition value (EUR) | Carrying value as at 31.12.2016 | % of the Fund's net assets, 31.12.2016 |
|-------------------------------------|--------------|----------|--------|-------------------------|---------------------------------|--|
| MAIL.RU GROUP LTD | US5603172082 | USD | 5,000 | 114,411 | 87,041 | 2.10% |
| SEVERSTAL OAO | US8181503025 | USD | 5,800 | 51,525 | 82,755 | 2.00% |
| TMK OAO | US87260R2013 | USD | 9,075 | 60,868 | 43,907 | 1.06% |
| LENTA LTD | US52634T2006 | USD | 5,800 | 28,279 | 43,964 | 1.06% |
| QIWI PLC | US74735M1080 | USD | 2,800 | 27,323 | 34,107 | 0.82% |
| GLOBALTRANS INVESTMENT PLC | US37949E2046 | USD | 5,616 | 20,443 | 33,512 | 0.81% |
| ETALON GROUP LTD | US29760G1031 | USD | 9,786 | 29,316 | 29,662 | 0.72% |
| PHOSAGRO | US71922G2093 | USD | 1,563 | 19,490 | 22,612 | 0.55% |
| VOLGA TERRITORIAL GENERATING | RU000A0HML36 | RUR | 1 | - | - | 0.00% |
| Shares of the Swiss issuers: | | | | 54,558 | 63,580 | 1.53% |
| LUXOFT HOLDING INC | VGG572791041 | USD | 1,200 | 54,558 | 63,580 | 1.53% |
| Total shares: | | | | 2,980,164 | 3,898,351 | 94.02% |

5. Accrued expenses

| | 31.12.2016 | 31.12.2015 |
|---|----------------|----------------|
| Accrued expenses for investment management company fees | (6,651) | (6,491) |
| Accrued expenses for custodian fees | (569) | (555) |
| Accrued expenses for professional services | (1,573) | (1,266) |
| Total accrued expenses | (8,793) | (8,312) |

6. Interest income

| | 2016 | 2015 |
|--|------------|------------|
| Due on demand from credit institutions | 515 | 952 |
| Total interest income | 515 | 952 |

Interest on the account balance was received from 1 January 2016 to 30 November 2016.

7. Realized increase/(decrease) in investment value

| | 2016 | 2015 |
|--|----------------|------------------|
| Proceeds from sale of investments in the reporting period* | 3,369,534 | 1,953,669 |
| Cost of investments sold during the reporting period | (2,847,270) | (3,361,586) |
| Appreciation of disposed investments recognized in prior reporting years | 47,568 | 1,100,343 |
| Total realized increase/(decrease) in investment value | 569,832 | (307,574) |

* Proceeds from sales (disposal) of investments in the reporting period are recognized based on the exchange rate effective at the security acquisition date.

8. Unrealized increase in investment value

| | 2016 | 2015 |
|--|----------------|----------------|
| From shares | 730,304 | 670,861 |
| Total unrealized increase in investment value | 730,304 | 670,861 |

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9. Changes in investment value

The following table reflects changes in investments in 2016:

| | 31.12.2015 | Increase during the reporting period* | Decrease during the reporting period | Total changes in investment | 31.12.2016 |
|---|------------------|---|--|--------------------------------|------------------|
| Financial investments held for trading | | | | | |
| Shares | 3,537,951 | 2,079,618 | (3,394,306) | 1,675,088 | 3,898,351 |
| Options | - | 45,991 | - | (45,612) | 379 |
| Total investments | 3,537,951 | 2,125,609 | (3,394,306) | 1,629,476 | 3,898,730 |

* Decrease during the reporting period is carried at the exchange rate at the date of sales of investments. This position includes proceeds from sales and disposal of investments and coupons received.

The following table reflects changes in investments in 2015:

| | 31.12.2014 | Increase during the reporting period | Decrease during the reporting period* | Total changes in investment | 31.12.2015 |
|---|------------------|--|---|--------------------------------|------------------|
| Financial investments held for trading | | | | | |
| Shares | 3,035,758 | 2,218,914 | (2,154,998) | 438,277 | 3,537,951 |
| Total investments | 3,035,758 | 2,218,914 | (2,154,998) | 438,277 | 3,537,951 |

* Decrease during the reporting period is carried at the exchange rate at the date of sales of investments. This position includes proceeds from sales and disposal of investments.

10. Pledged assets

In the reporting period, the Fund has neither issued any assurances or guarantees, nor has it pledged or encumbered any assets.

11. Fair value of financial assets and liabilities

The Management believes that the carrying values of financial assets and liabilities correspond to their fair values.

The Company classifies all financial assets under the 1st level category of fair value hierarchy. In the course of valuation, quoted market prices in an active market are used (unadjusted). This level includes publicly traded equities and debt securities, as well as other financial instruments traded on the stock exchange.

12. Risk management

Investment process risk can be defined as a probability of undesirable outcome that may materialize in a given market economy in a given period. Risk management is described as risk identification, measurement and its possible prevention. The investment process can be affected by the exchange rate risk, interest rate risk, risk of price changes, as well as credit risk, liquidity risk and other risks, including operational risk. The investment strategy of the Fund is aimed at minimizing the aforementioned risks, however, the Company cannot guarantee that these risks can be completely avoided in future.

Risk management structure

Risk identification and measurement is a responsibility of an independent unit - the Risk management department, which develops and presents the information on risk profile to the Fund manager. The Fund manager, however, can make certain decisions on the necessity to reduce existing or potential risks.

Risk measurement process employs models that are developed by the company, are based on historical data and are adjusted according to the economic situation. Certain models are also used to predict the financial risk factor changes under both normal and exceptional financial market circumstances.

The Manager of Investment Fund follows risk diversification and hedging principles whose objective is to reduce the investment risk that are developed in accordance with the Management Policy. When making investments on the Fund's account, the Company obtains sufficient information on potential or acquired investment objects, as well as supervises financial and economic position of issuers of the securities in which the Fund's property has been or is to be invested.

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When developing the Fund's investment strategy and setting risk limits, the Company performs an analysis of the Fund's distribution of maturity, geographic location and types of currency investments by assessing the risk level for each of these factors. The Company acts in strict compliance with the Prospectus of the Fund, Fund Management Regulations, as well as regulations and restrictions prescribed in laws and regulations of the Republic of Latvia.

Market risk

Market risk is the probability that the Fund's value may decrease when any of the market factors changes, for example, in case of changes in interest rates (interest rate risk), prices of securities (price change risk), foreign currency exchange rates (exchange rate risk) or other market risk factors. The assessment of each of these market risk sources is provided below, however, they cannot be fully diversified.

Price risk

Changes in prices of equity securities (shares) depend on two variables - changes in the respective national stock index (for Russian companies these are changes in the stock market index - RTS), and the particular issuer/s financial situation (in terms of capacity to generate profit), which in turn affects the fluctuations of the balance of supply and demand. The first variable is also often referred to as the systematic risk; whereas the second - as specific risk.

The systematic risk is managed based on forecasts regarding the overall economic development in the specific geographical region and the potential economic development of the industry. The specific risk is managed on the basis of detailed analysis of the issuer's financial situation and capacity to generate profit, as well as other factors affecting the price of the security mainly based on the reports published by the issuer, information in the mass media etc. Here the focus is on both price volatility (deviations) and their correlations. As a result, it is possible to calculate the overall price risk of the portfolio securities, taking into account their historical profitability.

As at the end of the reporting period the beta factor (which reflects the change in the Fund's profitability relative to the market profitability) was 0.75. Beta factor is calculated based on the data of the reporting year. The selected market index — RTS (Russian stock market index). Market index volatility is calculated as the standard deviation in the respective reporting period.

| Market volatility | Fund value volatility |
|-------------------|-----------------------|
| 33.51% | 25.26% |

As at the end of 2015, the beta factor was 0.72. Beta factor was calculated using the data of 2015. In 2015, RTS index (Russian stock market index) was selected as the market index. Market index volatility is calculated as the standard deviation in the respective reporting period.

| Market volatility | Fund value volatility |
|-------------------|-----------------------|
| 31.24% | 22.64% |

Exchange rate risk

Exchange rate risk arises when the nominal currency of securities and other financial instruments in the Fund differs from the Fund's currency (US dollar). Exchange rate fluctuations may cause profit or loss depending on the direction of exchange rate fluctuations and the currency's position in the Fund. Exchange rate risk can be hedged by the effect of diversification, which occurs when the Fund has several currencies and the exchange rate changes for these currencies are not closely linked.

The following table reflects the distribution of assets and liabilities of the Fund across currencies as at 31 December 2016:

| | EUR | USD | GBP | RUB | Total |
|--|----------------|------------------|------------|----------------|------------------|
| Assets | | | | | |
| Due on demand from credit institutions | 2,733 | 228,805 | 947 | 24,070 | 256,555 |
| Financial assets held for trading | | | | | |
| Shares | - | 3,155,571 | - | 742,780 | 3,898,351 |
| Option | - | 379 | - | - | 379 |
| Total assets | 2,733 | 3,384,755 | 947 | 766,850 | 4,155,285 |
| Liabilities | | | | | |
| Accrued expenses | (1,573) | (7,220) | - | - | (8,793) |
| Total liabilities | (1,573) | (7,220) | - | - | (8,793) |
| Net assets | 1,160 | 3,377,535 | 947 | 766,850 | 4,146,492 |
| <i>Net / (short) long position</i> | 0.03% | 81.46% | 0.02% | 18.49% | 100.00% |

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The following table reflects the distribution of assets and liabilities of the Fund across currencies as at 31 December 2015:

| | EUR | USD | GBP | RUB | Total |
|--|----------------|------------------|--------------|----------------|------------------|
| Assets | | | | | |
| Due on demand from credit institutions | 115 | 234,017 | 1,200 | 876 | 236,208 |
| Financial assets held for trading | | | | | |
| Shares | - | 2,852,510 | - | 685,441 | 3,537,951 |
| Total assets | 115 | 3,086,527 | 1,200 | 686,317 | 3,774,159 |
| Liabilities | | | | | |
| Accrued expenses | (1,266) | (7,046) | - | - | (8,312) |
| Total liabilities | (1,266) | (7,046) | - | - | (8,312) |
| Net assets | (1,151) | 3,079,481 | 1,200 | 686,317 | 3,765,847 |
| <i>Net / (short) long position</i> | (0.03%) | 81.77% | 0.03% | 18.22% | 100.00% |

The effects of exchange rate fluctuations on the value of Fund's net assets are shown in the table below. Exchange rate changes represent one year standard deviation of the particular rate.

| Effects of changes in exchange rate (2016) | | | | Effects of changes in exchange rate (2015) | | | |
|--|--|---|----------------------------|--|--|---|----------------------------|
| Currency | Proportion of the Fund (% of net assets) | Change in the exchange rate against USD | Impact on the Fund's value | Currency | Proportion of the Fund (% of net assets) | Change in the exchange rate against USD | Impact on the Fund's value |
| USD | 81.59% | 0.00% | 0.00% | USD | 81.78% | 0.00% | 0.00% |
| RUR | 18.32% | 19.61% | 3.59% | RUR | 18.22% | 25.65% | 4.67% |
| EUR | 0.07% | 8.27% | 0.01% | EUR | (0.03%) | 12.26% | 0.00% |
| GBP | 0.02% | 13.87% | 0.00% | GBP | 0.03% | 8.55% | 0.00% |
| Total | 100.00% | | 3.60% | Total | 100.00% | | 4.67% |

Concentration risk

Issuer's line of business and geographical position represent additional risk factors that may affect the price of the issuer's securities or solvency, therefore it is important to identify concentration risk - i.e., the extent to which the Fund's value depends on changes in certain regions and/or sectors. Geographical distribution of risk concentration (based on the country whose position affects the issuer's solvency the most) and distribution across sectors are presented in tables below.

The following table reflects the geographical distribution of assets and liabilities of the Fund as at 31 December 2016:

| | Latvia | Other OECD countries | Non-OECD countries | Total |
|--|----------------|----------------------|--------------------|------------------|
| Assets | | | | |
| Due on demand from credit institutions | 256,555 | - | - | 256,555 |
| Financial assets held for trading | | | | |
| Shares | - | 63,580 | 3,834,771 | 3 898 351 |
| Option | - | - | 379 | 379 |
| Total assets | 256,555 | 63,580 | 3,835,150 | 4,155,285 |
| Liabilities | | | | |
| Accrued expenses | (8,793) | - | - | (8,793) |
| Total liabilities | (8,793) | - | - | (8,793) |
| Net assets | 247,762 | 63,580 | 3,835,150 | 4,146,492 |

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The following table reflects the geographical distribution of assets and liabilities of the Fund as at 31 December 2015:

| | Latvia | Non-OECD countries | Total |
|--|----------------|--------------------|------------------|
| Assets | | | |
| Due on demand from credit institutions | 236,208 | - | 236,208 |
| Financial assets held for trading | - | 3,537,951 | 3,537,951 |
| Shares | - | 3,537,951 | 3,537,951 |
| Total assets | 236,208 | 3,537,951 | 3,774,159 |
| Liabilities | | | |
| Accrued expenses | (8,312) | - | (8,312) |
| Total liabilities | (8,312) | - | (8,312) |
| Net assets | 227,896 | 3,537,951 | 3,765,847 |

The following table reflects the distribution of assets and liabilities of the Fund across individual countries:

| Country | Carrying value as at 31.12.2016 | Carrying value as at 31.12.2015 | % of the Fund's net assets 31.12.2016 |
|--------------|------------------------------------|------------------------------------|--|
| Russia | 3,834,771 | 3,537,951 | 92.48% |
| Latvia | 247,762 | 227,896 | 5.98% |
| Switzerland | 63,580 | - | 1.53% |
| USA | 379 | - | 0.01% |
| Total | 4,146,492 | 3,765,847 | 100.00% |

The following table reflects the distribution of the Fund's securities portfolio across sectors.

| Sector | 31.12.2016 | 31.12.2015 | % of the Fund's net assets as at 31.12.2016 |
|----------------------------|------------------|------------------|---|
| Energy | 1,182,495 | 1,197,372 | 28.52% |
| Raw materials | 787,679 | 780,832 | 19.00% |
| Financial services | 587,961 | 353,065 | 14.18% |
| Consumer goods | 500,024 | 318,724 | 12.06% |
| IT services | 377,689 | 317,599 | 9.11% |
| Telecommunication services | 256,527 | 364,205 | 6.19% |
| Utilities | 172,464 | 151,312 | 4.15% |
| Industry | 33,512 | - | 0.81% |
| Logistics | - | 54,842 | 0.00% |
| Total | 3,898,351 | 3,537,951 | 94.02% |

Liquidity Risk

Liquidity risk can occur if the Fund is having difficulty in meeting its financial obligations. Fund Manager strives to maintain such asset structure which ensures a possibility of selling securities in due time and with no significant losses.

Investments in the Russian market are subject to increased risk that the market for various assets may temporarily lack liquidity. This may lead to a situation where it is not possible to sell financial instruments or other assets or they are sold for a reduced price.

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The following table reflects the maturity distribution of the Fund's assets and liabilities as at 31 December 2016:

| | Up to 1 month | 1-6 months | Indefinite | Total |
|--|------------------|----------------|------------------|------------------|
| Assets | | | | |
| Due on demand from credit institutions | 256,555 | - | - | 256,555 |
| Financial assets held for trading | | | | |
| Shares | - | | 3,898,351 | 3,898,351 |
| Derivative financial instruments | 379 | - | - | 379 |
| Total assets | 256,934 | | 3,898,351 | 4,155,285 |
| Liabilities | | | | |
| Accrued expenses | (7,220) | (1,573) | - | (8,793) |
| Total liabilities | (7,220) | (1,573) | - | (8,793) |
| Net assets | 249,714 | (1,573) | 3,898,351 | 4,146,492 |
| <i>Net position, %</i> | 6.02% | (0.04)% | 94.02% | 100.00% |

The following table reflects the maturity distribution of the Fund's assets and liabilities as at 31 December 2015:

| | Up to 1 month | 1-6 months | Indefinite | Total |
|--|----------------|----------------|------------------|------------------|
| Assets | | | | |
| Due on demand from credit institutions | 236,208 | - | - | 236,208 |
| Financial assets held for trading | | | | |
| Shares | - | - | 3,537,951 | 3,537,951 |
| Total assets | 236,208 | - | 3,537,951 | 3,774,159 |
| Liabilities | | | | |
| Accrued expenses | (7,046) | (1,266) | - | (8,312) |
| Total liabilities | (7,046) | (1,266) | - | (8,312) |
| Net assets | 229,162 | (1,266) | 3,537,951 | 3,765,847 |
| <i>Net position, %</i> | 6.08% | (0.03)% | 93.95% | 100.00% |

13. Information on the holders of the Fund's share certificates

The following table reflects the proportion of the share certificates held by related parties and other investors to the total number of the share certificates issued:

| | 31.12.2016 | 31.12.2015 | % of the total number as at 31.12.2015 |
|---|----------------|----------------|--|
| Share certificates held by related parties | 70 | 70 | 0.03% |
| Share certificates held by third parties | 258,420 | 355,637 | 99.97% |
| The number of share certificates issued at the end of the reporting period | 258,490 | 355,707 | 100.00% |

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14. Related party transactions

The majority of Fund's investments are acquired through the custodian bank. AS Citadele banka receives custodian fee, which is charged to the profit or loss (see Note 5); and cash of the Fund is also placed with AS Citadele banka (see Note 3).

Remuneration paid to the Investment Management Company in the reporting year is disclosed in the profit or loss statement. As of 26.10.2012, the custodian fee was changed to 0.18%. Since the entry into force of amendments to the Fund's principal documents, in accordance with the requirements of the Latvian laws and regulations and Directive 2009/65/EC, commission fees shall be determined as a percentage of average value of the Fund's net assets rounded to two decimal places.

During the reporting period and in 2015 related parties did not conduct any transactions with the Fund's share certificates. Purchase and re-selling transactions of the Fund's share certificates are calculated taking into account only the share certificates held by those related parties, which have been classified as related parties of the Fund in 2016 and 2015.

15. Investment Fund's performance dynamics

| | 31.12.2016 | 31.12.2015 | 31.12.2014 | 31.12.2013 |
|--|------------------|------------------|------------------|-------------------|
| Net assets (EUR) | 4,146,492 | 3,765,847 | 3,583,380 | 7,828,562 |
| The number of share certificates | 258,490 | 355,707 | 385,544 | 476,487 |
| The value of the unit of the Investment Fund (EUR) | 16.04 | 10.59 | 9.29 | 16.43 |
| Profitability of the Investment Fund** | 51.29% | 13.99% | (43.46%) | (3.13%) |
| Net assets (USD)* | 4,363,755 | 4,116,146 | 4,383,882 | 10,727,485 |
| The number of share certificates | 258,490 | 355,707 | 385,544 | 476,487 |
| The value of the unit of the Investment Fund (USD) | 16.88 | 11.57 | 11.37 | 22.51 |
| Profitability of the Investment Fund** | 45.74% | 1.76% | (49.49%) | 0.27% |

* Net asset value is translated to US dollars using exchange rates determined in financial markets at the end of the day.

** Profitability is calculated, assuming there are 365 days in a year.



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Independent Auditors' Report

To the shareholders of Investment fund "CBL Russian Equity Fund"

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of Investment fund "Russian Equity Fund" ("the Fund"), which is managed by the investment management company "CBL Asset Management" ("the Company") set out on pages 8 to 24 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2016,
- the statement of comprehensive income for the year then ended,
- the statement of changes in shareholders' equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Investment fund "CBL Russian Equity Fund" as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Financial Statements* section of our report.

We are independent of the Fund and of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- Management report, as set out on pages 4 to 5 of the accompanying Annual Report,
- the Statement of responsibility of the Company's management, as set out on page 6 of the accompanying Annual Report,



Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Fund and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Report of the Company's council and management board, our responsibility is to consider whether the Report of the Company's council and management board is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulation No 46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies'.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management report has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia regulation No 46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies'.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue



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

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

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



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

KPMG Baltics SIA
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Ondrej Fikrle

Ondrej Fikrle
Partner pp
KPMG Baltics SIA
Riga, Latvia
27 April 2017

Inga Lipšāne

Inga Lipšāne
Sworn auditor
Certificate No 112