



Western NIS
Enterprise Fund



ADVANCING CHANGE THAT LASTS



Annual Report
2017

WESTERN NIS ENTERPRISE FUND

The Western NIS Enterprise Fund (WNISEF) is a \$150 million regional fund, a pioneering initiative in Ukraine and Moldova with over two decades of successful experience investing in small and medium-sized enterprises (SMEs). WNISEF was funded by the U.S. government via the U.S. Agency for International Development (USAID).

The Fund's original mission focused on developing small and medium-sized businesses, supporting solid corporate governance and transparency, and attracting additional capital to Ukraine, Moldova, and Belarus. Since its inception in 1994, WNISEF has provided loans, equity, grants, technical and other assistance to companies operating in a variety of sectors. This included financial institutions, agriculture, manufacturing, and services. WNISEF has invested \$168 million in 118 companies, employing over 25,000 people in Ukraine and Moldova. Since inception, WNISEF has unlocked an estimated \$1.5 billion of capital for Ukrainian and Moldovan companies based on the original \$150 million grant from USAID.

In March 2015, USAID approved the launch of a \$30 million Legacy Program funded by a portion of the profits earned from investment activities. The program focuses on export promotion, local economic development, impact investing and economic leadership. In April 2016, USAID approved i) expanding the Legacy Program to \$35 million; ii) \$5 million earmarked for direct investments in SMEs, primarily start-ups; and iii) a \$30 million commitment to Emerging Europe Growth Fund III, L.P. (EEGF III), a fund launched by Horizon Capital and focused on providing financing to SMEs in Ukraine and Moldova. In June 2017, the Fund committed \$30 million to EEGF III.

In November 2017, WNISEF launched U.Ventures, a new \$5 million fund for early stage technology startups offering co-financing and scaling assistance for Seed to Series A startups with Ukrainian or Moldovan co-founders.

This new activity inspired the wording for the new mission of the Fund: Transforming the lives of ordinary people in Ukraine and Moldova. Presently, WNISEF is funding innovative, transformational, reform-focused programs. The Fund aims to support both countries in this critical period by fostering the development of sound economic policies and leadership.

We are proud to share details of this new phase in our investment activities and the third year of our Legacy Program, marked by the launch of new projects, the expansion of fruitful cooperation with local partners and continuation of learning from hundreds of individuals involved in our projects in Ukraine and Moldova.



USAID promotes peace and stability by fostering economic growth, protecting human health, providing emergency humanitarian assistance, and nurturing democracy in developing countries. USAID's work in transformational countries enables these nations to build the capacity to sustain their own progress. Since 1992, USAID has provided \$2 billion worth of technical and humanitarian assistance to Ukraine to further the processes of democratic development, economic restructuring and social reform in the region.

www.usaid.gov/ukraine



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LETTER FROM MANAGEMENT

“You never change things by fighting the existing reality. To change something, build a new model that makes the existing model obsolete.” This quote is attributed to the great American inventor and innovator Buckminster Fuller.

When Western NIS Enterprise Fund launched its Legacy Program for Ukraine and Moldova in 2015, change was in the air. The corrupt excesses of the regime terminated by the Revolution of Dignity in Ukraine, just as the bank fraud scandal in Moldova, left the countries’ citizens demanding change and motivated to achieve it.

However, as Fuller rightfully warns, change does not equal progress. With decades of experience investing in the region, the Fund understood that chasing change would not bring desired results. Realizing this, we used proceeds from successful exits of portfolio companies to set up the Legacy Program, which focused on long-term, systemic transformation as well as sustainability of the new projects we supported. This approach required additional time and effort before the results became apparent. Still, we reasoned that people would eventually feel the impact in their everyday lives and choose reform.

Three years later, our work is finally starting to bear fruit. In 2017, all four of the Legacy Programs reached significant milestones in their respective areas. The first SEED Grant alumni, MBA class 2015-2016, returned to their countries and began reintegrating into society. The Export Promotion Policy Program successfully supported development and adoption of the National Export Strategy, the first strategic document of its kind in Ukraine, which will determine the country’s export policy over the next five years. The first Impact Investing Program participants produced social investments in excess of the initial loan amount in advance of the loan’s maturation. Finally, the ProZorro e-procurement system supported by the Local Economic Development Program, emerged as a completely sustainable system mandated by Ukrainian law and financed by the government. The ProZorro model is now being replicated in Moldova.

In short, the Fund’s four Legacy Programs have clearly stayed true to their commitment of sustainability and have delivered irreversible impact on business and policy in the region for every citizen to see.

Moreover, as technological innovation is becoming an integral part of the global economic environment, the Fund launched the U.Ventures fund to stimulate tech startups and make sure that their founders remain in Ukraine and Moldova and continue working for the good of their citizens. The Fund’s other programs have also grown increasingly interconnected through innovation. For example, ProZorro’s Oleksandr Starodubtsev, one of the ‘agents of change’ from the Local Economic Development Program, went on to study at Stanford as part of the Economic Leadership Program. SEED Grant alumni Dmytro Okhrymchuk and Yevgeniy Stashenko returned to Ukraine to promote world-class standards and innovation in business and government. This is in addition to the numerous new education projects related to technology and innovation sponsored by the Fund, including BrainBasket, Aspire Academy, Technovation Challenge, Ukraine’s Innovative Mayor Rating and many others. As time goes on, we expect to see participants of these projects at the forefront of progress in Ukraine and Moldova, rebuilding their countries in response to future challenges.

We also expect the Legacy Program’s visible impact to continue growing thanks to the gradual transition from pilot projects to sustainable operations in all areas of involvement, as we systematize our approach, as the number of Program participants

and alumni grows. As additional co-sponsors join our initiatives and as more and more change reaches the people in their everyday lives, we will see individual changes transform into irreversible progress, a lasting legacy of development for Ukraine and Moldova well beyond the scope of the Legacy Program.

We would like to thank all members of the Western NIS Enterprise Fund Board of Directors and team, USAID in Washington and the Missions in Ukraine and Moldova, the U.S. Embassy in Kyiv and Chisinau and our business and government partners for their contribution to the development of democratic values and economic prosperity in Ukraine and Moldova. Together, we are advancing change that will transform the lives of people in the region for years to come.

Sincerely,



Dennis A. Johnson

Chairman of the Board



Jaroslawa Zelinsky Johnson

President and Chief Executive Officer

UKRAINE - KEY FIGURES 2017

Ukraine's economy continued to grow in 2017 with real GDP increasing by 2.5% YoY in 2017, following 2.4% YoY growth in 2016. This growth is driven mainly by domestic demand, primarily in non-industrial sectors. Industrial production remained flat. One of the major downward influences was the trade blockade of the occupied regions of the Donbas which halted all trade with separatist-controlled territories as of March 2017, most notably cutting off the supply of coal. GDP growth is expected to accelerate in 2018 with the Ukrainian Government and National Bank of Ukraine (NBU) forecasting growth of 3.0-3.4% YoY and IMF of 3.2% YoY.

Export-oriented companies and sectors enjoyed robust gains during 2017. Exports rose a tremendous 17% YoY following four consecutive years of decline, boosted by favorable global commodity prices as well as strong agricultural and service exports. Exports of goods to the European Union increased by 32% YoY in 2017, with the European market being the top destination for Ukrainian goods at 35% of total exports. Imports grew by 18% YoY, driven by both the domestic demand for energy and machinery purchases. The current account deficit remained in line with 2016, at \$3.8 billion in 2017 vs. \$3.5 billion in the previous year. 2017 also marked the return of foreign investment to Ukraine given stronger fundamentals. Net FDI in the real sector rose 66% YoY to \$1.7 billion in 2017, excluding higher effect of bank recapitalizations.

Privatization and land reforms were delayed by another year, while the lack of judicial reform and limited progress in combating corruption raised concerns about Ukraine's business climate. Failure to meet reform targets in 2017 resulted in Ukraine receiving only \$1 billion of IMF funding instead of the planned \$4 billion and caused the EU to cancel a €600 million tranche to Ukraine.

Absence of support from international financial institutions (IFIs) and still low level of FDI puts Ukrainian financial system at risk as the government must repay close to \$4.1 billion to international lenders in 2018, and \$6.5 billion in 2019. Without continued IFI financing, servicing of such debt may appear unsustainable and further restructuring costlier. The successful \$3 billion Eurobond issue in September somewhat offset this risk but serves only as a temporary solution. Against such public debt uncertainty, Ukrainian hryvnia (UAH) depreciated 3.1% on average compared to 2016.

On the positive side, Ukraine managed to keep its budget deficit at 1.6% of GDP. Thanks to a healthy fiscal policy by the Ministry of Finance, the NBU's gold and currency reserves grew to \$18.8 billion. Negotiations with the IMF are also underway to re-establish Ukraine's commitment and resume financing. Overall, macroeconomic experts claim that Ukraine could accelerate its GDP growth to 6-8% per year, given a significant boost in foreign investment. However, that would require a decisive reorientation toward the reform agenda and reestablishment of trust with key IFIs.

Indicators	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP Growth, %	4.1	5.5	0.2	0.0	(6.6)	(9.8)	2.4	2.5
Inflation End of Year, %	9.1	4.6	(0.2)	0.5	24.9	43.3	12.4	13.7
Average Exchange Rate, USD	7.9	8.0	8.0	8.0	11.9	21.8	25.6	26.6
Current Account Balance, % of GDP	(2.2)	(6.3)	(8.1)	(9.0)	(3.4)	1.8	(1.4)	(1.9)
External Debt (USD billions)	117.3	126.2	134.6	142.1	126.3	118.7	113.5	116.6
FDI (USD billions, net)	5.8	6.6	7.2	4.1	0.3	3.0	3.3	2.2

Sources: International Monetary Fund, National Bank of Ukraine, State Statistics Service of Ukraine

MOLDOVA – KEY FIGURES 2017

Moldova demonstrated healthy growth in 2017, primarily driven by strong private consumption which increased thanks to the recovery in remittances, increase in wages and the indexation of pensions in 2016. At the same time, imports also grew considerably (+20%) exceeding exports and resulting in a negative contribution to growth. On the production side, the main growth impulse came from the retail and wholesale trade. Industry remained in stagnation, while agriculture, the traditional growth driver in Moldova, grew by 8.6%.

On the monetary side, the National Bank of Moldova further lowered the interest rate to 6.5% while simultaneously raising the reserve requirement to 40% to combat excess liquidity. However, crediting remains weak, while inflation shot up to 7.3% by the year-end, which is in excess of the target 5%. The national currency, leu, remains weak, but has shown some recovery. As the exchange rate rebounded from 19.9 to 18.5 leu per 1 USD, the National Bank was able to increase its foreign reserves.

On the fiscal side, both revenues and expenditures demonstrated a double-digit nominal increase, resulting in a fiscal deficit of 3% of GDP. Current expenditures rose rapidly, focusing on subsidies to agriculture and procurement expenditures. Moldova remains dependent on external budget support, with foreign debt increasing from \$6.2 to \$7.0 billion in 2017. At the same time, the country remains “broadly on track” with the IMF support program, so foreign assistance can be expected to continue into 2018.

Moldova’s biggest challenge remains reliance on the growth of remittances, while the rest of the economy stagnates. The country continues to lose competition for export markets, labor and foreign investment in the region. Though the financial sector has been stabilized and cleansed following the 2014 banking crisis, additional reform is needed to ensure persistent financial stability. Further steps to improve the business climate, attract private investment and support economic diversification will be required to tackle the country’s competitiveness flaws and ensure consistent growth.

The above concerns are exacerbated by the political situation as the 2018 elections draw closer. IFIs have voiced concerns that Moldova’s commitment to reform and good fiscal practices could be tested by the upcoming vote as the government could be tempted to use budgetary and monetary expansion to mask some of the issues faced by the country’s economy. Moreover, the difficult competition between the pro-EU government and the opposition could put economic issues on the back burner.

Indicators	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP Growth, %	7.1	6.8	(0.7)	9.4	4.8	(0.4)	4.5	4.5
Inflation End of Year, %	8.1	7.8	4.1	5.2	4.7	13.6	2.4	7.3
Average Exchange Rate, USD	12.4	11.7	12.1	12.6	14.0	18.8	19.9	18.5
Current Account Balance, % of GDP	(7.5)	(11.7)	(7.5)	(6.1)	(7.1)	(7.2)	(4.2)	(7.6)

Sources: International Monetary Fund, National Bank of Moldova

EXPORT PROMOTION POLICY PROGRAM: FROM SEED PROJECTS TO DEVELOPMENT OF SUSTAINABLE INSTITUTIONS

Given their respective countries' hard-won Association Agreements (AA), coupled with their Deep and Comprehensive Free Trade Agreements (DCFTA), Ukrainian and Moldovan companies gained unprecedented trade and investment opportunities for engagement with the 28 countries of the European Union (EU). However, with few exceptions, most Ukrainian and Moldovan companies lacked the experience, capacity and support required to enter and compete in these markets; their governments lacked clearly defined National Export Strategies to help their companies capitalize on these new opportunities. Recognizing these critical shortcomings, WNISEF conceived and launched its Export Promotion Policy Program to work with both the public and private sectors in both countries and to provide them with the technical assistance required to successfully develop their international trade and investment capacities.

Since WNISEF launched its Legacy Program in 2015, the Export Promotion Policy Program registered an impressive list of accomplishments while also building a wide network of strategic alliances and making trade and investment development an important national priority in both Ukraine and Moldova. In March 2017, the Program achieved a major milestone with Ministry of Economic Development and Trade's (MEDT) rollout of a WNISEF-funded Strategic Trade Development Road Map (STDR) for Ukraine. Following inter-agency review, the STDR was formally approved by the Cabinet of Ministers of Ukraine in December 2017 as the Export Strategy of Ukraine for 2017-2021. It will now serve as Ukraine's action plan and the basis for export promotion policy for years to come. In addition to defining government-wide policy goals and objectives to effectively facilitate trade and investment development, the STDR also sets the stage for the development



of key economic sector strategies and the identification of approximately 40 best prospect markets for Ukraine's exporters.

This Program has in effect played a trail blazing role for export development in Ukraine. By placing primary emphasis on developing a National Export Strategy (NES) for Ukraine and working with MEDT to broaden and deepen Ukraine's exporter base through increased involvement of small and medium sized enterprises (SMEs), WNISEF effectively raised the level of discourse regarding the importance of trade and investment to the national economy. Furthermore, the Program has contributed to diversification of Ukraine's trade composition and the re-orientation of Ukraine's trade patterns towards the EU and other international markets outside of Ukraine's traditional export markets in the former Soviet Union.

The Program is credited with creation of the Export Promotion Office (EPO), a technical assistance operation, which has played the leading role in implementing MEDT's trade development agenda. Since its inception, the EPO has worked to produce a long list of outreach programs, trade promotion events and materials with WNISEF's support. Over the past two years, the EPO has become the focal point for a growing list of donors and other technical assistance programs designed to help advance Ukraine's trade development goals. Furthermore, the EPO and its stakeholders have encouraged the government of Ukraine to take ownership of export promotion projects and commit to creation of an official, publicly funded Export Promotion Agency to carry on the work after the end of donor support programs.

WNISEF has had a similar level of success with the creation of "UkraineInvest", an investment promotion office (IPO) directly affiliated with the Office of the Prime Minister of Ukraine. The IPO is credited with unlocking approximately \$700 million in foreign direct investment since 2016, with another \$350 million in potential investments on the horizon.

In addition, the IPO has conducted hundreds of counseling sessions and outreach activities to facilitate and promote investment in Ukraine.

Notwithstanding Ukraine's serious budget constraints, the government of Ukraine is developing a strong appreciation for the enormous economic benefits that investments in WNISEF pilot programs such as the EPO and IPO have to offer the country in the long term.



"Donor funds are important to help show the way, but it's critically important to have the government directly engaged in building and supporting the nation's sustainable capacity to promote trade development and investment. Governments can and should play the leading role in helping their companies to attain a level playing field in the global economy. When businesses feel tangible support from their government, they gain the confidence required to compete and win in the international business arena,"

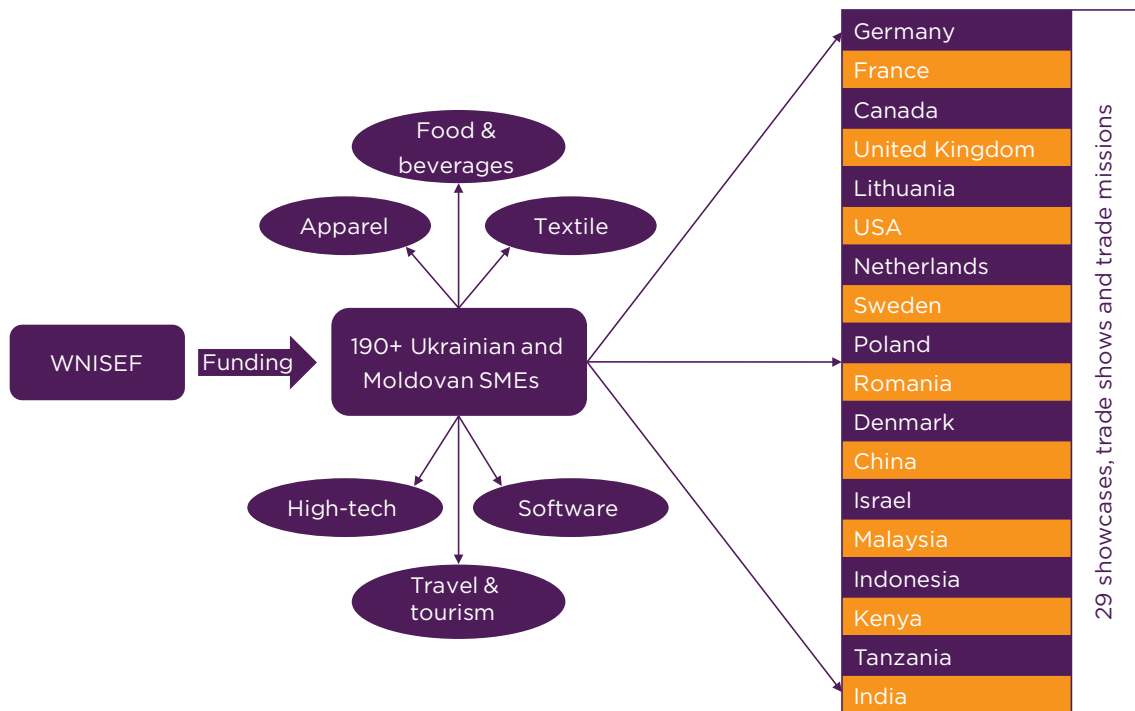
- Program Manager Vitaliy Bigdai

At the grassroots level, there is a strong and growing interest in international business development, as witnessed by the activities of various trade associations and individual companies seeking WNISEF guidance and support through the Export Promotion Policy Grants Program designed to support private sector trade development initiatives. In this connection, the Program Manager has counseled hundreds of business representatives and the program has provided direct support to over 190 export ready companies from Ukraine and Moldova in over a dozen industry sectors at 29 trade promotion events in eighteen countries. Such assistance has been provided to help small and medium-sized companies, in particular, to overcome the financial and psychological barriers to new market entry. Once these companies recognize the value and potential benefits of participation in trade missions and international exhibitions, they are generally more inclined to pursue them independently in the future.

For example, WNISEF supported the Ukrainian Horticulture Association's ("Ukrsadprom") four company exhibit at Asia Fruit Logistica 2017 in Hong Kong.



These four companies would not have been able to participate in the largest exhibition of its kind in the Asia-Pacific Region without WNISEF support and would certainly not have been able to report \$1.2 million in projected sales over the next two years as a consequence of their participation. Such success stories are motivating other trade associations and their members to seek support from WNISEF and other donors, such as EBRD and the EU which are committing to support Ukrainian participation in targeted trade promotion events around the world.



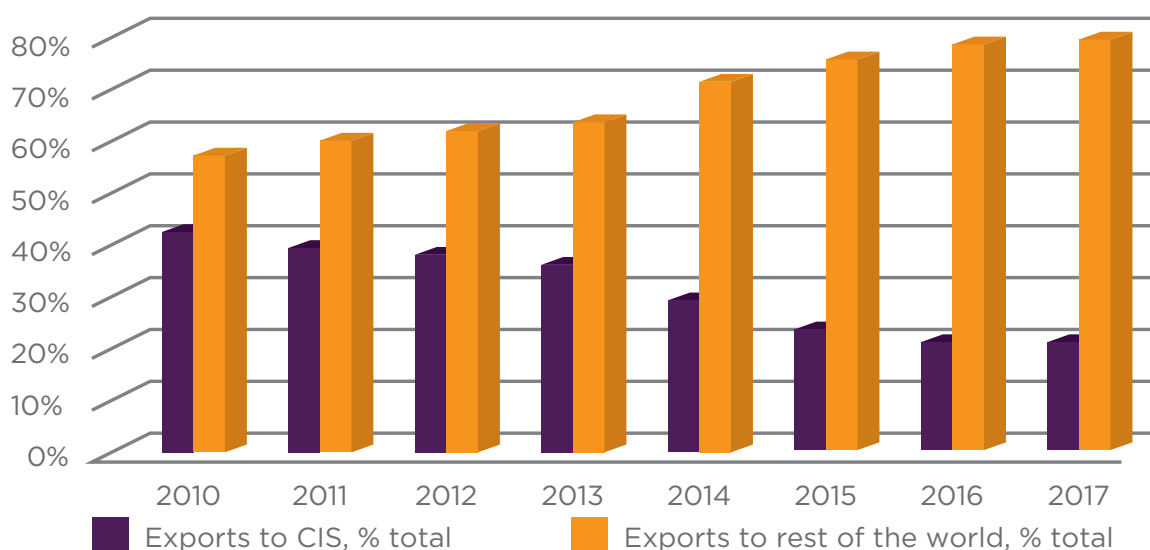
The Program is also supporting various wide-reaching programs to increase export awareness and educate SMEs about the basic elements of international business and trade. For example, the WNISEF-sponsored online video course “How to Export to the EU” offers lectures and real case studies to help SMEs understand the fundamentals of exporting. Since its launch in May 2017, the online course has received over 8000 views and registered approximately 1400 users, with over 90 awarded certificates of completion to date.

With the STDR and its accompanying action plan in place and efforts underway to establish a sustainable Export Promotion Agency, the Program will now focus on program implementation and scaling of successful initiatives. “The seeds to expand and transform the export sectors in Ukraine and Moldova have been successfully planted and need to be nurtured,” says Program Manager Vitaliy Bigdai. “We have to make sure that the strategic plans put in place are implemented in a positive and sustainable manner and that our public and private sector partners remain committed to the goals and objectives of the STDR. Ukraine’s and Moldova’s future economic development, national security



and prosperity will be well served by continued efforts to forge strong trade relations with countries around the world. The Program will continue doing everything within its power to help create and preserve these relations for the common benefit of all concerned.”

Reorientation of Ukraine Export



LOCAL ECONOMIC DEVELOPMENT PROGRAM: INVESTING IN LOCAL AGENTS OF CHANGE

Social development is about the economy. Social development is about education, good governance, civil society, innovation... and many other things. While targeting specific areas can help boost development in the short term, a systemic

approach is required to cement the long-term impact. The Local Economic Development Program is the glue that brings all other WNISEF efforts together to transform the lives of people living in Ukraine and Moldova for the better.

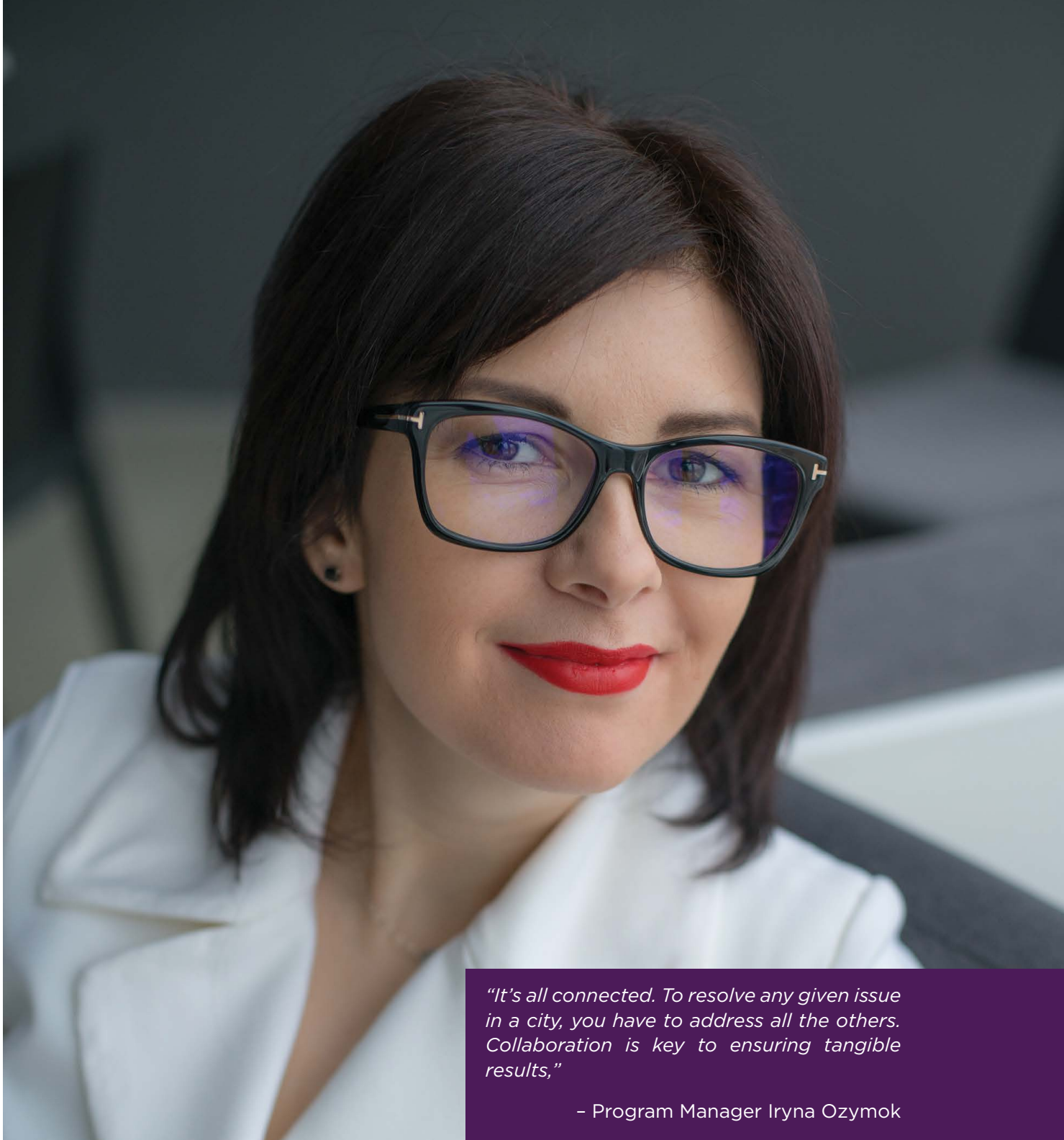


The Program achieves this by encouraging change in all aspects of life in cities and communities. Rather than improve individual systems like education, policy or entrepreneurship, the Program aims to create entire local ecosystems to encourage and

perpetuate change promoted by WNISEF. For example, to improve the quality of life in a city, you need urbanists with a comprehensive understanding of its problems, and local officials motivated to implement the necessary changes. Those, in turn, depend on entrepreneurs

Defining "Agents of Change"

<p>Sustainability — projects that can continue after seed funding ends</p>	<p>Practical Impact — tangible results and clear influence on city ecosystem</p>	<p>Co-Funding — of interest to other donors, e.g. local governments</p>	<p>Multiplicative Effect — can be scaled or transferred to other locations</p>
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"It's all connected. To resolve any given issue in a city, you have to address all the others. Collaboration is key to ensuring tangible results,"

– Program Manager Iryna Ozymok

to provide viable technological solutions. And you can't have any of these without constant improvements to the practical education system.

In line with the tried-and-true WNISEF approach, the Program plants the seeds of future growth in all areas that require improvement. These seeds, or "agents of change", are the people or organizations who build local-level partnerships that are integral to sustainable development. The Program supports them as they

grow from pilot projects to sustainable programs, and seeks to connect them where possible, essentially building new systems to reinforce the existing ones.

The Program is constantly searching for new projects while successful ones gradually move on to independent operation. Over three years of operation, the Program went from zero to 13 projects, some of which have already reached the level of sustainability that no longer require WNISEF funding.

ProZorro

WNISEF was the first donor to ProZorro, Ukraine's online public procurement system, in 2015. Today, ProZorro is the country's official procurement system, as mandated by the Law on Public Procurement. Since its launch, the system saved over UAH 38 billion (around \$1.5 billion) in public funds and is now completely self-sustaining. The Program currently supports scaling ProZorro both in depth and in breadth.

In September 2017, WNISEF signed the Memorandum of Understanding with the Minister of Finance of Moldova to endorse the Business Intelligence (BI) module of MTender, an e-procurement system for Moldova based on the ProZorro algorithm. The EBRD also strongly supports implementation of this system which ensures its sustainability. As of December 31, 2017, MTender has been used by 47 contracting entities for 208 tenders with a total value of 514 406 Leu (over \$30,000). Moreover, Chisinau City Administration requires all customer departments and

organizations to use MTender. Such official government support of MTender will assure its success.

In Ukraine, the Program is also funding ProZorro.Sale, a pilot system for sale of assets belonging to defunct banks and state-owned companies. The project has already built a broad network of support ranging from Transparency International to state-owned giants like Naftogaz of Ukraine to a multitude of local authorities. Since its launch, ProZorro.Sale has generated UAH 5.7 billion (\$210 million) of revenue. Over 20 cities are actively using the system. Moreover, the recent privatization law makes the system obligatory for privatization of state and municipal property for items under UAH 250 million (\$9.3 million). Success of ProZorro.Sale demonstrates the commitment of local communities to fighting corruption in Ukraine as well as WNISEF's invaluable support to these efforts.

CANactions School for Urban Studies

While some changes are made at the national level, many have to take place locally. Launched with WNISEF support in 2015, the CANactions School for Urban Studies started as a series of small courses for activists with interest in urbanism but grew to an advanced 8-month course for local government officials with over 80 alumni. Over 75% of projects proposed by students are currently being implemented. By 2017, the scope of this project was further expanded to include DREAMactions, a small grants program to encourage these activists to implement their projects in Ukraine rather than seek employment abroad. To ensure even bigger impact of CANactions, its leaders are currently in negotiations with several Ukrainian universities on the possible launch of a Masters degree program in Urban Studies in 2018.



Teple Misto

As some of the projects evolve beyond the scope of WNISEF support, new ones



take their place. Teple Misto is the first ever example of full-scale cooperation between civil society, local authorities and WNISEF. A group of activists from Ivano-Frankivsk created an innovative concept of reconstruction for the city's famous "Square in front of the Printing House". Their commitment and proactive approach allowed them to secure not only WNISEF's support, but also commitment from the City Council to finance 50% of the project's expenses. This large-scale project will be possible to implement in 2018 only thanks to such cooperation.

International Mayors Summit

To demonstrate the power of ecosystemic changes, in 2017 WNISEF organized the second International Mayors Summit. The event gathered over 150 mayors and 250 other participants, including the Prime Minister of Ukraine, the Mayor of Kyiv, as well as guests from Israel, Canada, Argentina, United States, UAE, Sweden, Slovakia, Poland, and the Netherlands. This annual event is a perfect platform to showcase

the best practices in local governance, including those already implemented in Ukraine. Mayors, for the first time, were pitching their innovations like startups, helping bridge the perception gap on innovation in Ukraine and persuading Ukrainians that innovation is possible and, in fact, present in their everyday lives.



Prince Constantijn of the Netherlands was a special guest at the International Mayors Summit, inspiring Ukrainian mayors with success stories of Dutch cities. VISA and DataGroup, in turn, demonstrated their support by sponsoring the event. The attention of these two major innovators highlights the importance of cooperation between big businesses and cities to ensure new technologically advanced living standards in Ukrainian cities.

In addition, the Summit encourages local agents of change to build connections with others from beyond their own ecosystems, and potentially expand their projects to new levels. During the Summit, over 50 mayors signed the Manifesto to Support Innovations, where they pledged to research innovation in their cities, implement best practices, and report their achievements. This document seeks to transform competition between cities into cooperation so that they can study each other's accomplishments and share the knowledge gained for the common good.

One powerful tool to enhance transformation in Ukraine is television. TV remains one of the most trusted sources of information for Ukrainians, particularly in smaller communities. Two TV projects supported by the Program in 2017 make the most of this opportunity.

“Undercover Mayor”, as part of the International Mayors Summit, aimed to show to what extent mayors were ready to talk to people in their cities and learn what citizens really think about the performance and services provided by their local representatives. Six mayors were filmed, including mayors of Glukhiv, Dolyna, Trostianets, Zhytomyr, Khmelnytsky and Chernivtsi. The TV show had high ratings and was viewed by millions of Ukrainians.

The second TV program, created in cooperation with USAID project DOBRE and 1+1 national TV channel, was called “Community worth a million”. The program followed a competition between five amalgamated communities to present the best business project with broad social impact. The communities took on a series of challenges for the ultimate prize of a million UAH (around \$37,000) provided by WNISEF. Five communities participated in the show,



while 600 others were able to follow it on TV. Finally, this year the Program introduced the “Ukraine’s Innovative Mayor” rating. Selected from cities with population of up to 500,000 people, the rating provides valuable feedback for local officials to help them gauge the public’s response to the changes implemented over the past three years. This rating also helps WNISEF fine-tune the focus of the Local Economic Development Program itself.



Manager of the Local Economic Development Program Iryna Ozymok as the host of “Community worth a Million”, where WNISEF awarded a UAH 1 million prize to the best community development project.

Local Economic Development Program in 2018

In 2018, the Program plans to continue expansion and adaptation of existing ideas. One project will focus on professional education in the textile industry, providing training for aspiring tailors, seamstresses and other fashion-related professions. The project will aim to raise the standard of education in Ukraine's textile industry, increase popularity of technical professions in Ukraine, as well as support women leadership. Technovation Challenge, a coding school for girls, will further empower school girls in the IT industry, as well as training them as the agents of change in their communities.

Existing projects will also receive an upgrade. The "Ukraine's Innovative Mayor" rating will potentially become an annual event and will develop formal methodology so that it can continue without WNISEF's support. The International Mayors Summit will be held in 2018 with expanded international support. And, of course, the



Local Economic Development Program will continue to look for agents of change in all spheres of life in Ukraine and Moldova, because today's seeds of growth are tomorrow's game-changers.



IMPACT INVESTING PROGRAM: CEMENTING THE IMPACT OF SOCIAL ENTERPRISES

Development is never equal or homogenous. Any country has vulnerable groups, and crisis or rapid change can make it difficult to provide a viable safety net. In that case, how does one ensure continued development that benefits everyone? When public institutions struggle with this question, the private sector has the best answers.

With this in mind, in 2015 Western NIS Enterprise Fund established its Impact Investing Program. At that time, social enterprises appeared in Ukraine and

Moldova as the only viable response to persistent social issues. On the one hand, small and medium-sized businesses realized that they can and should help the communities where they operate. On the other hand, the vulnerable parts of those communities, the disabled, war veterans, internally displaced persons etc., turned to private enterprise as a way of ensuring a decent standard of living for themselves and those around them. WNISEF saw the inherent value in this trend and decided to support it.

“Within the scope of WNISEF’s Impact Investing Program, a social enterprise is a company that is profitable, has a clear and formalized social goal, clear division of profits between social and business investment, and is democratically governed.”

This value lies beyond the immediate social impact of such companies’ activities. Initial loans by WNISEF act as pilot projects for the country-wide idea of social entrepreneurship. As these companies become more successful and profitable, they promote the idea of social enterprises. And the more prominent the idea of social entrepreneurship, the more common the model will become with a greater impact for Ukraine’s society as a whole.

The investment is not solely financial. Thanks to the Program’s unique model, using low-interest loans rather than grants to fund eligible companies, social enterprises are challenged to work on economic viability alongside their social mission. This dual responsibility produces truly resilient companies that can survive in the market, and the more they earn, the more they can invest into helping their communities.

Another way to boost the companies’ survivability is education and training. In 2017, WNISEF released a “Social Entrepreneurship” course in partnership with the Prometheus online educational platform. 3,379 people

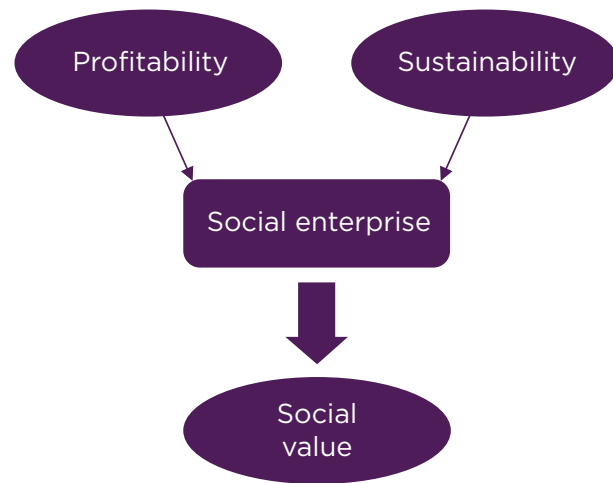


“Development and popularization of social entrepreneurship is a natural evolution of society in Ukraine and Moldova, the Impact Investing Program strives to be the catalyst, which helps expedite this process and cement its impact.”

– Program Manager Vasyl Nazaruk

signed up for the course during the 6 months after launch; 244 subscribers completed the course and received certificates. The Program also began cooperation with Open World, one of the most effective US exchange programs for candidates from post-Soviet countries, which requested the Impact Investing Program to nominate candidates from Ukraine for US internships in social entrepreneurship.

The results speak for themselves. The number of applications to the Impact Investing Program grew by 35% between 2016 and 2017, and the actual loan amount grew from \$69,857 in calendar 2016 to \$392,424 by the end of calendar 2017. Moreover, the funded companies have already directed 48.98% of the total loan amount into social investment, long before the loan's maturation.



	Actual 2016	Actual 2017	Target 2018
Number of received application forms	104	140	250
Number of funded loans for SE	3	7	12

The absolute leader here is Horikhovyi Dim, a bakery in Lviv that helps with rehabilitation of homeless women. Since the credit was issued in July 2016, the

company invested 138.6% of the total amount into their social cause, and that number continues to grow.



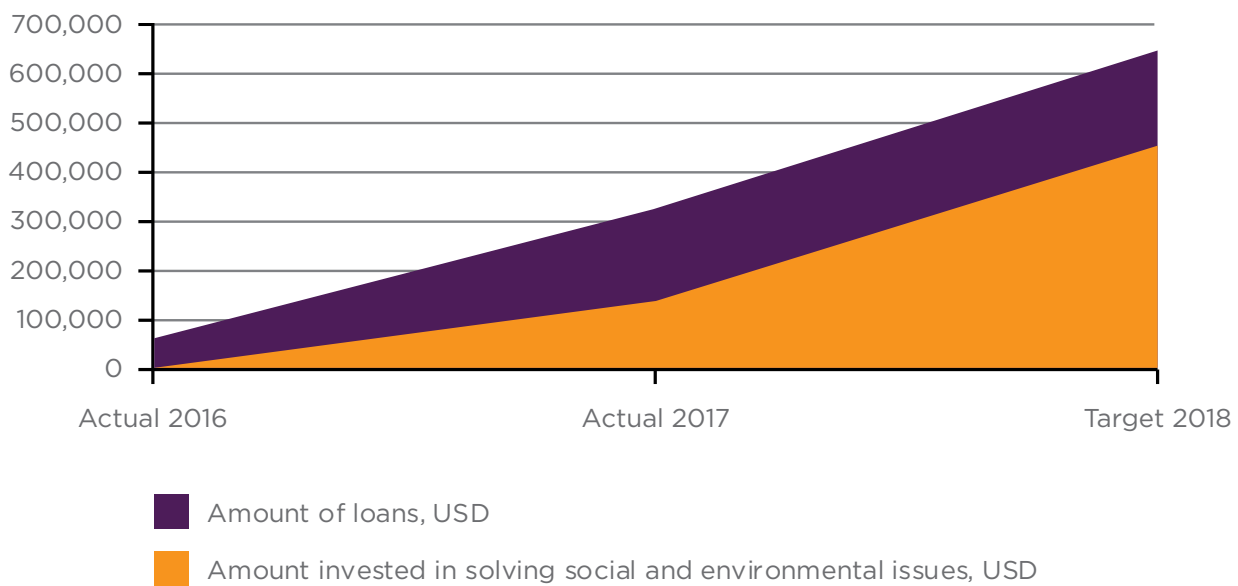
The same can be said for UTOS Dnipro, a railway materials production plant managed by the Ukrainian Society for the Blind. In less than 7 months, the company's social investment reached almost half of the loan amount with 16 months remaining on the loan.

In fact, UTOS Dnipro is a role model for any social enterprise. Under the leadership of Serhiy Kit, the company managed to avoid the usual fate of post-Soviet industrial plants and grew into one of the most competitive players in its market. At the same time, the company employs and cares for the blind and visually impaired not only by helping these people put food on the table, but also providing medical and recreational facilities to help them lead healthy and fulfilling lives. Modernization of these facilities is

ongoing and the WNISEF loan will help UTOS Dnipro build a truly comprehensive complex of assistance for the blind and visually impaired in their region that goes beyond employment opportunities to also include social assistance and charity.

According to Program Manager Vasyl Nazaruk, these indicators are just the beginning. "We are happy to see program participants successfully repay their loans and increase their social investment. However, the program is just getting started. Based on the indicators achieved by Horikhovyi Dim and UTOS Dnipro, we can expect social investment to reach at least 200% by deposit expiration date. As the program continues to grow, I believe we'll see Program participants invest up to 400% by 2023."

Growth in Social Investment, 2016-2018



Next year, the Program will continue to grow in both scope and scale. Naturally, the number and amount of loans issued are expected to increase. More importantly, the Program will place an increased emphasis on information sharing for social enterprises. WNISEF will use the open catalogue of social enterprises created in 2017 to encourage

companies to reach out to each other and cooperate for economic as well as social reasons. The long-term goal is to turn the small individual enclaves of social business into a sprawling network of self-sufficient companies capable of transforming the lives of people in their communities without outside assistance.

ECONOMIC LEADERSHIP PROGRAM: ADVANCING A GENERATIONAL SHIFT

Although reform can be completed in a year, it takes generations for an entire society to accept the change. While reform can be pushed by a small group of active citizens, irreversible transformation requires a critical mass of people who embody the new ethics, values and lifestyle associated with it.

The Economic Leadership Program aims to bring about this type of transformation in Ukraine's and Moldova's economies. By engaging and educating the people in solid business management and professional ethical values, and by encouraging them to play a more active role in their economies, the Program is bringing about a generational shift that will completely change these countries' development.

Naturally, three years is a very limited time in the grand scope of this goal. However, the progress achieved in this short time is telling. The various education programs financed by WNISEF have produced hundreds of alumni who are already changing the society around them. Within ten years, they will number in the thousands,

and the large-scale impact of WNISEF's investment will become apparent.

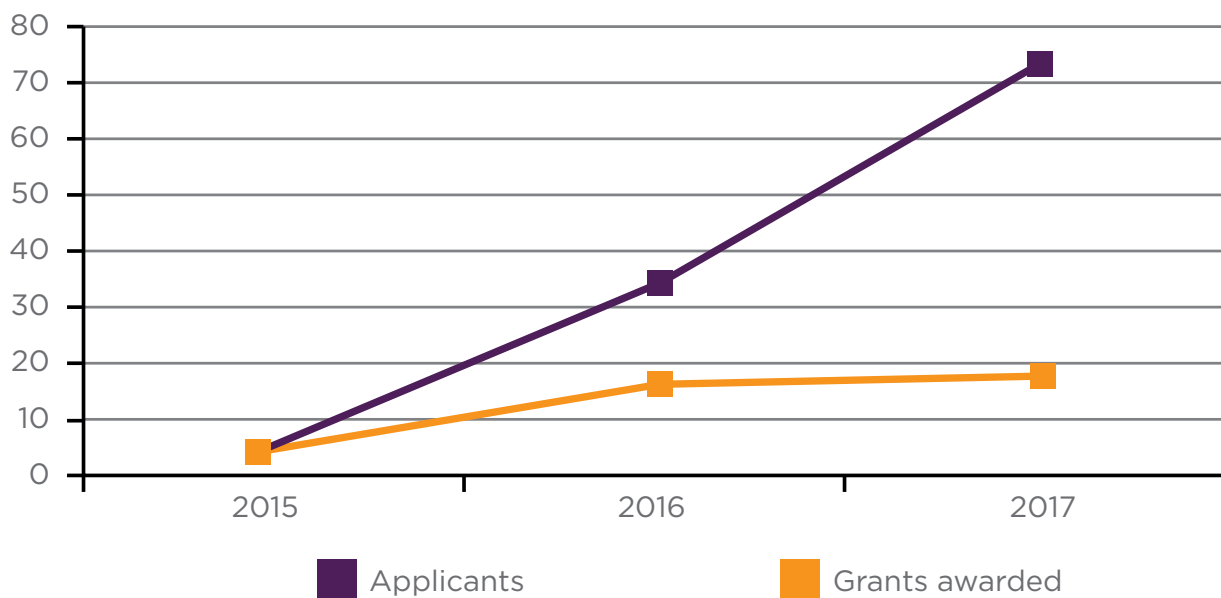
As of today, the first signs of the imminent shift can already be seen. The Program closely tracks the achievements of its alumni, and they are impressive to say the least. For example, the first wave of SEED Grant recipients returned to Ukraine in 2017. They assumed transformative roles almost immediately. Dmytro Okhrimchuk, a UC Berkeley MBA graduate, is a good illustration. Upon returning to Ukraine, he became Vice President for Business Development at Depositphotos, a large tech Ukrainian startup. The value of SEED Grant alumni is also evident outside the forward-looking tech sector, including at state-owned companies. In 2017, state oil production giant PJSC UkrGasVydobuvannya hired Yevgeniy Stashenko, a Duke University graduate, as the Deputy Director of Strategy. These examples show that SEED Grant not only allows bright and active Ukrainians to receive world-class education, but also helps them place in leading positions, where they can make a difference.



In 2017, SEED Grant supported 17 new incoming fellows in 2 LLM, 2 MPA and 13 MBA programs. The fellows were admitted to the Yale School of Management, Duke Fuqua School of Business, University of Chicago Booth School of Business, University of California Berkeley-Haas School of Business, Northwestern University Kellogg School of Management, UCLA Anderson School of Management, Cornell Samuel Curtis Johnson Graduate

School of Management, Carnegie Mellon Tepper School of Business, UNC Kenan-Flagler Business School, Emory Goizueta Business School, Dartmouth Tuck School of Business, University of Pennsylvania Law School, Cornell Law School, University of Chicago Harris School of Public Policy, Columbia School of International and Public Affairs. Eleven SEED Grant recipients are expected to return to Ukraine in the summer of 2018.

Seed Grant – Program Growth



To follow up the success of SEED Grant, in 2017 WNISEF launched two additional programs geared toward socially active young people. The first is the Ukrainian Emerging Leaders Program at Stanford, a 10-month fellowship at Stanford University for mid-level career professionals in the sphere of civil rights, entrepreneurship, and legal and political activism. This is the first ever program at Stanford aimed at Ukrainians. Out of over 700 applications, three fellows were selected: Oleksandra Matviychuk, a human rights defender; Dmytro Romanovych, advisor

to the Minister of Economic Development and Trade of Ukraine on deregulation; and Oleksandr Starodubtsev, one of the founders of the ProZorro e-procurement system. These fellows will have a unique opportunity to develop their personal Ukraine-oriented projects with expert advice from some of the brightest minds in the world.

Another new project is the Mitacs Globalink Research Internship Program. Thanks to partnership between WNISEF, The Ukrainian Canadian Foundation of Taras Shevchenko

 **Stanford University** **Stanford Ukrainian Emerging Leaders Program**
 Applications: **over 700**
 Fellowships awarded: **3**

 **Mitacs Globalink Research Internship Program**
 Applications: **545**
 Grants awarded: **49**

and Mitacs, a Canadian nonprofit organization, Ukraine became one of the 10 countries partnering with Canada to provide 12-week

research internship opportunities to university students. Forty-nine Ukrainian students in science, engineering, math, humanities and



social sciences will have an opportunity to research at 45 Canadian universities. The program will not only provide a unique learning experience, but also help build links between Ukraine and Canada and integrate Ukraine into the global academic community. “STEM research is the backbone of any modern economy. Ukraine needs to revive its education in technology and science to become a full-fledged member of the progressive international community. Mitacs should help establish the connections necessary to jumpstart this process and to innovate,” thinks Oleksandr Romanko, Professor at University of Toronto and Ukrainian Catholic University as well as primary initiator of Canada’s Mitacs Global Research Project for Ukraine.

The rise of Ukraine’s IT industry on the global arena has also provided a window of opportunity for the country to integrate IT and technology into its education system. To help cement coding as an integral part of modern education in Ukraine, WNISEF supported several projects providing access to the most in-demand skills across industries. Together with Beetroot Academy, the Program opened an IT school in Kramatorsk, which gives hundreds of people suffering from economic hardships as a result of internal displacement an opportunity to become an integral part of the modern economy. In addition, BrainBasket

and WNISEF launched a coding course for children, which uses gamification techniques to make tech learning fun and break the long-standing negative stereotypes about STEM education in Ukraine. Such projects will empower a new generation of technological leaders who can transform the vision of Moldova’s and Ukraine’s future.

The role of the Ukrainian Leadership Academy, on the other hand, is to influence the underlying social processes in the Ukrainian society by forming a generation of young people who are ready to take responsibility for their country and have the necessary skills to do so. In 2017, the program continued to nurture a new generation of Ukrainians. Beyond quality academic education, the Academy also emphasizes recognition of civic responsibility, readiness for change, and willingness to stand up to corruption or volunteer for good causes. The five Academies grew by another 198 students from all over Ukraine, including Crimea and the occupied regions of the Donbas. In addition, a majority of alumni retained their connection with the Academy and became mentors for the new students. By 2030, the Academy expects to have 8,000-10,000 alumni, most in the age range of 25-30. As the Academy continues to operate, it will produce a broad network of progressive, responsible Ukrainians in all spheres of

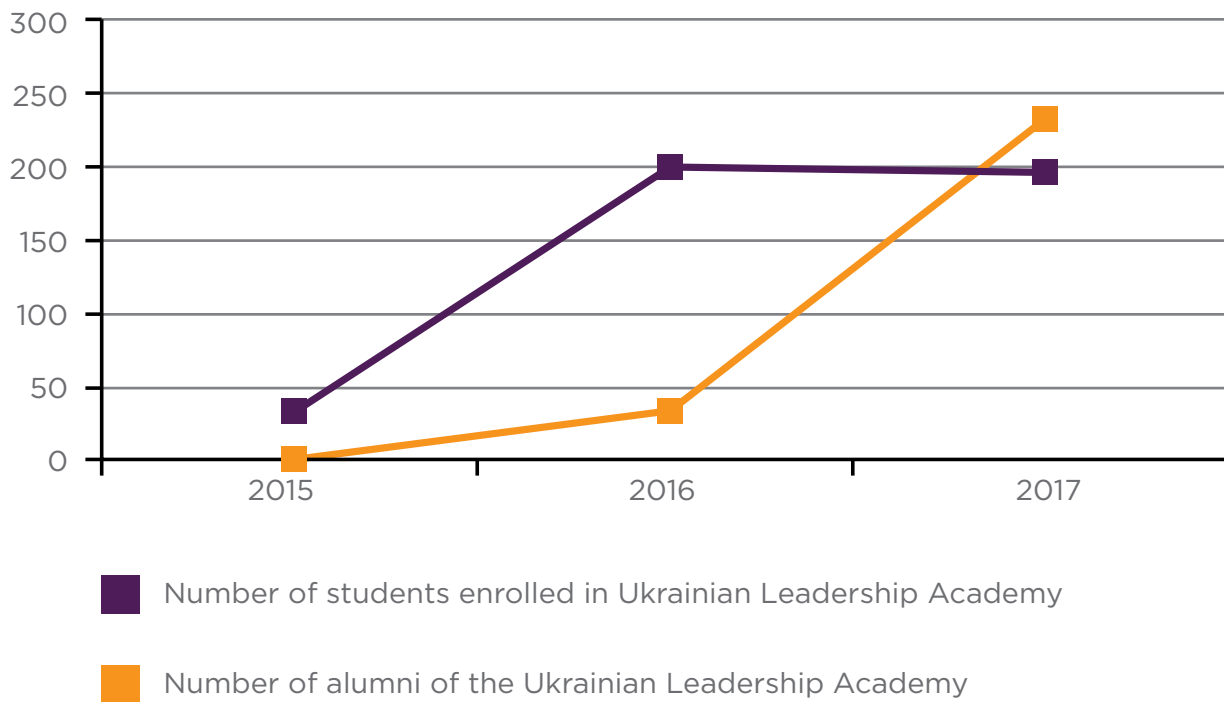


public life, a critical mass of people capable of building a new Ukraine where dignity, values and rules lie at the heart of progress. To reinforce the impact of the Ukrainian Leadership Academy, WNISEF also assisted with the launch of Teach For Ukraine. Teach For Ukraine is an education and leadership program that engages talented university students and graduates to teach young children and promote systemic change in education. This is a significant milestone for Ukraine as it becomes part of the global Teach For All network spanning over 45 countries. The program's sweeping impact

is evident in other countries where its alumni successfully tackle high-level education policy issues. In Ukraine, Teach For Ukraine should become the much-needed breath of fresh air as the country works to revamp its education system.

The Economic Leadership Program still has a long way to go, but with continued success it will have unparalleled impact. The primary focus is on sustainability as well as continued scaling for all the projects to achieve maximum coverage, visibility and impact. This includes,

Ukrainian Leadership Academy – Program Scaling



first and foremost, partnerships with additional educational programs, donors and governments. In 2018, WNISEF plans to join forces with USAID to reintroduce the Junior Achievement program to teach aspiring entrepreneurs theoretical and practical business skills. Work on a U.S. and Canada endowment fund to support the Ukrainian Leadership Academy is also underway, as well as negotiations with local partners to help cover the Academy's costs. Finally, the Program is in regular

contact with the governments of Ukraine and Moldova to explore potential funding for youth leadership or cooperation with the state.

But most importantly, the Program is working on a strategy of alumni relations, to make sure that the large number of people involved form a cohesive network - a net that will bring the society together in support of productive change.



U.VENTURES: DARING IDEAS TRANSFORMING LIVES

U.Ventures is a new fund for early stage technology startups established by the Western NIS Enterprise Fund. Officially launched in November 2017, the \$5 million fund offers co-financing and scaling assistance for Seed to Series A startups with Ukrainian or Moldovan co-founders.



“The lack of fundamental resources for startups in Ukraine and Moldova is pushing successful entrepreneurs abroad, we want the most talented people to stay and develop their projects in Ukraine and Moldova. We want “Made in Ukraine” to become a prominent tech startup brand.”

– Team Lead Andrii Sorokhan

This latest addition to WNISEF’s investment program is a response to the rising popularity of tech startups in Ukraine and Moldova. The fund seeks out the most successful teams to help turn them into globally competitive companies.

The two biggest shortages for startups

in the region are funding and scaling opportunities. U.Ventures seeks to remedy both. To meet the high demand from entrepreneurs for increased funding, U.Ventures offers investments ranging from \$100,000 to \$500,000 to the selected projects. To meet the scaling needs, U.Connect was created. The program provides up to \$5,000 for up to 10 startups a year to participate in one of the world leading conferences, trade shows or startup competitions. This way, the startups receive not only funding, but also opportunity to access new markets, create new international partnerships and increase sales abroad.

To be eligible for receiving investments, startups must have a minimum viable product targeting a large addressable market and ready for global expansion. The company has to show at least some traction in terms of revenue as well as user base growth. Finally, the team is as important as their idea – the founder has to exhibit determination, resilience, clarity of vision and leadership.

“Today a startup’s success depends not only on the idea or technology behind it, but also on the team’s passion and determination to turn the idea into reality. Is the team building a product that customers will want to use? Are they determined to make it globally competitive? These are the types of questions we ask when we meet with early stage entrepreneurs,” comments Andrii Sorokhan.

Since the launch, U.Ventures has invested over \$2.3 million in six companies, including:



Petcube,
an innovative mobile app for long-distance interaction with pets



SIXA, a cloud computing service for designers, developers and gamers



eTachki, a groundbreaking online auction for used cars



IO Technologies, an international big data team working on an analytical platform for business



Rallyware, a company creating software for worker training and engagement

Next year, U.Ventures plans to continue selecting and investing into successful startups, and, with time, aims to become the #1 fund for early stage startups in Ukraine and Moldova.

FINANCIAL STATEMENTS

Western NIS Enterprise Fund

**Years ended September 30, 2017 and 2016
with Report of Independent Auditors**

Western NIS Enterprise Fund
Financial Statements
Years ended September 30, 2017 and 2016

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Independent Auditors' Report

The Board of Directors
Western NIS Enterprise Fund

We have audited the accompanying financial statements of Western NIS Enterprise Fund (the Fund), which comprise the statements of assets and liabilities including the condensed schedules of investments as of September 30, 2017 and 2016, and the related statements of operations and changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*JSC KPMG Audit, a company incorporated under the Laws of Ukraine,
a member firm of the KPMG network of independent member firms affiliated
with KPMG International Cooperative ("KPMG International"), a Swiss entity.*



Independent Auditors' Report

Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western NIS Enterprise Fund as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

JSC KPMG Audit
JSC KPMG Audit
January 29, 2018

Western NIS Enterprise Fund

Statements of Assets and Liabilities

September 30, 2017 and 2016

Expressed in US Dollars

	2017	2016
Assets		
Investments, at fair value:		
Equity and debt securities (cost of \$35,204,783 and \$39,907,926 as of September 30, 2017 and 2016, respectively)	\$ 15,475,976	\$ 18,059,628
Emerging Europe Growth Fund III, L.P. (cost of \$7,105,950 as of September 30, 2017)	7,105,950	-
Emerging Europe Growth Fund, L.P. (cost of \$9,959,468 and \$10,138,344 as of September 30, 2017 and 2016, respectively)	4,444,846	4,920,360
Other financial assets (cost of \$500,000 as of September 30, 2017 and 2016, respectively)	1,750,000	500,000
Cash and cash equivalents (<i>note 6</i>)	41,158,756	55,420,824
Impact Investing Program long-term deposits	271,383	28,365
Prepaid expenses:		
Investment management fees (<i>note 14</i>)	165,792	155,033
Program management fees (<i>note 14</i>)	131,250	131,250
Other	106,541	100,663
Fixed assets, net of accumulated depreciation and amortization (<i>note 7</i>)	116,435	51,594
Interest, dividend and other receivables	91,440	187,665
Other assets	70,731	32,572
Total assets	\$ 70,889,100	\$ 79,587,954
 Liabilities and fund balance		
Deposits received on sale (<i>note 5</i>)	\$ 325,000	\$ 325,000
Grants payable (<i>note 12</i>)	321,439	269,365
Accounts payable and other accrued expenses	318,267	377,527
Other liabilities	14,759	18,794
Total liabilities	979,465	990,686
Fund balance (temporarily restricted)	69,909,635	78,597,268
Total liabilities and fund balance	\$ 70,889,100	\$ 79,587,954

See accompanying notes to financial statements.

Western NIS Enterprise Fund

Statements of Operations and Changes in Fund Balance

Year ended September 30, 2017

Expressed in US Dollars

	Temporarily restricted	Unrestricted	Total
Investment income			
Dividend income	\$ 512,496	-	\$ 512,496
Interest income	101,490	-	101,490
Other income	42,755	-	42,755
Total investment income	656,741	-	656,741
Net assets released from restrictions			
Satisfaction of program restrictions (investing activities)	(1,359,771)	1,359,771	-
Operating expenses for investment activities (note 10)	-	(1,359,771)	(1,359,771)
Net investment loss	(703,030)	-	(703,030)
Net change in unrealized loss on investments			
Net change in unrealized loss on investments (note 5)	2,669,694	-	2,669,694
Net change in unrealized loss on investments	2,669,694	-	2,669,694
Net increase in fund balance from investment activities	1,966,664	-	1,966,664
Net assets released from restrictions			
Satisfaction of program restrictions (Legacy Programs)	(10,654,297)	10,654,297	-
Legacy Programs			
Economic Leadership Program	-	(5,860,366)	(5,860,366)
Export Promotion Policy Program	-	(2,411,390)	(2,411,390)
Local Economic Development Program	-	(947,836)	(947,836)
Impact Investing Program	-	(143,388)	(143,388)
Administration (note 11)	-	(1,291,317)	(1,291,317)
Net decrease in fund balance from Legacy Programs	-	(10,654,297)	(10,654,297)
Net decrease in fund balance	(8,687,633)	-	(8,687,633)
Fund balance, beginning of year	78,597,268	-	78,597,268
Fund balance, end of year	\$ 69,909,635	-	\$ 69,909,635

See accompanying notes to financial statements.

Western NIS Enterprise Fund
Statements of Operations and Changes in Fund Balance
Year ended September 30, 2016
Expressed in US Dollars

	Temporarily restricted	Unrestricted	Total
Investment income			
Interest income	\$ 113,730	-	\$ 113,730
Other income	41,422	-	41,422
Total investment income	155,152	-	155,152
Net assets released from restrictions			
Satisfaction of program restrictions (investing activities)	(1,153,457)	1,153,457	-
Operating expenses for investment activities <i>(note 10)</i>	-	(1,153,457)	(1,153,457)
Net investment loss	(998,305)	-	(998,305)
Net realized loss and change in unrealized loss on investments			
Net realized loss on investments <i>(note 5)</i>	(382,638)	-	(382,638)
Net change in unrealized loss on investments <i>(note 5)</i>	204,868	-	204,868
Net realized loss and change in unrealized loss on investments	(177,770)	-	(177,770)
Net decrease in fund balance from investment activities	(1,176,075)	-	(1,176,075)
Net assets released from restrictions			
Satisfaction of program restrictions (Legacy Programs)	(6,820,116)	6,820,116	-
Legacy Programs			
Economic Leadership Program	-	(3,353,940)	(3,353,940)
Export Promotion Policy Program	-	(1,207,867)	(1,207,867)
Local Economic Development Program	-	(916,480)	(916,480)
Impact Investing Program	-	(133,511)	(133,511)
Administration <i>(note 11)</i>	-	(1,208,318)	(1,208,318)
Net decrease in fund balance from Legacy Programs	-	(6,820,116)	(6,820,116)
Net decrease in fund balance	(7,996,191)	-	(7,996,191)
Fund balance, beginning of year	86,593,459	-	86,593,459
Fund balance, end of year	\$ 78,597,268	-	\$ 78,597,268

See accompanying notes to financial statements.

Western NIS Enterprise Fund
Statements of Cash Flows
Years ended September 30, 2017 and 2016
Expressed in US Dollars

	2017	2016
Cash flows from operating activities		
Net decrease in fund balance from operations	\$ (8,687,633)	\$ (7,996,191)
Adjustments to reconcile net decrease in fund balance to net cash used in operating activities:		
Proceeds from:		
Equity securities - sale to Emerging Europe Growth Fund III, L.P.	13,958,338	-
Emerging Europe Growth Fund, L.P. distributions	545,492	-
Return of equity	302,546	-
Debt securities	150,000	-
Equity securities - sale to third parties, net of advisory fees	-	645,286
Disbursements for:		
Equity securities	(9,013,729)	(5,994,609)
Emerging Europe Growth Fund III, L.P. capital calls	(7,590,103)	-
Debt securities	(500,000)	(150,000)
Emerging Europe Growth Fund, L.P. capital calls	(285,622)	-
Fixed assets	(95,625)	(70,238)
Other financial assets	-	(500,000)
Depreciation and amortization	30,784	18,690
Net realized loss from sale of investments	-	382,638
Net change in unrealized loss on investments	(2,669,694)	(204,868)
Transfer of fixed assets to Economic Leadership Program	-	42,806
Increase in Impact Investing Program long-term deposit	(243,018)	(28,365)
(Increase) decrease in prepaid investment management fees	(10,759)	5,146
Decrease in prepaid program management fees	-	1,079
(Increase) decrease in other prepaid expenses	(5,878)	17,223
Increase in interest, dividend and other receivables	(97,787)	(113,499)
Increase in other assets	(38,159)	(18,273)
Increase in grants payable	52,074	241,418
(Decrease) increase in accounts payable and other accrued expenses	(59,260)	137,605
Decrease in other liabilities	(4,035)	(16,865)
Net cash used in operating activities	(14,262,068)	(13,601,017)
Cash and cash equivalents, beginning of year	55,420,824	69,021,841
Cash and cash equivalents, end of year	\$ 41,158,756	\$ 55,420,824

See accompanying notes to financial statements.

Western NIS Enterprise Fund

Condensed Schedule of Investments

September 30, 2017

Expressed in US Dollars

Investments (41.2%) ¹	Principal/Shares/Interest	Cost	Fair Value
Limited Partnership Interest (16.6%)			
Emerging Europe Growth Fund III, L.P.		\$ 7,105,950	
Emerging Europe Growth Fund, L.P.			4,444,846
Total Limited Partnership Interest²		\$ 17,065,418	11,550,796
Equity (19.1%)			
Ukraine (9.9%)			
Manufacturing (7.2%)			
LLC Kerameya			4,736,945
Other			325,000
IT Services (1.5%)			1,050,000
Interactive products (1.2%)			800,000
Moldova (9.2%)			
Manufacturing (7.2%)			
Glass Container Company S.A.			5,035,000
Financial services (2.0%)			1,434,527
Total Equity		33,110,279	13,381,472
Debt (3.0%)			
Moldova (2.3%)			
Manufacturing (2.3%)³	\$ 1,594,504		1,594,504
Ukraine (0.7%)			
E-commerce (0.7%)	500,000		500,000
Total Debt		2,094,504	2,094,504
Other financial assets⁴ (2.5%)			
Ukraine (2.5%)			
IT Services (2.5%)			1,750,000
Total Other financial assets		500,000	1,750,000
TOTAL INVESTMENTS		\$ 52,770,201	\$ 28,776,772

¹ Percentages indicated are based on fund balance as of September 30, 2017. The Fund's investments are closed-end investments with no periodic liquidity.

² The cost of EEGF and EEGF III limited partnership interests is presented net of cumulative operating income and expenses.

³ The Fund converted the accrued interest receivable from this portfolio company of \$1,859,111 in January 2012 to debt on pari passu terms as new debt provided by a third-party lender. This was a condition precedent to disbursement of debt financing by the third-party lender. This amount is not considered to be invested capital as no funds were disbursed; rather overdue interest receivable was converted to long-term debt. In December 2016, the Fund converted the accrued interest receivable from this portfolio company of \$194,012 to debt.

⁴ Simple agreement for future equity (SAFE).

See accompanying notes to financial statements.

Western NIS Enterprise Fund

Condensed Schedule of Investments

September 30, 2016

Expressed in US Dollars

Investments (29.9%) ¹	Principal/Shares/Interest	Cost	Fair Value
Limited Partnership Interest (6.3%)			
Emerging Europe Growth Fund, L.P.		\$	4,920,360
Total Limited Partnership Interest²		\$	10,138,344
Equity (21.0%)			
Ukraine (13.4%)			
IT Services (7.6%)			
Matar Trade & Invest Limited (Genesis)			5,994,609
Manufacturing (5.8%)			
LLC Kerameya			4,250,000
Other			325,000
Moldova (7.6%)			
Manufacturing (5.8%)			
Glass Container Company S.A.			4,505,000
Financial services (1.8%)			
			1,434,527
Total Equity		38,357,434	16,509,136
Debt (2.0%)			
Moldova (1.8%)			
Manufacturing (1.8%)³	\$ 1,400,492		1,400,492
Ukraine (0.2%)			
Manufacturing (0.2%)	150,000		150,000
Total Debt		1,550,492	1,550,492
Other financial assets⁴ (0.6%)			
Ukraine (0.6%)			
IT Services (0.6%)			500,000
Total Other financial assets		500,000	500,000
TOTAL INVESTMENTS		\$ 50,546,270	\$ 23,479,988

¹ Percentages indicated are based on fund balance as of September 30, 2016. The Fund's investments are closed-end investments with no periodic liquidity.

² The cost of EEGF limited partnership interest is presented net of cumulative operating income and expenses.

³ The Fund converted the accrued interest receivable from this portfolio company of \$1,859,111 in January 2012 to debt on pari passu terms as new debt provided by a third-party lender. This was a condition precedent to disbursement of debt financing by the third-party lender. This amount is not considered to be invested capital as no funds were disbursed; rather overdue interest receivable was converted to long-term debt.

⁴ Simple agreement for future equity.

See accompanying notes to financial statements.

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

1. Background

(a) Organization and Description of Business

Western NIS Enterprise Fund (the Fund) is a not-for-profit corporation for tax purposes formed pursuant to the Support for East European Democracy Act of 1989 (the SEED Act) and the 1992 Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act (the FREEDOM Support Act) to promote the development of the private sector in the Western Newly Independent States region (the Region), which consists of Ukraine, Moldova and Belarus. The United States Government (USG) authorized appropriations of \$150 million, which have been committed by the United States Agency for International Development (USAID) for the Fund program purposes and administrative expenditures (the Grant). Grants received from USAID are conditioned upon the Fund's compliance with the requirements of the Grant agreement with USAID and the SEED and FREEDOM Support Acts, which impose certain U.S. policy objectives and reporting obligations. The full amount of the Grant has been provided to the Fund by USAID, with the final tranche received in fiscal year 2007. Under the terms of this Grant agreement, the Fund may retain investment and realized gain income for program purposes.

According to the Grant agreement, USAID must establish a Termination Commencement Date (TCD) after which the Fund cannot make any new commitments or investments without the prior written consent of USAID, and will commence the winding up of its affairs and sale of its assets. Under this authority, USAID originally established the TCD as August 26, 2009, and during fiscal 2009, granted an extension to August 26, 2011. During fiscal 2011, the Fund obtained a second extension from USAID of the TCD to August 26, 2013, based on the understanding that the Fund's proposal for establishment of a future legacy foundation was to be submitted prior to August 26, 2011. The Fund's proposal was submitted to USAID as required, including confirmation that as of August 26, 2011, the Fund will make no new investments, no new follow-on investments in its existing portfolio (beyond one follow-on investment approved prior to this date) and only continue to fund, as legally required, its unfunded commitment in Emerging Europe Growth Fund, L.P. (EEGF). In June 2013, rather than further extend the TCD, the Grant Agreement was amended to establish August 26, 2016 as the Target Liquidation Date (TLD) requiring the Fund to use best efforts to ensure the wind-up and liquidation of all of its assets on or before this date. Effective January 28, 2015, USAID approved the Fund's proposal to continue the mission of the FREEDOM Support Act of 1992 and the Foreign Assistance Act of 1961, through the existing WNISEF structure. As such, the Grant Agreement was amended to change the TCD from August 26, 2013 to December 31, 2017 and change the TLD from August 26, 2016 to December 31, 2018 to allow the Fund to carry out the program activities described in its proposal. Effective April 14, 2016, USAID additionally modified the Grant to change the TCD from December 31, 2017 to December 31, 2022 and change the TLD from December 31, 2018 to December 31, 2023. The TLD may only be extended with the prior written approval of USAID. The Amended Grant Agreement allows the Fund: i) to disburse \$5 million to make new investments and commitments in Ukraine and Moldova to encourage the creation and expansion of small and medium enterprises (SMEs);

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

1. Background (continued)

(a) Organization and Description of Business (continued)

ii) to apply an additional \$5 million for its Legacy Programs, thereby increasing total allowable from \$30 million to \$35 million; iii) to commit \$30 million of program income as anchor investor, on pari passu terms with private investors, in the Emerging Europe Growth Fund III, L.P. (EEGF III), a U.S.-domiciled fund launched by Horizon Capital that seeks to raise \$150 million to provide loans, equity and financial support to SMEs in Ukraine and Moldova.

Legacy Programs

In February 2015, the Fund initiated Legacy Programs based on a proposal submitted to USAID that originally envisioned \$30 million three-year Legacy Programs funded by a portion of the reflows earned by the Fund from its investment activities. In April 2016, as a result of a Grant Modification, the Fund was allowed to use an additional \$5 million for Legacy Programs, increasing total allowable to \$35 million. The TLD was also extended through December 31, 2023. The goals and objectives of the Legacy Programs are to assist Ukraine and Moldova with further development of sound economic policies and leadership during this critical time in their respective histories. Both Ukraine and Moldova signed Deep and Comprehensive Free Trade Agreements (DCFTA) with the European Union (EU) and must now undertake significant changes to their economic policies and to build cadres of well-trained leaders to fully benefit from the DCFTA. The four programs set forth in the Fund's proposal to USAID focus on:

- i) mobilizing capital to address complex social issues (Impact Investing Program);
- ii) developing innovative market-based solutions linking local government and the business community to improve the provision of services to citizens while supporting the SME sector (Local Economic Development Program);
- iii) investing in people to broaden and deepen the human capacity necessary to advance private sector development in Ukraine and Moldova (Economic Leadership Program); and,
- iv) improving the ability of Ukrainian exporters to access new markets (Export Promotion Policy Program).

As of September 30, 2017, a cumulative amount of \$19,159,694 was expensed for Legacy Program purposes out of an available approved amount of \$35,000,000, resulting in a remaining unused balance of \$15,840,306.

The fund balance of the Fund is reported as temporarily restricted as USAID has imposed certain restrictions on net assets: on further commitments or investments as described in the Organization and Description of Business subsection and on usage of liquidation proceeds as described in Note 4.

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

1. Background (continued)

(a) Organization and Description of Business (continued)

Investment activities

The Fund makes no new follow-on investments in its existing portfolio, but continues to fund, as legally required, its unfunded commitment in EEGF. At the same time the Fund continues to be engaged in a private investment program in the Region, which through equity, debt investments, technical assistance and other measures, emphasizes a commitment to SMEs. Through its direct role in investments in the Region's private sector, the Fund seeks to generate profits that will further support its activities and attract investment by others.

Following the precedent of USAID-financed Enterprise Funds in Central and Eastern Europe, the Fund actively pursued its mission of attracting significant private capital to the Region by supporting the establishment of a private management company, Horizon Capital Associates, LLC (HCA, Investment Manager) and the launch of a private successor fund, EEGF. Based on USAID and Congressional approval, in 2006, the Board of Directors of the Fund committed \$25 million to EEGF and approved the sale of five Fund investments to EEGF in anticipation of its initial closing as well as the transfer of one Fund subsidiary to EEGF.

Following the initial closing of EEGF, as of March 1, 2006, all employees, excluding employees based in the Fund's U.S. office, became employees of HCA's wholly-owned subsidiary, Horizon Capital Advisors, LLC (HCAD), resulting in the transfer of employee compensation, operating and other expenses from the Fund to HCA and HCAD. However starting fiscal 2015 the Fund has hired certain employees for Legacy Programs realization. Their compensation is included in the Legacy Programs section of the statement of operations and changes in fund balance.

The Fund became an anchor investor of EEGF III, the third private fund launched by Horizon Capital. Based on USAID approval, in 2016, the Board of Directors of the Fund committed \$30 million to EEGF III and approved the warehousing of up to 100% of its \$30 million commitment of investments within WNISEF, which subsequently were transferred to EEGF III at cost upon its first closing.

In June 2017, EEGF III held an initial closing of \$75 million in aggregate commitments and concluded an investment management agreement with Horizon Capital Associates III, LLC (HCA III, Investment Manager). As of the initial closing of EEGF III, based on USAID approval, securities purchase agreements were signed between the Fund and EEGF III for the sale at cost of two investments, including Matar Trade & Invest Limited (Genesis) and Avalex Investment Limited (Anex).

(b) Business environment

The Region has been experiencing political and economic change which has affected, and may continue to affect, the activities of entities operating in this environment. Consequently, operations in the Region involve risks that do not typically exist in other markets.

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

1. Background (continued)

(b) Business environment (continued)

Whilst management believes it is taking appropriate measures to support the sustainability of the Fund's business in the current circumstances, continued deterioration in the business environment could negatively affect the Fund's results and financial position in a manner not currently determinable. Deteriorating operating conditions for the portfolio companies may also have an impact on the Fund's cash flow forecasts and assessment of the impairment of financial and non-financial assets. The ability to assess the valuation of Fund's investments is also significantly influenced by the current economic conditions.

These financial statements reflect management's assessment of the impact of the business environment in the Region on the operations and the financial position of the Fund. The future business environment may differ from management's assessment. The impact of such differences on the operations and the financial position of the Fund may be significant.

Due to the potential for these economic uncertainties to continue in the foreseeable future, there is a possibility that the assets may not be recovered at their carrying amounts in the ordinary course of business, with a corresponding impact on profitability in future periods. The Fund continually assesses the potential impact of the economic uncertainties on revenues and profitability and, as a consequence, on the recoverability of its current and non-current assets.

2. Basis of Presentation

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

The Fund is an investment company and follows accounting policies contained in the Accounting Standard Codification (ASC) Topic 946, *Financial Services - Investment Companies* (the Investment Company Guide), which requires investment companies to account for their investments at fair value, as opposed to consolidation or using the equity method. As such this presentation provides more useful information to users of the financial statements regarding performance of an investment company.

In 2015 the Fund started its activities under Legacy Programs and started to follow the Accounting Standard Codification (ASC) Topic 958, *Not-for-Profit Entities*, which requires additional disclosures, resulting in related changes in the presentation of the financial statements and notes to them.

Effective October 1, 2008, the Fund adopted ASC Subtopic 820 *Fair Value Measurement* that requires funds to classify investments into a fair value hierarchy as follows:

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

2. Basis of Presentation (continued)

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or,
- Level 3 inputs are unobservable inputs for the asset or liability. Level 3 inputs reflect the Fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk), and are developed based on the best information available in the circumstances, which includes the Fund's own data.

3. Summary of Significant Accounting Policies

Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant item subject to estimates and assumptions is the fair value of investments. Actual results could differ from those estimates.

Investments in Equity and Debt Securities

Investments, which include both debt and equity components, are not readily marketable and are typically not listed on an exchange or quoted in an open market and, accordingly, are classified as Level 3 in the fair value hierarchy. These investments are stated at fair value by applying the guidance contained in the International Private Equity and Venture Capital Valuation Guidelines, edition December 2015, which is consistent with the requirements of the Investment Company Guide, as determined in good faith by management and approved by the Board of Directors. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Equity investments may be made in cash or with in-kind equipment contributions and are initially reflected at cost. Subsequent valuation is determined by considering relevant available qualitative and quantitative information. This information may include the financial condition and operating results of each investee, current economic conditions affecting operations, recent purchase or sale of securities of the investee, any subsequent events or financing transactions that may indicate a change in fair value and available market comparables. For equity investments in financial institutions, fair value is estimated by applying a multiple to net assets. Multiples are determined based on observed market transactions, adjusted for factors specific to the investment. For equity investments in other companies, the Fund estimates fair value by applying a multiple to earnings before interest, taxes, depreciation and amortization (EBITDA).

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

3. Summary of Significant Accounting Policies (continued)

Investments in Equity and Debt Securities (continued)

The price of the initial investment in an investee's equity or debt securities, or other instrument will be deemed fair value for a limited period of time following the date of the transaction if the entry transaction is considered orderly.

In case a third-party validation has occurred since the previous valuation, the price of the most recent investment will serve as the initial basis for a revised estimate of fair value, however, such valuation will still be compared to valuations derived via other methodologies and may be discounted or increased.

In some cases, EBITDA may be adjusted to remove non-recurring items or to reflect results on a more sustainable basis. Multiples are determined by reference to third-party data. These factors are subject to change over time and are reviewed periodically. Changes in fair value are reported on an annual basis or in the period in which they become known.

For debt securities, fair values are based upon the Investment Manager's continuing review and evaluation of these investments with consideration of current interest rates for similar loans, past experience, sovereign and currency risk, the financial condition of the borrowers, current conditions in the Region, and other relevant factors such as the non-collection of principal and interest when due in accordance with the contractual terms of the agreement.

The carrying values assigned to the investments are based on available information and do not necessarily represent amounts that might ultimately be realized, since such amounts depend on future circumstances and cannot be determined with certainty until the individual positions are liquidated, and such differences could be material.

Investment transactions are recorded on a trade date basis with the resulting realized and unrealized gains and losses recorded in the statements of operations and changes in fund balance. For purposes of determining gains or losses on sales of investments, the cost of investments sold is determined on the specific identification basis.

Grants and grants payable

Grants are recorded as grant expense in the accompanying statements of operations and changes in fund balance and grants payable in the accompanying statements of assets and liabilities in the period in which the grantee meets the terms of conditions.

Cash and Cash Equivalents

Cash and cash equivalents include cash held in bank accounts as well as any highly liquid financial instruments purchased with original maturities of three months or less.

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

3. Summary of Significant Accounting Policies (continued)

Dividend Income

Due to the irregular nature of dividends from investments, dividend income is recorded on the ex-dividend date, when possible, and on a cash basis when dividends that were not previously known are received.

Interest Income

Interest on debt securities is accrued at the contractual rate based upon the principal amount outstanding and credited to income as earned.

Depreciation and Amortization

Computer equipment and software, furniture and other office equipment are depreciated on a straight-line basis over their estimated useful lives, principally 5-7 years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.

Translation of Foreign Currency

The functional currency is the U.S. dollar. Generally, operating transactions are denominated in U.S. dollars; however, on occasion transactions are contracted in foreign currencies.

Investments, which are denominated in foreign currencies, are initially recorded at the U.S. dollar equivalent on the date of the transaction and valued at September 30, 2017 and 2016 in accordance with the valuation policies. Items of income or expense that are denominated in a foreign currency are translated at the average rate for the month in which the transaction occurred.

Long-Term Equity Incentive Plan

The Board of Directors established a Long-Term Equity Incentive Plan (the LTEI Plan) with an effective date of October 1, 2002 for certain employees. This LTEI Plan, as approved by Congress and USAID, awards an interest in the net realized gain upon sale of the equity interest in a portfolio company. Interests are granted by the Board of Directors generally at the time of purchase of an investment. For LTEI Plan purposes, the calculation of net realized gain includes proceeds from sale, as well as cumulative dividends and preferred returns received from the portfolio company, net of any applicable financial participation rights. Interests are subject to a three-year vesting period and vest in one-third increments on each anniversary of the date of grant.

Under the terms of the LTEI Plan, the Board of Directors may, in its sole discretion, accelerate vesting, extend the term or period of exercisability, modify the exercise price or waive any terms of conditions applicable to any interests. Accordingly, no liability is

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

3. Summary of Significant Accounting Policies (continued)

Long-Term Equity Incentive Plan (continued)

recognized and no LTEI Plan expenses are recorded in the financial statements until a sale of an investment is realized.

In February 2006, the Board of Directors amended the LTEI Plan to enable continuation of LTEI Plan rights for eligible participants who remain an officer and/or key employee of the Fund or of HCA, or its affiliate, and HCA is retained as investment manager to the Fund. In February 2012, the Board of Directors further amended the LTEI Plan to extend the termination date of the Plan from September 30, 2012 to September 30, 2018. In November 2016, the Board of Directors further amended the LTEI Plan to extend the termination date of the Plan from September 30, 2018 to December 31, 2022 as well as approved a revised schedule of participation percentages to be used in allocating Proceeds.

4. U.S. Government Grants

The Fund has drawn down the \$150 million Grant in full. Under the terms of the Grant Modification, any liquidation proceeds realized by the Fund pursuant to winding up its affairs and selling its assets shall be allocated as follows: (i) 50% of such proceeds shall be utilized by WNISEF to support activities described in the Legacy Proposal; and (ii) 50% of such proceeds shall be utilized by the Fund for new investments and commitments to be undertaken to encourage the creation and expansion of SMEs in Ukraine and Moldova.

5. Investments

In the accompanying statements of assets and liabilities, investments are stated at fair value. During the year ended September 30, 2016, the Fund recorded a net realized loss of \$291,089 from the partial sale of one of the Fund's equity investments, and a net realized loss of \$91,549, reflecting its pro-rata share of EEGF realized losses incurred during this period, resulting in a total net realized loss on investments of \$382,638.

In addition, the Fund recorded a net unrealized gain on investments of \$2,669,694 for the year ended September 30, 2017 and a net unrealized gain on investments of \$204,868 for the year ended September 30, 2016, based on valuation of the investment portfolio at fair value as of September 30.

In May 2008, a sale-purchase agreement was entered into to sell the shares of an equity investment for the Ukrainian Hryvnia (UAH) equivalent of \$600,000 to be paid in tranches with the last payment to be received in May 2009. Subsequent to December 2008, given the financial crisis, no further payments have been made to the Fund. The Fund has received the UAH equivalent of \$325,000 and recorded a full allowance against the remaining amount due pursuant to the sale-purchase agreement.

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

5. Investments (continued)

Amounts relating to these transactions are included in deposits received on sale in the accompanying statement of assets and liabilities.

The following additional disclosures relate to the changes in fair value of the Level 3 investments as of September 30, 2017 and 2016:

Fair value at October 1, 2016	\$	23,479,988
Net change in unrealized loss on investments in earnings		2,669,694
Conversion of accrued interest to debt investment		194,012
Purchases for the year ended September 30, 2017		17,389,454
Proceeds for the year ended September 30, 2017		(14,956,376)
Fair value at September 30, 2017		28,776,772
Change in unrealized loss in earnings relating to assets still held	\$	2,669,694
Fair value at October 1, 2015	\$	17,658,435
Net realized loss from sales		(382,638)
Net change in unrealized loss on investments in earnings		204,868
Purchases for the year ended September 30, 2016		6,644,609
Proceeds for the year ended September 30, 2016, net of advisory fees		(645,286)
Fair value at September 30, 2016		23,479,988
Change in unrealized loss in earnings relating to assets still held	\$	204,868

The table below presents the ranges of significant unobservable inputs used to value Level 3 financial instruments representing the equity and debt investments. These ranges represent the significant unobservable inputs that were used in the valuation of these financial instruments. These inputs are not representative of the inputs that could have been used in the valuation of any one financial instrument. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the Fund's Level 3 financial instruments.

<u>Level 3 Financial Instruments</u>	<u>Significant Unobservable Inputs By Valuation Technique</u>	<u>Range of Significant Unobservable Inputs as of September 30, 2017</u>
Equity Investments	EV/EBITDA multiple	5.4 - 6.2
SAFE	EV/Sales	7.9

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

5. Investments (continued)

The significant unobservable inputs used in the fair value measurement of equity investments are EV/EBITDA (Enterprise value to EBITDA) multiples for recent, relevant, verifiable, comparable companies. Current multiples have been applied to forecast 2017 EBITDA as this more accurately reflects the current value of these entities and the challenges they face due to market conditions, including devaluation. The significant unobservable input used in the fair value measurement of financial instrument is EV/Sales (Enterprise value to sales) multiple for recent, relevant, verifiable, comparable companies. In addition, for the valuation of the SAFE instrument, the current multiple has been applied to forecast annual sales as this best reflects the current value of this entity and increasing performance. In certain cases, the Fund assesses the fair value of its investments based on third-party offers expressing interest in buying the underlying portfolio companies. Significant increases (decreases) in these inputs may result in a significantly higher (lower) fair value measurement. The Fund's investments in EEGF and EEGF III represent the Fund's limited partnership interests in EEGF and EEGF III. In the process of valuing its equity investments, EEGF and EEGF III apply substantially the same types of unobservable inputs as applied by the Fund with EV/EBITDA multiples range up to 6.2 as EEGF's and EEGF III investments also relate to entities operating in the Region.

6. Concentration of Credit Risk and Liquidity

By statute, all investments are in business activities conducted in the Region. As such, these investments and cash balances held in the Region's local banks are subject to the political and economic uncertainties associated with doing business in the Region. As of September 30, 2017 and 2016, the Fund had investments in debt securities of \$2,094,504 and \$1,550,492, respectively. As of September 30, 2017 and 2016, the Fund held cash and cash equivalents of \$21,633,483 and \$26,513,374 with a commercial bank based in the United Kingdom, \$19,443,481 and \$28,694,084 with commercial banks based in the United States and held remaining cash balances equaling \$81,792 and \$213,366 in the Region, respectively.

As of September 30, 2017 and 2016, all assets of the Fund are considered to be current excluding investments, fixed assets and Impact Investing Program long-term deposits.

As of September 30, 2017 and 2016, all liabilities of the Fund are considered to be current.

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

7. Fixed Assets

As of September 30, 2017 and 2016, fixed assets consisted of:

	2017		2016
Computer equipment and software	\$ 162,097	\$	157,509
Automobiles	103,070		23,524
Furniture, fixtures and equipment	21,277		14,789
Telephone equipment	5,889		6,208
Leasehold improvements	4,646		4,646
	<u>296,979</u>		<u>206,676</u>
Accumulated depreciation and amortization	(180,544)		(155,082)
Fixed assets, net	<u>\$ 116,435</u>	<u>\$</u>	<u>51,594</u>

8. Retirement Plan

The Fund established a defined contribution retirement plan (the Plan) designed to be qualified under Section 403(b) of the US Internal Revenue Code. All eligible employees meeting certain age and service requirements may participate. Eligible employees may contribute amounts up to \$18,000 in calendar years 2017 and 2016. Eligible employees who are age 50 or over at the end of the calendar year can also make catch-up contributions of \$6,000 in calendar years 2017 and 2016 beyond the basic limit on elective deferrals. In addition, the Fund makes monthly contributions to each eligible employee's account equal to 25% of the employee's base monthly salary, as defined, plus 5.7% of the amount of salary in excess of the Social Security Taxable Wage Base (\$127,200 as of January 1, 2017 and \$118,500 as of January 1, 2016).

Employees are eligible to participate in the Plan immediately and are fully vested in the employer's portion after two years of service.

Employer contributions to the Plan totaled approximately \$59,301 and \$58,075 for the years ended September 30, 2017 and 2016, respectively, and the related expense is included in employee compensation and benefits in the accompanying statements of operations and changes in fund balance.

9. Long-Term Equity Incentive Plan

Since the inception of the LTEI Plan as of October 1, 2002, the Fund has realized exits on eight qualifying portfolio companies resulting in incentive awards to LTEI participants during the fiscal years ended 2003 to 2017. As of September 30, 2017 and 2016 and for the years then ended, no exit-based incentive payable and exit-based incentive expense are recorded.

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

10. Operating expenses for investment activities

The table below provides a breakdown of the operating expenses for investment activities for the years ended September 30, 2017 and 2016, respectively.

	2017		2016
Investment management fees <i>(note 14)</i>	\$ 636,591	\$	631,221
Professional fees	369,223		175,986
Employee compensation and benefits	148,516		127,590
Business travel	85,250		97,480
Occupancy	35,440		33,535
Depreciation and amortization	4,598		4,667
Other operating	80,153		82,978
Total operating expenses for investment activities	\$ 1,359,771	\$	1,153,457

11. Administration expenses of Legacy Programs

The table below provides a breakdown of the administration expenses of Legacy Programs for the years ended September 30, 2017 and 2016, respectively.

	2017		2016
Program management fees <i>(note 14)</i>	\$ 525,000	\$	526,079
Employee compensation and benefits	496,508		434,804
Occupancy	84,472		84,472
Professional fees	79,451		52,798
Business travel	50,952		46,350
Depreciation and amortization	23,733		5,660
Other operating	31,201		58,155
Total administration expenses of Legacy Programs	\$ 1,291,317	\$	1,208,318

12. Commitments

Investments

As of September 30, 2017, the Fund has outstanding investment commitments to EEGF III totaling approximately \$22,409,900.

As of September 30, 2017 and 2016, the Fund has outstanding investment commitments to EEGF totaling approximately \$100,000.

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

12. Commitments (continued)

Investments (continued)

As of September 30, 2017, the Fund pledged its 232,487 ordinary shares in Glass Container Prim S. A. and 196,134 ordinary shares in Glass Container Company S. A. to International Finance Corporation (IFC) and Black Sea Trade and Development Bank (BSTDB) as security for loans provided by IFC and BSTDB to Glass Container Prim S. A.

Collateral

As of September 30, 2017, the Fund pledged a part of Impact Investing Program long-term deposits amounting to \$166,693 as security for loans provided by the banks to social enterprises.

Grants

As of September 30, 2017 and 2016, under the Economic Leadership Program, the Fund has signed certain conditional awards of grant to support studies of 17 and 12 MBA, MPA, MPP or LLM students, respectively. As of September 30, 2017 and 2016, a part of these awards amounting to \$1,021,963 and \$609,572, respectively, for which the grantees met the terms of the conditions of the grant is included in Economic Leadership Program expense in the statement of operations and changes in Fund balance out of which \$321,439 and \$269,365, respectively, is included in grants payable in the statements of assets and liabilities. The remaining part of grant awards for which these terms were not met totals \$1,313,594 as of September 30, 2017 and will be disbursed during the years 2018-2019.

As of September 30, 2017 and 2016, the Fund has contractual obligations to others of \$48,000 and nil, respectively, that will become liabilities in the future when the terms of those contracts or agreements are met.

Operating Leases

Rent expense for the years ended September 30, 2017 and 2016 is \$119,912 and \$118,007, respectively. In January 2008, the Fund entered into a lease agreement (Lease Agreement) for the Chicago, Illinois premises that took effect on February 1, 2008 and was in effect until January 31, 2010. The lease has been extended on several occasions and is in effect until January 31, 2019.

Monthly rental payments are required under the lease and, as the Grant Agreement with USAID mandates that the Fund maintain a U.S. office, continue to be an obligation of the Fund.

In addition, as of March 1, 2006, the lease obligations in Kyiv, Ukraine and Chisinau, Moldova were transferred to HCAD, except for a nominal portion of these office leases in order to maintain the Fund's status in the Region. These nominal rental payments were paid by the Fund and reimbursed in full by HCAD, in accordance with the investment

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

12. Commitments (continued)

Operating Leases (continued)

management agreement between the Fund and HCA. Starting from February 2015 and due to the Legacy Programs launch lease costs in Ukraine are allocated as follows: 1/3 to the Fund and 2/3 to HCAD based on the estimated usage of space by each organization.

Future lease payments under both lease agreements as of September 30, 2017 to be paid by the Fund are as follows:

Financial year 2018	\$	56,648
Financial year 2019		11,900
Total operating lease commitments	\$	68,548

13. Tax Status

United States

Historically, the Fund has been exempt from Federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code), and, because it was funded through U.S. government grants, has been classified as an organization that is not a private foundation as defined in Section 509(a)(1) of the Code. The Fund changed its classification during 2010 from an organization that is not a private foundation under Section 509(a)(1) to a public charity as defined in Section 509(a)(2) of the Code, given that its income is no longer derived primarily from grants. The Fund continues to maintain its 501(c)(3) designation and is exempt from payment of state and local income taxes. The Fund is registered as a Charitable Trust in Illinois.

Western NIS Region

The registration of the Fund's accredited representative offices in Ukraine and Moldova occurred on March 31 and July 28, 1995, respectively. Under a bilateral agreement between the Government of the United States of America and the Governments of Ukraine and Moldova regarding cooperation to facilitate the provision of assistance, the Fund is exempt from taxation on income received in connection with implementation of the United States assistance programs. During fiscal year 2003, the Fund ceased activities of its representative office in Ukraine, electing to conduct its operations as an international technical assistance project, as defined by the Governments of the United States and Ukraine.

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

14. Related Party Transactions

In February 2006, the Fund entered into an investment management agreement with HCA, approved by the Board of Directors, to manage the Fund's investments on the same terms as the investment management agreement between EEGF and HCA. The agreement envisioned a fee of 2.5% of committed capital to manage its portfolio during the commitment period, payable semi-annually in advance on January 2 and July 1, decreasing to 2.0% of funded commitments after the expiration of the commitment period. As the commitment period of EEGF ended December 31, 2008, the step-down in management fees to 2.0% of funded commitments took effect as of January 1, 2009. The management fee expense from October 1, 2016 through September 30, 2017 totaled \$636,591 and a prepaid balance of \$165,792 is included in the statement of assets and liabilities as of September 30, 2017. The management fee expense from October 1, 2015 through September 30, 2016 totaled \$631,221 and a prepaid balance of \$155,033 is included in the statement of assets and liabilities as of September 30, 2016.

During 2017, the Fund sold two investments, including Matar Trade & Invest Limited (Genesis) and Avalex Investment Limited (Anex) to EEGF III. Proceeds from the sale of these entities totaling \$13,958,338 were received in full.

In February 2015, the Fund entered into a shared services agreement with HCA, approved by the Board of Directors, to provide additional program management and administrative services for Legacy Programs. The agreement envisioned a fee of \$525,000, payable annually in advance on the first business day of January, with the first payment made in May 2015 for the period from February 1, 2015 through December 31, 2015. The Program management fee expense from October 1, 2016 through September 30, 2017 totaled \$525,000 and a prepaid balance of \$131,250 is included in the statement of assets and liabilities as of September 30, 2017. The Program management fee expense from October 1, 2015 through September 30, 2016 totaled \$526,079 and a prepaid balance of \$131,250 is included in the statement of assets and liabilities as of September 30, 2016.

The Fund also entered into the following arrangements with EEGF:

- In January 2007, the Fund co-invested \$2,000,000 with EEGF in Kerameya LLC. In November 2008, the Fund increased its investment by \$1,000,000 to \$3,000,000 and in September 2011, the Fund increased its investment by \$1,250,000 to \$4,250,000. In September 2017, the Fund received \$302,546 from Kerameya LLC as a return of capital;
- In June 2007, the Fund subscribed for 323,897 shares in Banca de Finante si Comert S.A. (Fincombank) for \$7,999,740 and entered into an agreement with EEGF whereby EEGF provided \$5,000,000 to the Fund and received the option to acquire 202,440 shares or 15.63% in the Fincombank investment and share in the net risks and rewards of this investment. In the statement of assets and liabilities, the \$5,000,000 provided by EEGF to the Fund, in relation to these 202,440 shares, is netted against the \$7,999,740 acquisition cost for the full share stake. In March

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

14. Related Party Transactions (continued)

2009, a new share emission was concluded and the Fund's interest in Fincombank had reduced to 24.62%. In January 2015, the Fund realized a partial exit of its stake in Fincombank by participating in a planned buy-back of shares into treasury resulting in a decrease of the Fund's interest in Fincombank to 20.72%, which includes 12.95% relating to this option for purchase by EEGF. In June 2016, the Fund realized another partial exit of its stake in Fincombank by participating in a planned buy back of shares into treasury resulting in a decrease of the Fund's interest in Fincombank to 13.03%, which includes 8.14% relating to this option for purchase by EEGF. Currently, the Fund remains the sole legal owner of all 171,411 shares in Fincombank.

Subsequent to the initial closing of EEGF, a majority of the Fund's personnel, administrative and operating expenses were transferred to HCAD. During fiscal years 2017 and 2016, the Fund made payments on behalf of HCAD totaling \$27,778 and \$29,748, respectively, and HCAD made payments on behalf of the Fund totaling \$120,216 and \$178,235, respectively. As of September 30, 2017, there was an outstanding balance of \$4,259 due from the Fund to HCAD and included in other liabilities in the accompanying statements of assets and liabilities. As of September 30, 2016, there was an outstanding balance of \$5,575 due from the Fund to HCAD and included in other liabilities in the accompanying statements of assets and liabilities. These balances were fully reimbursed subsequent to year-end.

Effective as of January 1, 2007, the Fund and HCAD entered into an agreement for the use by HCAD of the Fund's Chicago office and services of personnel based in this office for a fee of \$2,000 per month payable quarterly in advance by HCAD to the Fund. Beginning in 2009 this amount was increased to \$3,000. Another agreement was entered into in 2009 in relation to employment by the Fund of an individual based in Chicago, Illinois to perform work on behalf of HCAD and requires \$500 per month payable quarterly in advance by HCAD to the Fund as well as reimbursement of agreed-upon expenses.

In August 2016, the Fund entered into a grant agreement with Ukrainian Leadership Academy ("ULA") to provide up to \$2,500,000 in operating funding for the period from August 18, 2016 till August 18, 2017. In April 2017, the Board of Directors of the Fund authorized the expenditure of an additional \$1,250,000 thereby increasing total expenditure relating to ULA to \$3,750,000. During the year ended September 30, 2017, the Fund provided funding of \$3,350,153. During the year ended September 30, 2016, the Fund provided funding of \$311,666 and transferred fixed assets totaling \$42,806. WNISEF may at its discretion suspend funding.

In addition, in relation to the ULA, the Fund contracted a service provider, GP Advisors ("GPAS") and its affiliate, GPA, both entities controlled by the spouse of an officer of the Fund, to perform payroll administration services until such time as registration of the Ukrainian legal entity for the ULA was complete as well as to provide other legal services. These services were provided at market terms with the respective officer recused from firm selection, contract negotiation and execution. For the year ended September 30, 2017, the Fund reimbursed these entities for payroll expenses incurred totaling \$42,153

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

14. Related Party Transactions (continued)

with payments made of \$16,562 in relation to administration services and other legal fees. For the year ended September 30, 2016, the Fund reimbursed these entities for payroll expenses incurred totaling \$316,745 with payments made of \$64,840 in relation to administration services and other legal fees. As of September 30, 2016, the Fund accrued \$28,433 for payroll reimbursement and \$4,907 for administration services and other legal fees in accounts payable and other accrued expenses in the accompanying statements of assets and liabilities. During fiscal year 2017, payroll administration was transitioned to the ULA NGO.

In October 2016, the Fund provided funding amounting to \$39,000 to the Fund's investment Glass Container Prim S.A., under the agreement for granting financial aid to be used for development of export strategy and financing of export promotion activities within the Export Promotion Policy Program.

In March 2016, the Fund entered into an Expenses compensation agreement with Kerameya LLC, the Fund's co-investment with EEGF, to compensate Kerameya's expenses related to export promotion of its products within the Export Promotion Policy Program amounting to \$11,500. Funding was provided in April 2016.

During the years ended September 30, 2017 and 2016, the Fund earned \$4,557 and \$5,422 of director's fees from its portfolio investments, respectively.

The Fund pays certain costs on behalf of its portfolio companies for which the Fund seeks reimbursement. Amounts not ultimately reimbursed to the Fund are written off and expensed in the accompanying statements of operations and changes in fund balance.

15. Contingencies

In the ordinary course of business, the Fund may be involved in various claims and legal actions and may bear material legal costs relating to such matters. In the opinion of management, no provision is required and none is included in the accompanying financial statements as the loss, if any, will not have a material adverse effect on the financial position or changes in fund balance.

16. Guarantees

In the normal course of business, the Fund enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, management believes the risk of loss to be remote.

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

17. Financial Highlights

The financial highlights for the years ended September 30, 2017 and 2016 are as follows:

	2017	2016
Ratios to average fund balance		
Net investment loss	(0.9)%	(1.2)%
Net realized loss on investments	-	(0.5)%
Operating expenses for investment activities	1.8 %	1.4 %
Legacy Programs	14.3 %	8.3 %
Total return	(11.1)%	(9.2)%
Ratios to committed capital		
Net investment loss	(0.5)%	(0.7)%
Net realized loss on investments	-	(0.3)%
Operating expenses for investment activities	0.9 %	0.8 %
Legacy Programs	7.1 %	4.5 %

Ratios to average fund balance are computed as net investment gain or loss (total investment income less total expenses), net realized gain or loss on investments (excluding realized losses from the write-off of investments) and expenses divided by the average fund balance for the years ended September 30. The total return represents the change in the value of an investment, and is measured by comparing the aggregate ending value of fund balance to the aggregate beginning value of the fund balance.

Ratios to committed capital are computed as net investment gain or loss (total investment income less total expenses), net realized gain or loss on investments (excluding realized losses from the write-off of investments) and expenses divided by committed capital. Committed capital is the total letter of credit commitment from USAID. As of September 30, 2017 and 2016, this amount was \$150,000,000.

18. Subsequent Events

In October 2017, the Fund disbursed \$250,000 in relation to Rallyware Inc., an investment in the WNISEF SME program.

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2017 and 2016

18. Subsequent Events (continued)

In December 2017, the Fund signed an Amendment to the Lease Agreement for the office premises in Ukraine that extends the lease term till December 31, 2018. Future lease payments pursuant to the Amendment to the Lease Agreement are as follows:

Financial year 2018	\$	120,002
Financial year 2019		33,018
Total operating lease commitments	\$	153,020

Management has evaluated events from the date of the statement of assets and liabilities through January 29, 2018, the date at which the financial statements were available to be issued, and has determined that there are no other items to disclose.

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