



Annual Management Report  
Independent Auditor's Report  
Financial statements

Mutual Fund  
Advance Eastern Europe

31 December 2015

advance eastern europe   
KAROLL CAPITAL MANAGEMENT

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**ANNUAL MANAGEMENT REPORT**

**OF**

**MUTUAL FUND ADVANCE EASTERN EUROPE**

**2015**

## **I. DEVELOPMENT, OPERATING RESULTS AND POSITIONS OF THE MUTUAL FUND, DESCRIPTION OF THE MAIN RISKS**

### **1. Registration and licencing of the Fund**

MF Advance Eastern Europe is an open-ended collective investment scheme, which operates on the principle of risk sharing. The activity of the fund is the investment in securities of the funds raised through public offering of its shares. The overall activities of the Fund are administered by the Management Company, Karoll Capital Management EAD.

The management Company “Karoll Capital Management” has received permit 742 - DF/30.08.2006 by the FSC to organize and manage the mutual fund “Advance Eastern Europe”. The Fund is registered under art. 30, para. 1, item 5 of the FSCA.

UniCredit Bulbank is the depository bank, which holds the securities and cash of the Fund.

The public offering of shares of Advance Eastern Europe over the counter started on 4 October, 2006.

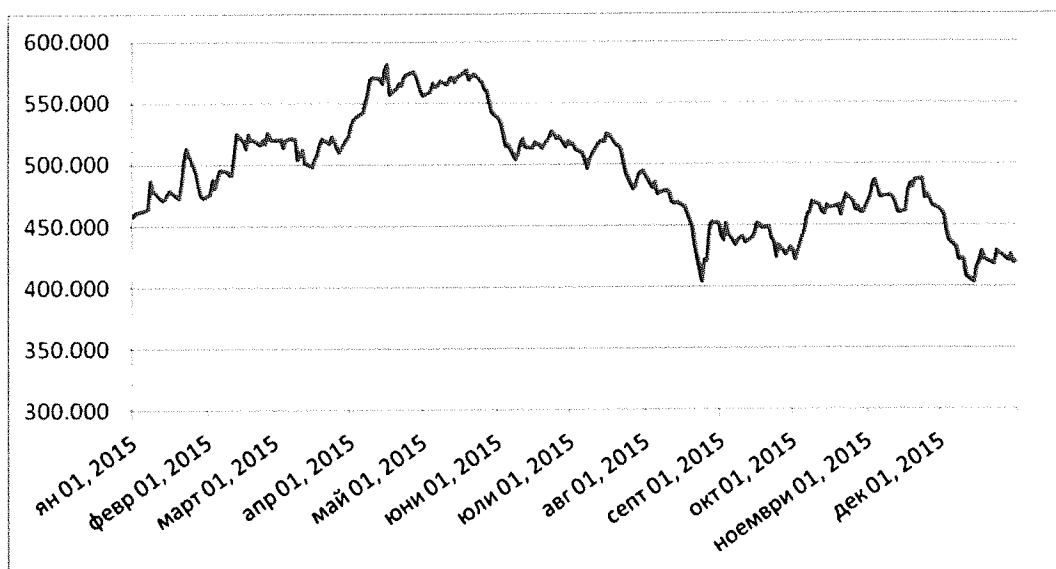
The capital of the Fund varies and may change depending on the number of issued and repurchase shares, but it is always equal to the net asset value of the Fund. The nominal value of a share is EUR 1.

### **2. INVESTMENT ACTIVITY IN 2015**

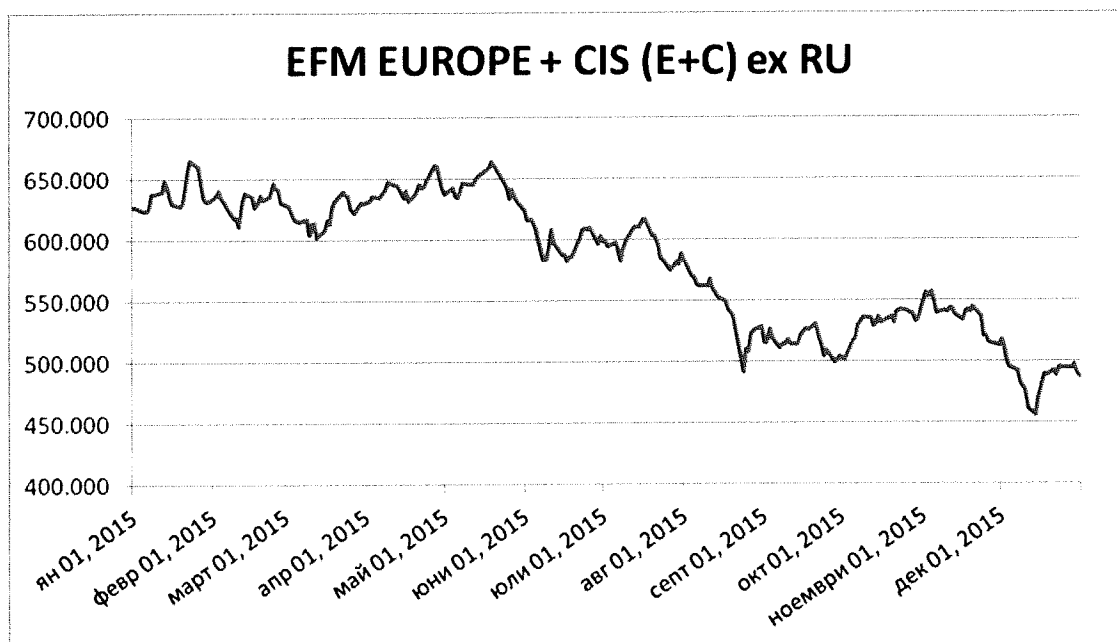
2015 was marked by very high levels of volatility, as global markets were under considerable pressure under the influence of a number of factors. The indications for the slowing pace of growth, of the Chinese economy created uncertainty about the performance of other economies. On the other hand, investors' attention was riveted by the actions of the US Federal Reserve and the European Central Bank in terms of monetary policy tightening in the US and the incentives for the countries in the Euro zone. As a result of contradictory signals for the performance of the major world economies and also frustrations from the ECB's actions have led to robust sales in the second half of the year, with particularly poor performance in emerging markets.

The region of Eastern Europe also became a subject of sales, although some markets managed to end the year positively. After a very poor performance on the Russian market in 2014 as a result of Western sanctions following the conflict with Ukraine, tension was substantially mitigated, which had an impact on the perception of risk on the Russian market. During most of the year, USD-denominated Russian RTS index was in positive territory, but the sharp decline in oil prices in the second half of 2015 strongly pressured the rouble and RTS finished the year, negatively. The MSCI EFM Europe + CIS (E+C) finished the year with decline of 8.3%. As a result of the severe downturns on the major markets in the region, such as Poland and Turkey, the index excluding Russia – MSCI EFM Europe + CIS (E+C) ex RU finished the year with more significant losses – decline of 22.13%. Geopolitical tensions in the region in respect to the refugee crisis and the deterioration of the relations between Russia and Turkey also contributed to the negative sentiment towards the region.

### Movement of MSCI EFM Europe+CIS (E+C) in EUR – 2015



### Movement of MSCI EFM Europe+CIS (E+C) ex RU in EUR - 2015



### Overview of the markets, represented in the Fund's portfolio

#### Russia

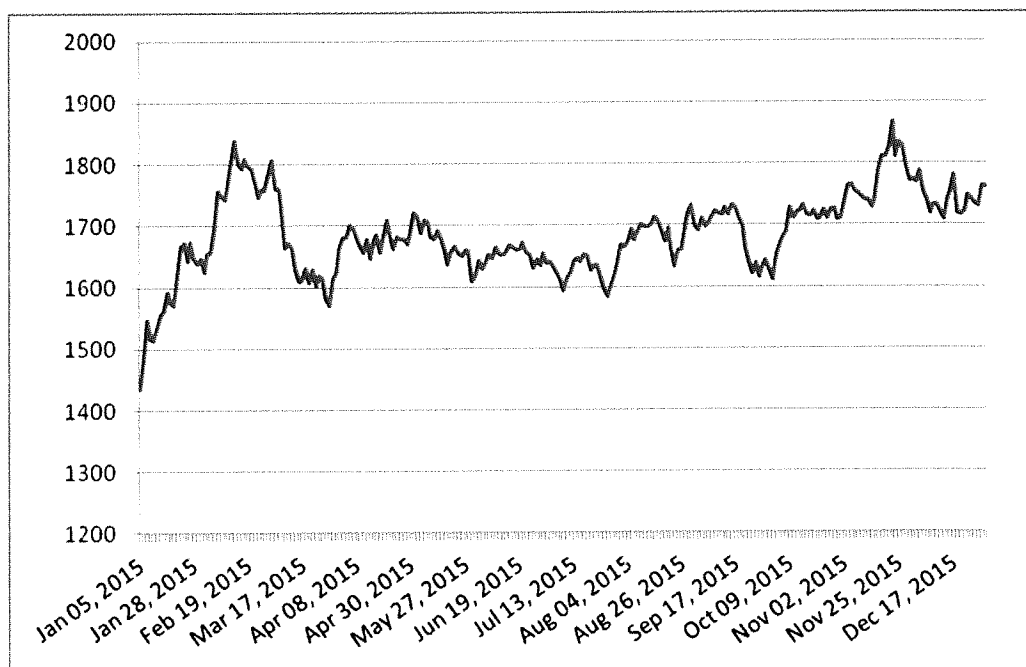
The significant decline in the price of oil and commercial restrictions imposed by the West on Russia, were because of the conflict with Ukraine, had a severe impact on the Russian economy, which in 2015 shrank by nearly 4%. In the third quarter of the last year the decline in GDP slowed, and there are other indications of some stabilization. However it is still too early

to outline a lasting reversal of the negative trends, as challenges facing the Russian economy remain. Forecasts for 2016 are for slight change in GDP, as the IMF predicts decline of 1%. Inflation is still high – expectations show 15% for 2015 and decrease to 9% in 2016. Retail sales shrank by more than 10% in 2015.

The strong decline in oil prices in 2015 had an impact on the movement of the Russian rouble, which depreciated by over 20% against the dollar since 2014 when also lost serious positions. The low price of oil, which is responsible for about half of budget revenues, raises serious concerns about the budget deficit of Russia, which is estimated to be above 5 percent of GDP last year.

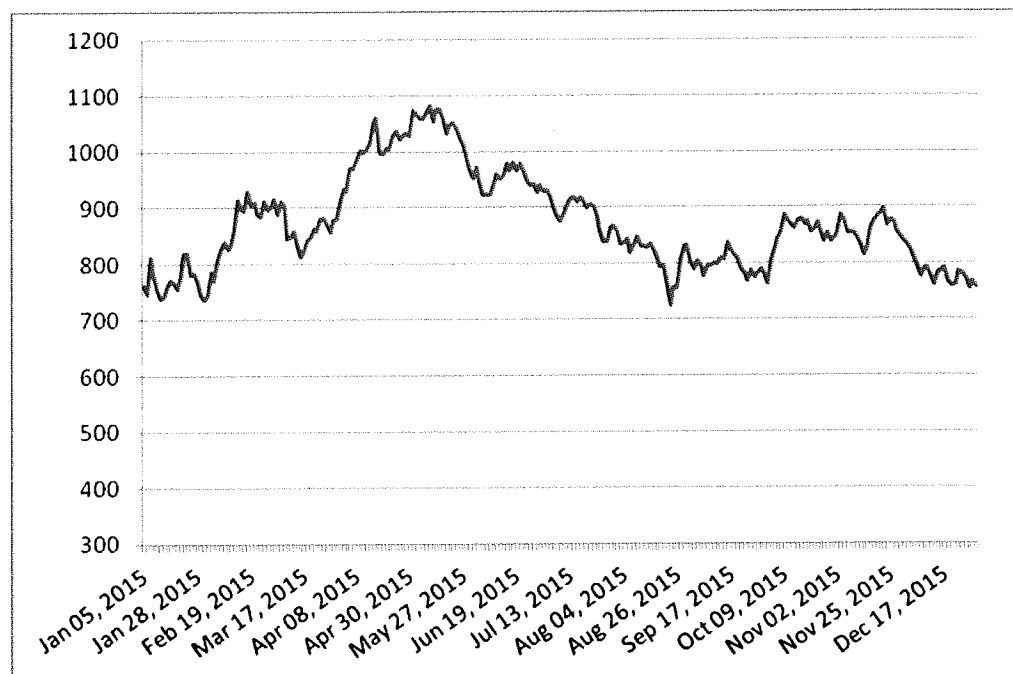
In local currency, however, Russian stocks performed strongly, as the MICEX index rose up more than 26%. The change in the relations between Russia and the Western countries, resulted after the actions of Russia as an ally to the international coalition against terrorism, contributed to this positive amendment in the course of the index. The ease of tensions with the West reduced the political risk of the Russian stocks as investors began to revise exposures on the Russian market.

### **Movement of MICEX during 2015**



The severe impairment of the rouble led to collapse the dollar-denominated RTS index by 4.3%, after more than 10% decline in December.

## Movement of RTS during 2015



In respect to the current situation in Russia, our expectations for 2016 are for strong performance of the export-oriented companies, whose expenses in roubles, whereas the sales are denominated in USD. Our predictions are especially favourable for companies in the fertilizer industry and agriculture. Retail companies also are expected to perform positively, considering the vast potential of the Russian market, taking into account the demographic situation and still low level of market invasion.

Considering the poor economic picture in Russia resulting in worsened financial results for the major part of the companies, the average P/E ratio on the market, at the end of 2015, was 12.5x, which is above the historical average for the Russian market.

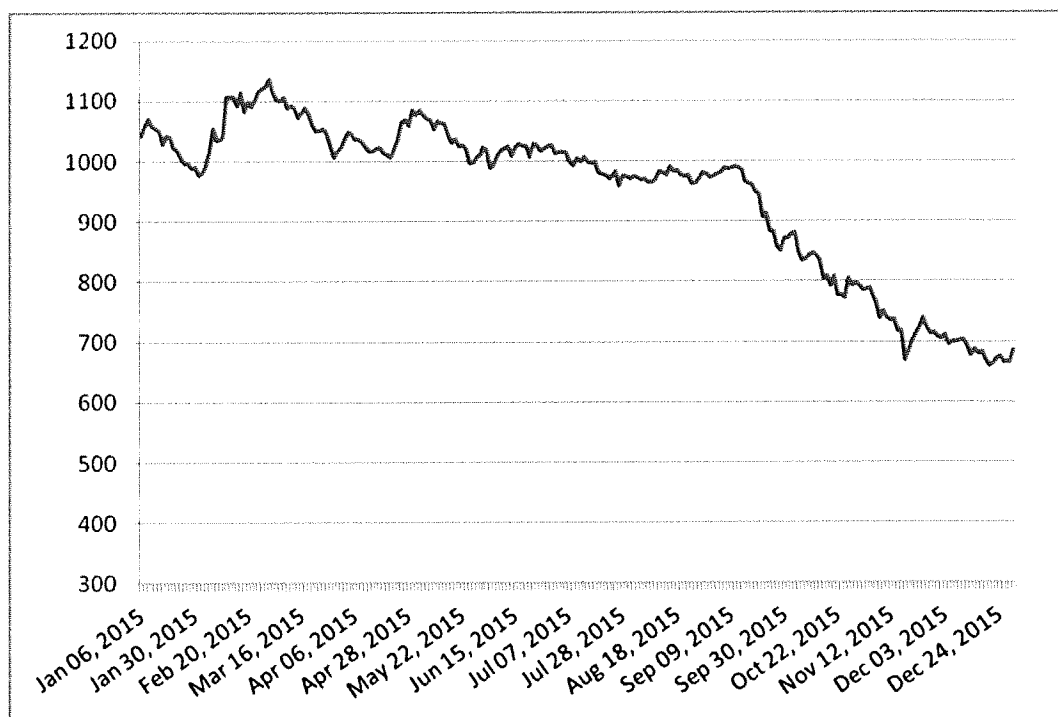
### Ukraine

The Ukrainian market performed worst amongst all markets in Central and Eastern Europe in 2015. The index UX collapsed with more than 30%, and in addition, Ukrainian hryvna continued to lose its value significantly, losing more than a third of its value against the dollar, after sharp depreciation in 2014.

Last available data raises hope that the Ukrainian economic, which as oppose to others in the region is dependent on the export of raw materials, reached the bottom after very poor performance in the prior year. Estimations show that in 2015 GDP collapsed between 9 and 10%, as assessments of the IMF are for 2% increase during 2016. The enforcement of the Free Trade Agreement between Ukraine and the European Union also could have positive effect, although it is expected to occur in mid-term.

Ukrainian economic faces many challenges, especially high rates of inflation (50% for 2015), as despite the predictions for decrease of the consumers price index in 2016, expectations are that it will remain very high (14.2% as per IMF forecasts). The indebtedness level remains very high compared to other countries in the region, as the government debt is above 90% of GDP.

### Movement of UX during 2015



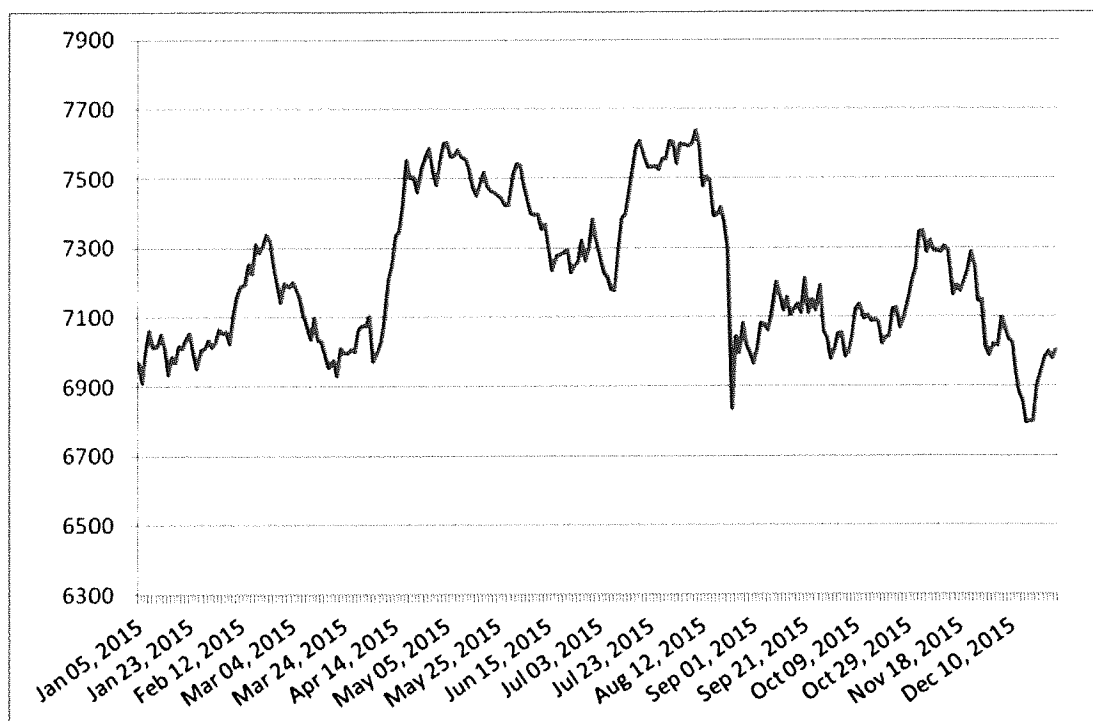
Despite the remaining risks that the Ukrainian economy faces, it is possible for some companies to register improvement of their financial results, after very poor performance up to that point, due to the severe economic crisis, the country suffered. More precisely, we expect improvement in agriculture and metallurgical oriented businesses, as for the country, the tension between Turkey and Russia may have positive impact, meaning increased export for certain Ukrainian products, substituting Russian export. Overall significant risks still are present, as we remain cautious regarding exposures in Ukraine. Given the low liquidity of the Ukrainian market, our investments in Ukrainian companies will be primarily in those that are listed on foreign exchanges (London, Warsaw) with considerably better turnovers in trading.



## Romania

Romanian market's performance was relatively poor for the year, despite that overall it was better than most of the economies in the region. After positive first half of the year, the subsequent performance of the index BET was in unison with the general conditions on the markets, as the index ended the year with slight change of  $-1.1\%$ .

### Movement of BET during 2015



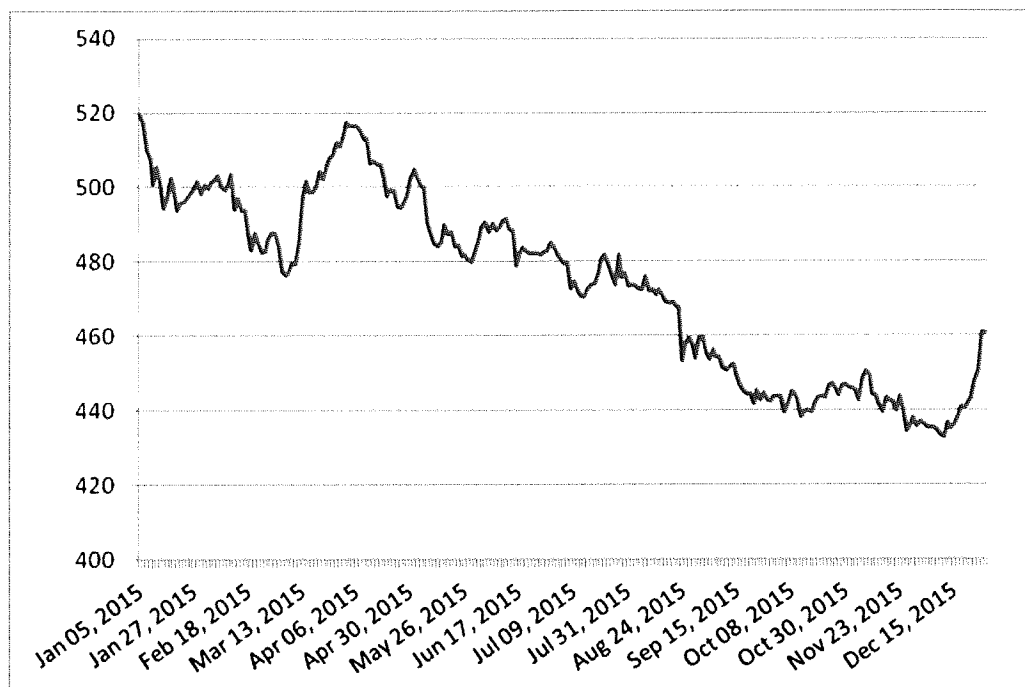
In macroeconomic terms, Romania remains among the best developing countries in the region. Strong internal consumption forms the foundation of one of the most significant growth rates in South-eastern Europe in recent years (+3.6% GDP annualized growth rate in the third quarter of 2015), and it is accomplished despite the decline in export. It is expected that high internal consumption rates will persist in the current year, taking into account the increase in remunerations as well as the decrease in VAT from 24% to 20% from the beginning of 2016.

In industrial terms, our expectations are for good performance of the Romanian banks, given positive predictions for the economic situation in the country. With P/E ratio of 12.3x as of the end of the prior year, and average dividend yield of 5%, as well as positive forecasts for the economy, the Romanian stock exchange offers great possibilities from a fundamental perspective.

## Bulgaria

The Bulgarian market continued to perform poorly, despite the growth of almost 6% in December, SOFIX ended the year with decline of almost 12%.

### Movement of SOFIX during 2015



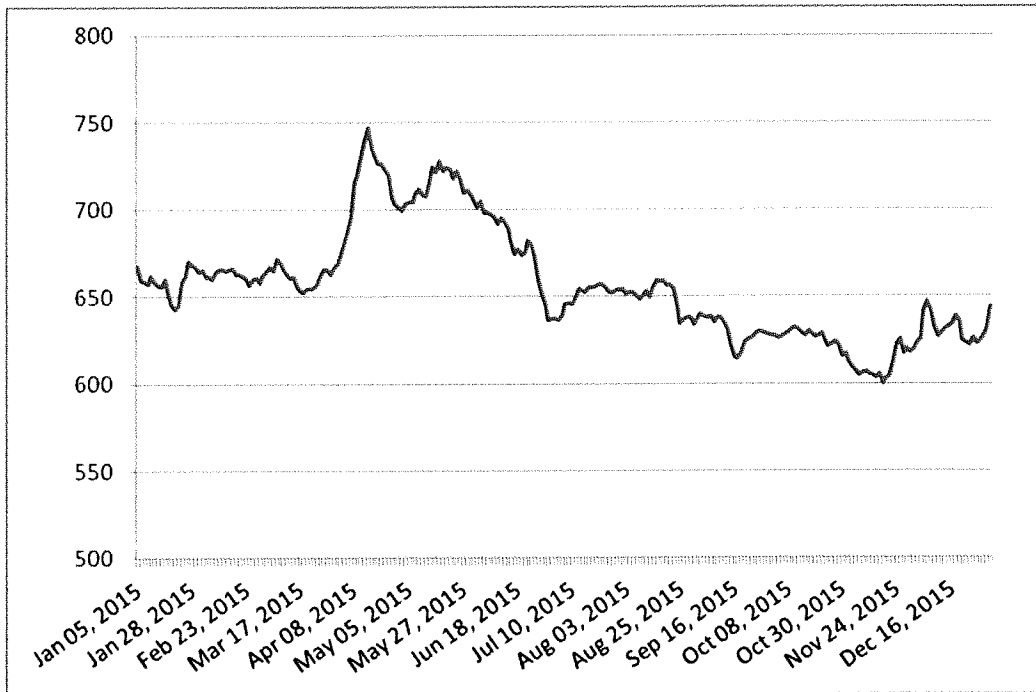
In macroeconomic terms, the Bulgarian economy surprised with good GDP growth rates, reported in the prior year. During the third quarter of 2015, the growth has increased to 2.9% - annualized. As with Romania, here the growth also is generated mainly from internal consumptions, supported by improved labour conditions and increase in remunerations. Net export also contributed to the GDP growth. Expectations for 2016 are for increase of 2.2% of GDP (according to World Bank), generated primarily by internal consumption. Like most of the countries in the region, oil and other raw materials' price drop has positive influence on consumption.

Market's collapse as well as improvement of corporate financial results led to decline of the average P/E from 12.4x as of the end of the year.

## Serbia

The Serbian market also ended the year negatively, as the main Serbian index collapsed by 3.4%.

### Movement of Belex 15 in 2015



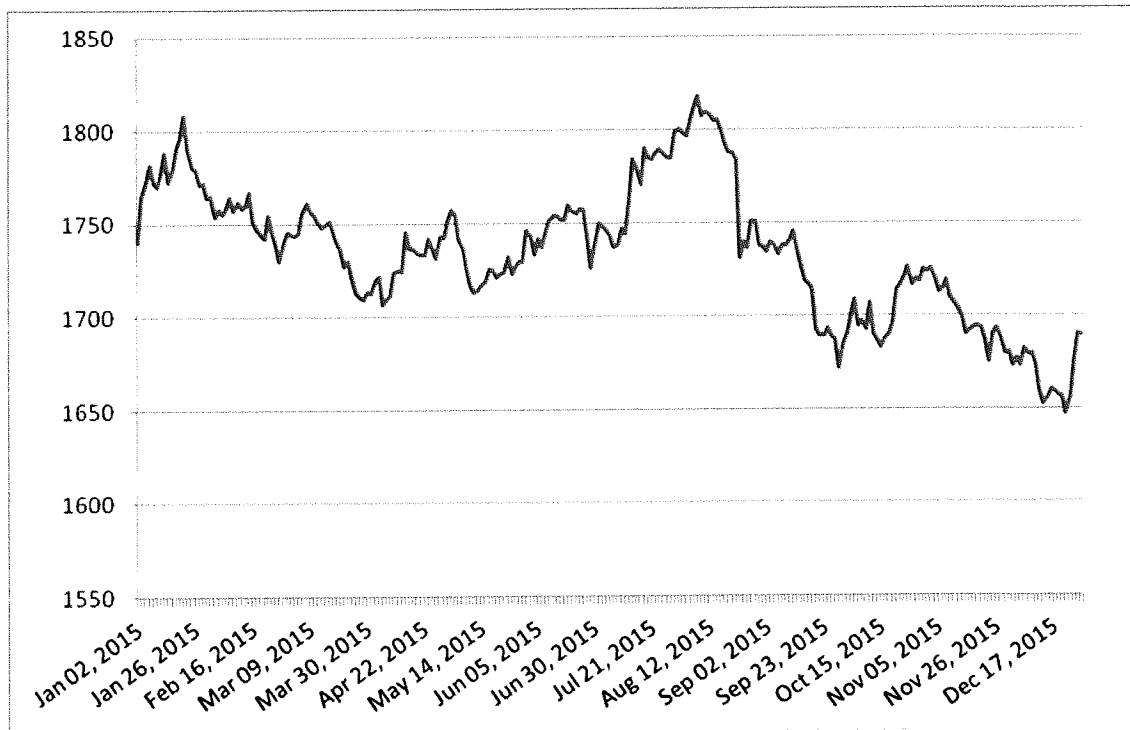
After shrinking in 2014 (GDP dropped by 1.8%), the past year was much more positive as the GDP increased in the third quarter of 2015 to 2.2%. Improvement has been a consequence of better than expected results of the companies in the mining and energy sector. The main force, generating growth is investments and to a lesser extent – consumption. The projections for 2016 state that this trend will continue. Unemployment rates remain high – around 20%. During the year the Serbian dinar was almost without change compared to the euro, with central bank interventions contributing to this, as well as the sound levels of foreign direct investments.

Serbia is one of the most underestimated markets in the region with P/E of 7.4x on ttm basis as of the end of 2015. The market is still about 80% below its peak from 2007. In the current year we expect improvement of in the results of export-oriented companies, and determined by positive projections for the Serbian economy, we expect improvement of financial situations of banks and construction companies.

## Croatia

Croatia continued to perform poorly, as the main index ended the year decreased with 3.2%.

### Movement of CROBEX during 2015



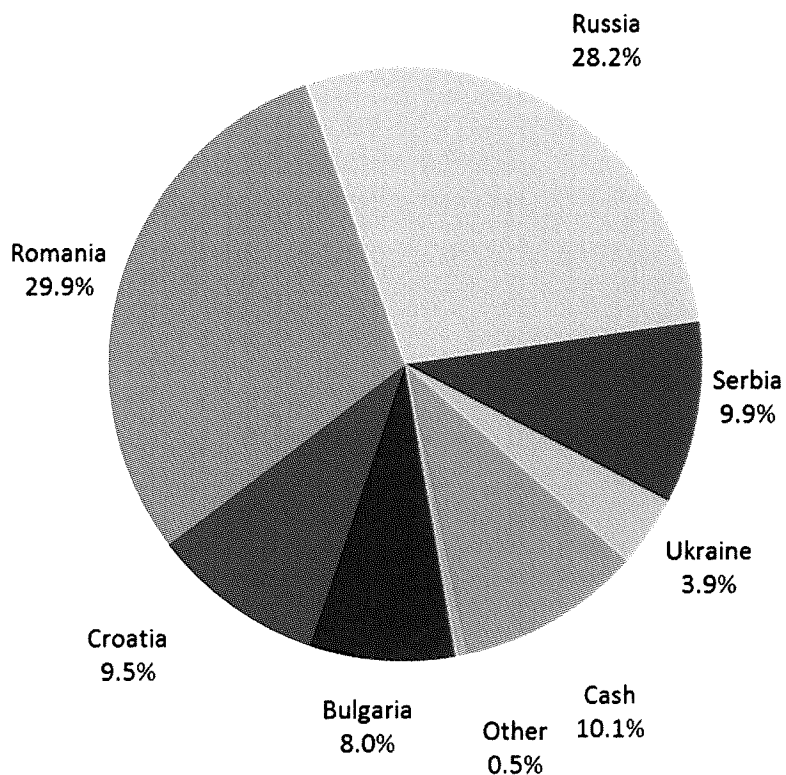
Despite difficulties that Croatian economy faces, its development during the past year was encouraging. In the third quarter of 2015, Croatian GDP growth reached highest peak since 2008 (+2.8% - annualized). The export and internal consumption were the foundations of this result, as the good tourist season also contributed. In 2016 the threat of early parliamentary elections that could block the necessary structural reforms represents the greatest risk. Government debt (above 85% of GDP) and unemployment rates (above 16%) remain at high levels.

At the end of 2015 Croatian shares traded with P/E slightly above 15x. In 2016 we expect positive performance from companies operating in tourism sector, accountable for 17% of the country's GDP. Considering the geopolitical tension in the region between Russia and Turkey, it is likely enough that Russian tourists will seek new destinations and logically Croatia could be one of the beneficiaries.

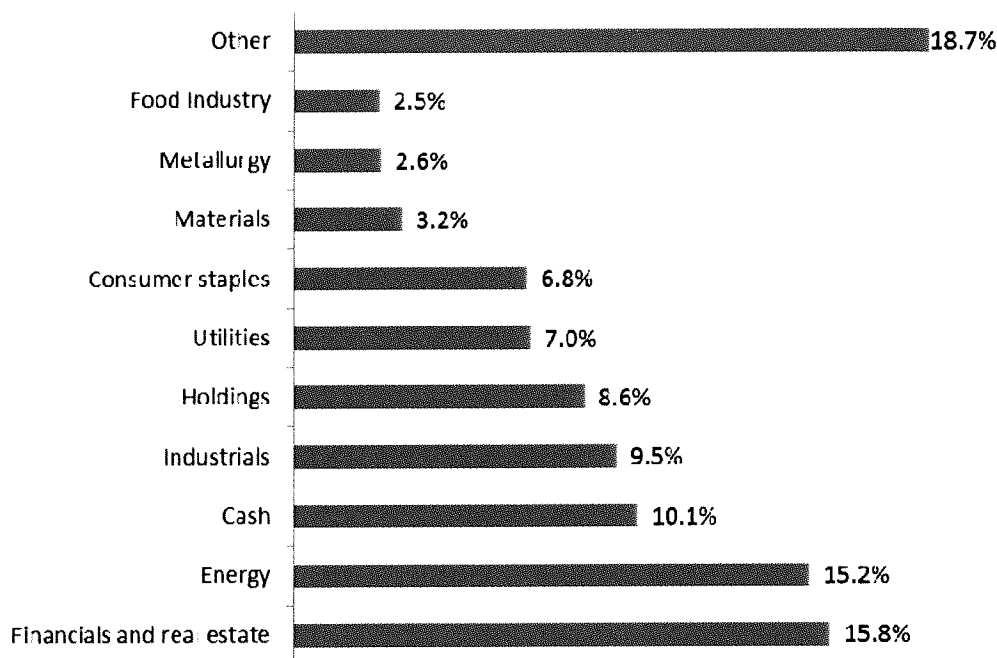
### Changes in the portfolio of MF Advance Eastern Europe, as a result of the activity in 2015

In 2015 major part of the portfolio consists of Russian and Romanian assets, as minor markets in the region had minor part in the Fund's portfolio. The share of Ukrainian equities has been significantly reduced, considering the negative perspectives that this market faces.

### Portfolio of MF Advance Eastern Europe as at 31 December 2015



**Sector allocation of the assets in the portfolio of MC Advance Eastern Europe as at 31 December 2015**



In terms of sector allocation –financial and energy companies retained leading positions in the portfolio.

**Leading positions in the portfolio as proportion from total assets as at 31.12.2015**

Company	% of total assets
BANKA TRANSILVANIA (Romania ), Finance and Real estate	5.75%
BANCA ROMANA PENTRU (Romania), Finance and Real estate	4.63%
FONDUL PROPRIETATEA SA (Romania), Holdings	3.77%
Akron JSC (Russia ), Industrials	3.72%
TRANSELECTRICA (Romania), Utilities	3.68%

**3. FINANCIAL RESULT AND TOTAL COMPREHENSIVE LOSS FOR 2015**

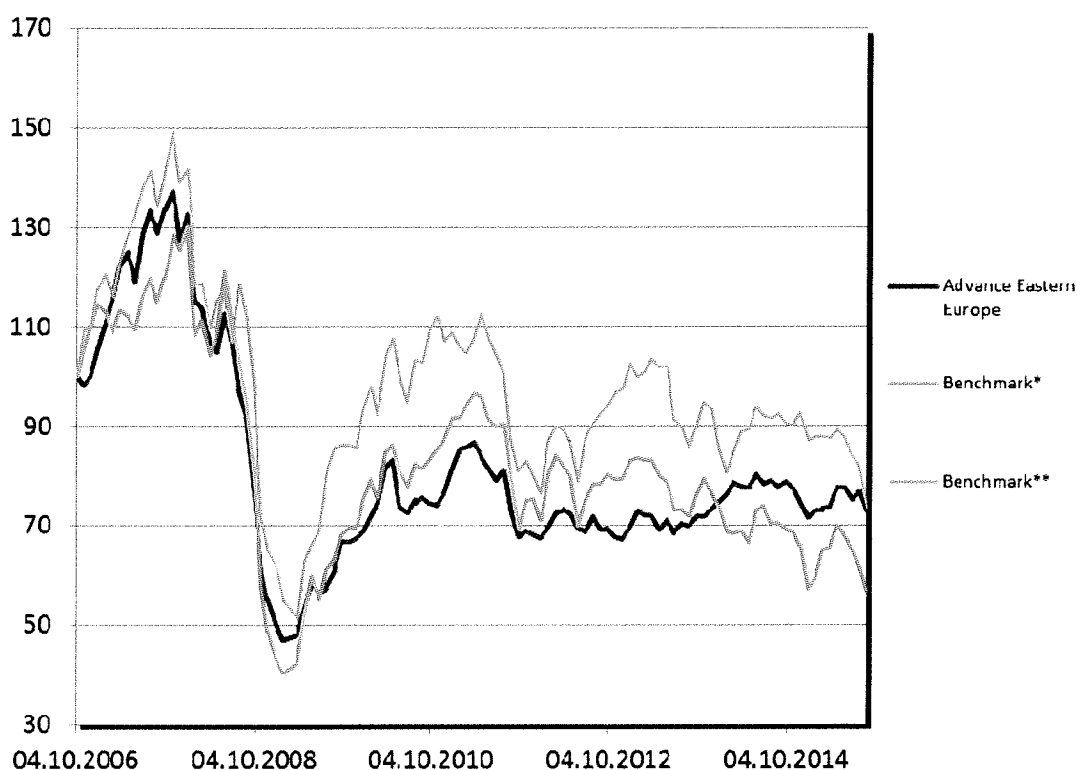
The financial result of MF Advance Eastern Europe as at 31 December 2015 was a loss of BGN 261 thousand. Total comprehensive loss for the year amounted to BGN 123 thousand.

The Fund's revenues are financial income of BGN 3 064 thousand, from which revenue from operations with financial assets amounts to BGN 178 thousand, interest income of BGN 2 thousand, dividend received – BGN 218 thousand, and foreign currency exchange gains at the amount of BGN 2 666 thousand.

In 2015 the financial expenses of the Fund totalled BGN 3 133 thousand, from which – losses from operations with financial assets at the amount of BGN 247 thousand and foreign currency exchange losses amounting to BGN 2 886 thousand. Non-financial expenses are at the amount of BGN 192 thousand and represent hired services expenses which are 3.22% of the annual average net assets value of the Fund. From them BGN 149 thousand represent the management company’s remuneration.

#### 4. CHANGES IN THE PRICE OF THE FUND’S SHARES

The fund managed to overachieve during the year, compared to the two benchmarks used, as well as it retain relatively good results from the initial offering until now.



Benchmark\* MSCI EFM Europe + CIS  
 Benchmark\*\* MSCI EFM Europe + CIS ex RU

<b>Results of the Fund</b>			
	<b>Fund</b>	<b>Benchmark*</b>	<b>Benchmark**</b>
Yield 2015	-2.29%	-8.32%	-22.13%
From initial offering (annualized)	-3.79%	-6.87%	-5.03%

## 5. EXPECTED RISKS ASSOCIATED WITH THE INVESTMENT PORTFOLIO AND TECHNIQUES FOR THEIR MANAGEMENT

The risks associated with the investments of Advance Eastern Europe are:

a) *Market risk* - the possibility of incurring losses due to adverse changes in the prices of securities, market interest rates, exchange rates and others. Components of the market risk are:

- interest rate risk - the risk of decrease in the value of an investment in a security due to changes in interest rates. The Management Company measures interest rate risk by calculating duration. Duration is a measure of the sensitivity of a security to the level of interest rates. The Management company uses the method of modified duration to measure interest rate risk associated with each security based on interest rates as bonds, interest rate swaps, futures on interest rates and futures on bonds;

- currency risk - the risk that the value of an investment in a security or a deposit denominated in a currency other than EURO or BGN, due to a change in the exchange rate between that currency and the BGN or EURO. Currency risk is measured using the historical volatility of the exchange rate of the BGN currency to the EURO or to the net currency exposure;

- price risk associated with investment in shares or other equity securities - the risk of decrease in the value of an investment in a security due to adverse changes in market prices. The Management Company measures the price risk associated with investing in stocks by tracking historical volatility measured by the standard deviation or calculating the  $\beta$ -coefficients to the appropriate index.

b) *Credit risk* – the possibility of reducing the value of the position in a financial instrument due to unexpected credit events relating to issuers of financial instruments, the counterparty in exchange and OTC transactions, as well as countries in which they operate. There are three types of credit risk:

- counterparty risk is the risk of default by the counterparty to the OTC deal;

- settlement risk is the risk that mutual funds may not receive the cash or securities from a counterparty on the settlement date, after they have fulfilled their obligations arising from that trade. The Management Company measures this risk by value of all trades with a counterparty as a percentage of the value of the portfolio. Transactions concluded on condition of DVP (delivery versus payment) and markets with a clearing house are not included;

- investment credit risk is the risk of reducing the value of an investment in a debt security due to a credit event with the issuer of the instrument. Credit event includes bankruptcy, insolvency or significant change in the capital structure, reducing the credit rating and others.

c) *Operational risk* – the possibility of incurring losses, errors or flaws in the organization, inadequately trained personnel, adverse external non-financial events, including legal risk. Operational risks are internal - related to the work of the management company in the management of Advance Eastern Europe and external - related to macroeconomic, political and other factors that influence and / or may affect the business of the management company in relation to management of the fund. Internal operational risks include risks related to staff and technological risks, and external debt - risk environment and risk of physical interference. Assessment of the operational risks associated with the activities of Advance Eastern Europe is conducted by the Department for internal control.

d) *Liquidity risk* – risk arising from possible losses due to sales of assets in adverse market conditions to meet unexpected short-term obligations.



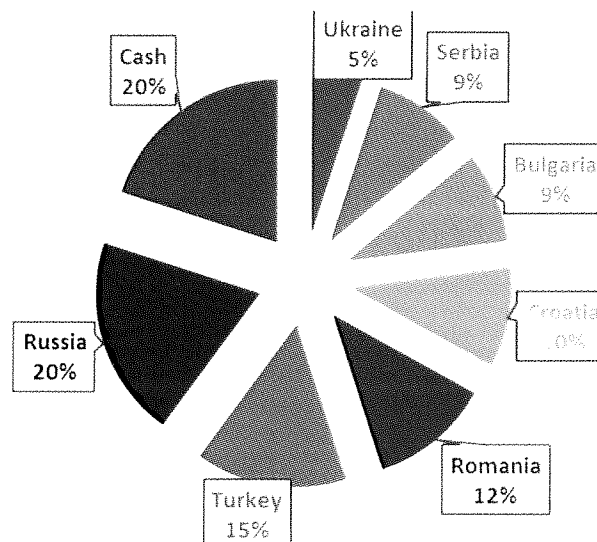
e) *Concentration risk* – the possibility of loss due to inadequate diversification of exposures to customers, groups of connected clients, clients from the same industry, geographic region or arising from the same activity, which may cause significant losses, and the risk associated with large indirect credit exposures

## II. IMPORTANT EVENTS THAT HAVE OCCURRED AFTER THE DATE OF COMPLETEION OF THE ANNUAL FINANCIAL STATEMENTS

After the date of completion of this report there have been no significant events that could lead to its alteration or to changes in the reporting

## III. EXPECTED FUTURE DEVELOPMENT OF THE FUND

The Management Company remains positive about the future development of the Eastern European region, as the past year's data shows faster growth rates of the countries in the region, compared to the rest of Europe. Generally the perspectives for 2016 are favorable for the development of regional economies, with increase in internal consumption and export. Considering, that the region has not been spared from the negative attitudes amongst the investors in 2015, certain companies' benchmark ratios have decreased significantly, and offer growth opportunities in the context of the positive expectations for 2016. However, the risks that exist in the region should be noted - mainly in terms of the economies of Russia and Ukraine, which despite the positive indications are still facing many challenges. On the other hand, given the actual dependence of some countries in the region from the Euro zone, a possible delay of the countries in Europe will have an impact also on their development. Given the rising risks to the global markets and the likelihood of further volatility and declines that will affect the region, the Management Company will follow more prudent investment policy in the forthcoming months, reducing the weight of shares to 80%. Taking into account the higher correlativity of the larger markets in the region with the global financial markets movement, their share in the Fund's portfolio will be reduced. It was also decided that in order to more fully exploit the potential of the region to add to the portfolio the Turkish market. Planned market allocation of the fund's asset for the first months of 2016 can be summarized as follows:



#### IV. RESEARCH AND DEVELOPMENT

The specificity of the activities of the Fund does not involve research and development.

#### V. INFORMATION UNDER ART. 187D AND ART. 247 OF THE COMMERCIAL LAW

MF Advance Eastern Europe has no Board of Directors. The overall activity of the Fund is managed by MC Karoll Capital Management EAD.

During the reporting period 6,204.0449 shares were issued and 164,942.3709 shares with nominal value of 1 EUR repurchased. In 2015, the net asset value has decreased to BGN 5 474 thousand at the end of the year. The number of unitholders in the year changed from 442 persons at the end of 2014 to 410 at the end of 2015, of which 396 individuals and 14 legal entities.

Equity as at 31.12.2015 amounting to BGN 5 474 thousand, consists of:

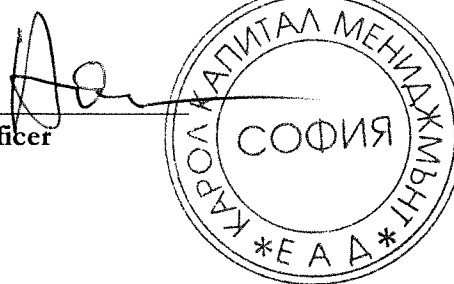
- Share capital: BGN 7 824 thousand;
- Premium reserves on issuance of shares: BGN 5 481 thousand;
- Reserve from subsequent valuation of assets: BGN 91 thousand;
- General reserves: BGN 3 thousand;
- Uncovered losses from previous years BGN (9.750) thousand
- Retained earnings from previous years: BGN 2 028 thousand;
- Result of the current period - loss: BGN (261) thousand

The Fund has not distributed dividends. The Fund has no registered branches. There are no restrictions on the rights of members of the Board of Directors of the Management Company for the acquisition of shares of the Fund. As of 31.12.2015 Aleksandar Lyudmilov Nikolov owns 4,764.4265 shares of the Fund, and Daniel Yovchev Ganey owns 337.4864 shares of the Fund.

In 2015, the Management Company elects specialized auditing company Grant Thornton OOD, reg Number 032 to audit the annual financial statements for 2015. The remuneration is BGN 4,900.00 without VAT and is fully paid for independent financial audit.

2.03.2016

Daniel Ganey  
Chief executive officer



**Grant Thornton Ltd.**

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## INDEPENDENT AUDITOR'S REPORT

To the shareholders of  
**Mutual Fund Advance Eastern Europe**  
1 Zlatovryh Str., Sofia, Bulgaria

### Report on the Financial Statements

We have audited the accompanying financial statements of Mutual Fund Advance Eastern Europe, which comprise the statement of financial position as of 31 December 2015, and the statement of profit or loss and other comprehensive income for the year ended 31 December 2015, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

#### **Chartered accountants**

Member firm of Grant Thornton International Ltd.

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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Mutual Fund Advance Eastern Europe as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU and Bulgarian legislation.

### **Report on Other Legal and Regulatory Requirements – Management's report for the year ended 31 December 2015**

We have reviewed the management's report for the year ended 31 December 2015 of Mutual Fund Advance Eastern Europe, which is not part of the financial statements. The historical financial information in the management's report complies in its main aspects with the financial information, presented in the financial statements for the year ended 31 December 2015, prepared in accordance with International Financial Reporting Standards, as adopted by EU and Bulgarian legislation. The preparation of the management's report is responsibility of the management.

**Mariy Apostolov**  
Managing partner

**Grant Thornton Ltd.**  
Auditing Company

25 March 2016  
Bulgaria, Sofia

**Milena Mladenova**  
Registered auditor responsible for the audit



MF ADVANCE EASTERN EUROPE  
 STATEMENT OF FINANCIAL POSITION  
 31 December 2015  
 All amounts are presented in BGN'000, unless otherwise stated

	Note	As at 31.12.2015	As at 31.12.2014
<b>Assets</b>			
<b>Current assets</b>			
Financial assets available for sale	5	4,902	4,772
Financial assets at fair value through profit or loss	6	-	164
Current receivables	7	29	18
Cash and cash equivalents	8	556	885
<b>Total assets</b>		<b>5,487</b>	<b>5,839</b>
<b>Net assets, belonging to the shareholders</b>			
Share capital	10.1	7,824	8,134
Premium reserve	10.2	5,481	5,398
Revaluation reserve	11	91	(47)
General reserves		3	3
Accumulated loss		(7,925)	(7,664)
<b>Total net assets, belonging to the shareholders</b>		<b>5,474</b>	<b>5,824</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Related party payables	14.2	11	12
Current payables	9	2	3
<b>Total liabilities</b>		<b>13</b>	<b>15</b>
<b>Total net assets, belonging to shareholders and liabilities</b>		<b>5,487</b>	<b>5,839</b>

Daniel Ganev  
 Chief executive officer  
 MC Karoll Capital Management EAD

Stoyka Koritarova:  
 Chief accountant  
 MC Karoll Capital Management EAD

Date: 19.02.2016

Audited, according to auditor's report, dated: 25.03.2016

Milena Mladenova  
 Registered auditor, responsible for the audit

Mariy Apostolov  
 Managing partner  
 Grant Thornton OOD - Specialized auditing company

The accompanying notes on pages from 5 to 33 form an integral part of the financial statements.

MF ADVANCE EASTERN EUROPE  
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR  
ENDED 31 DECEMBER

All amounts are presented in BGN'000, unless otherwise stated

	Note	For the year ended 31.12.2015	For the year ended 31.12.2014
Dividend income	12.1	218	198
Gain/(Loss) from operations with investments, net	12.2	(69)	211
(Loss) from exchange differences, net	12.3	(220)	(157)
Interest income	12.4	2	5
<b>Net (loss)/profit from financial assets</b>		<b>(69)</b>	<b>257</b>
Hired services expenses	13	(192)	(194)
Other expenses (incl. financial)		-	(5)
<b>Total operating expenses</b>		<b>(192)</b>	<b>(199)</b>
<b>(Loss)/ Profit for the year</b>		<b>(261)</b>	<b>58</b>
<b>Other comprehensive income</b>			
Financial assets, available for sale:			
- Profit/(Loss) for the year		79	(141)
- Reclassified amounts into profit/loss		59	(232)
<b>Other comprehensive income/(loss)</b>		<b>138</b>	<b>(373)</b>
<b>Total comprehensive loss for the year</b>		<b>(123)</b>	<b>(315)</b>

Daniel Ganev  
Chief executive officer  
MC Karoll Capital Management EAD

Stoyka Koritarova:  
Chief accountant  
MC Karoll Capital Management EAD

Date: 19.02.2016

Audited, according to auditor's report, dated: 25.03.2016

Milena Mladenova  
Registered auditor, responsible for the audit

Mariy Apostolov  
Managing Partner  
Grant Thornton OOD - Specialized auditing company

The accompanying notes on pages from 5 to 33 form an integral part of the financial statements.

MF ADVANCE EASTERN EUROPE  
 STATEMENT OF CASH FLOWS  
 31 December 2015  
 All amounts are presented in BGN'000, unless otherwise stated

	For the year ended 31.12.2015	For the year ended 31.12.2014
<b>Cash flows from investing activities</b>		
Cash payments for financial assets acquisition	(1,234)	(3,488)
Proceeds from sale of financial assets	1,134	2,833
Interest received	2	5
Dividends received	190	186
<b>Net cash flow from investing activities</b>	<b>92</b>	<b>(464)</b>
<b>Cash flows from non-specialized investment activity</b>		
Cash payments related to trade contractors	(45)	(38)
Cash payments related to the Management Company	(149)	(156)
Other cash flows from main activity		(1)
<b>Net cash flow from non-specialized investing activities</b>	<b>(194)</b>	<b>(195)</b>
<b>Cash flows from financing activities</b>		
Proceeds from shares issue	9	1,733
Payment for share repurchase	(236)	(487)
<b>Net cash flow from financing activities</b>	<b>(227)</b>	<b>1,246</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(329)</b>	<b>587</b>
<b>Cash and cash equivalents at the beginning of the year (note 8)</b>	<b>885</b>	<b>298</b>
<b>Cash and cash equivalents at the end of the year (note 8)</b>	<b>556</b>	<b>885</b>

Daniel Ganey  
 Chief executive officer  
 MC Karoll Capital Management EAD

Stoyka Koritarova:  
 Chief accountant  
 MC Karoll Capital Management EAD

Date: 19.02.2016

Audited, according to auditor's report, dated 25.03.2016

Milena Mladenova  
 Registered auditor, responsible for the audit

Mariy Apostolov  
 Managing Partner  
 Grant Thornton OOD - Specialized auditing company

The accompanying notes on pages from 5 to 33 form an integral part of the financial statements.

MF ADVANCE EASTERN EUROPE  
 STATEMENT OF CHANGES IN NET ASSETS, BELONGING TO SHAREHOLDERS  
 31 December 2015  
 All amounts are presented in BGN'000, unless otherwise stated

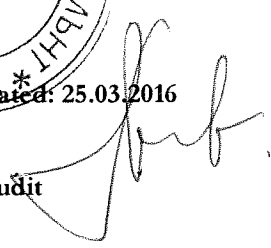
	Share capital	Premium Reserve	Reserves from subsequent valuation	General reserves	Accumulated loss	Total
<b>Balance at 1 January 2014</b>	<b>6,559</b>	<b>5,729</b>	<b>326</b>	<b>3</b>	<b>(7,722)</b>	<b>4,895</b>
Issue of shares	2,199	136	-	-	-	2,335
Share repurchase	(624)	(467)	-	-	-	(1,091)
Transactions with shareholders	1,575	(331)	-	-	-	1,244
Profit for the year	-	-	-	-	58	58
Other comprehensive income	-	-	(373)	-	-	(373)
Total comprehensive income for the year	-	-	(373)	-	58	(315)
<b>Balance as at 31 December 2014</b>	<b>8,134</b>	<b>5,398</b>	<b>(47)</b>	<b>3</b>	<b>(7,664)</b>	<b>5,824</b>
Issue of shares	12	86	-	-	-	98
Share repurchase	(322)	(3)	-	-	-	(325)
Transactions with shareholders	(310)	83	-	-	-	(227)
Loss for the year	-	-	-	-	(261)	(261)
Other comprehensive income	-	-	138	-	-	138
Total comprehensive income/(loss) for the year	-	-	138	-	(261)	(123)
<b>Balance as at 31 December 2015</b>	<b>7,824</b>	<b>5,481</b>	<b>91</b>	<b>3</b>	<b>(7,925)</b>	<b>5,474</b>

Daniel Ganev  Chief executive officer  
 MC Karoll Capital Management EAD

Stoyka Koritarova:  Chief accountant  
 MC Karoll Capital Management EAD

Date: 19.02.2016

Audited, according to auditor's report, dated: 25.03.2016

Milena Mladenova   
 Registered auditor, responsible for the audit

Managing Partner  
 Grant Thornton OOD - Specialized auditing company

The accompanying notes on pages from 5 to 33 form an integral part of the financial statements.





## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

MF ADVANCE EASTERN EUROPE (the Fund) is a collective investment scheme of an open type that operates following the principle of distribution of the risk. The Mutual Fund is organized and managed by MC Karoll Capital Management EAD that has received a license with a decision 328 – UD of 21 August 2003 of FSC for realizing its activity within the meaning of the Public Offering of Securities Act. The license is supplemented with a decision 115 – UD of 14 February 2006 of SFC on the order of the amendments in the Public Offering of Securities Act with a subject of activity management of the activity of the collective investment schemes and collective investment schemes of a closed type and management of individual portfolios and providing investment consultations regarding securities.

MC Karoll Capital Management EAD has received a license № 742 – MF/30.08.2006 of SFC to organize and manage MF ADVANCE EASTERN EUROPE. The Fund has been registered in the register according to art. 30, para 1, pt 5 of SFCA

The Fund is subject to regulation by the Financial Supervision Commission. The special legislation concerning the activity of the Fund is contained and arises mainly from the Act on the activities of collective investment schemes and other collective investment undertakings (ZDKISDPKI) and regulations related.

MC Karoll Capital Management EAD, acting on behalf of MF Advance Eastern Europe chooses UniCredit Bulbank AD as a custodian bank that will hold dematerialized securities and cash of the Fund.

The public offering of the shares of MF Advance Eastern Europe started on 4 October 2006.

The fund capital is a variable and may vary depending on the number of issued and offered for redemption shares, but is always equal to the net asset value of the Fund. The nominal value of one share is EUR 1. The number of shares in circulation as at 31 December 2015 and 2014 is respectively 4,000,490.7049 and 4,159,229.0309.

#### 1.1. Investment strategy of the Fund

The main objective of the Fund is to increase the value of the investment unit holders by realizing capital gains by assuming a moderate to high level of risk, and provide sustainable investment results through long-term growth in the value of its investments.

The Fund invests primarily in shares admitted to trading on regulated markets in the emerging markets of Eastern Europe. Except in shares, part of the investments will be directed to money market instruments (mostly bank deposits and government bonds) in order to maintain liquidity.

The investment objective of the Mutual Fund is to provide stable over time and favorable investment results through long-term growth in the value of its investments.

For this purpose, under normal circumstances at least 75% of the Fund's assets are invested in leading companies in the region, each of which is included in the main stock index in the relevant market. Risk management is done by diversification of assets, as the Management Company may apply appropriate strategies to safeguard the assets of the Fund from currency and interest rate risk, as well as protection from market risk in cases where it is necessary.

All amounts are presented in thousand Bulgarian leva (BGN'000), unless otherwise stated

## **2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and approved by the European Union (EU).

The financial statements are presented in Bulgarian leva (BGN), which is also the functional currency of the Company. All amounts are presented in thousand Bulgarian leva (BGN'000) (including comparative information for 2014) unless otherwise stated.

The financial statements are prepared under the going concern principle.

At the date of preparation of these financial statements, the management of the Management Company has assessed the ability of the Fund to continue as a going concern on the basis of the available information for the foreseeable future. Following a review of the Fund's management expects that the Fund has sufficient financial resources to continue its operational activities in the near future and continue to apply the principle of going concern when preparing financial statements.

## **3. CHANGES IN ACCOUNTING POLICY**

### **3.1. New standards, amendments and interpretations to IFRS that are effective for annual periods beginning on or after 1 January 2015**

The Fund has adopted the following new interpretations, revisions and amendments to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Funds's financial statements for the annual period beginning 1 January 2015:

#### **Annual Improvements to IFRSs 2012 effective from 1 July 2014, adopted by the EU for annual periods on or after 1 February 2015**

These amendments include changes from the 2010-12 cycle of the annual improvements project that affect 7 standards, from which, the following affect the Fund.

- IFRS 13, 'Fair value measurement';
- Consequential amendments to IFRS 9, 'Financial instruments', IAS 37, 'Provisions, contingent liabilities and contingent assets';
- IAS 39, Financial instruments – Recognition and measurement'.

#### **Annual Improvements to IFRSs 2013 effective from 1 July 2014, adopted by the EU for annual periods on or after 1 January 2015**

The amendments include changes from the 2010-12 cycle of the annual improvements project that affect 4 standards, from which only IFRS 13 "Fair value measurement" is expected to affect the financial statements of the Fund.

The amendments to IAS 19 "Employee Benefits" (amended) – Employee Contributions, effective from 1 July 2014, adopted by the EU for annual periods on or after 1 February 2015 are mandatory for the annual period beginning on 1 January 2014 but do not affect the financial statements of the Fund.

### **3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Fund**

The following new standards, amendments and interpretations to existing standards have been issued, but are not effective for the financial year beginning 1 January 2015 and have not been early adopted:

#### **IFRS 9 “Financial Instruments” effective from 1 January 2018, not yet adopted by the EU**

The IASB recently released IFRS 9 ‘Financial Instruments’ (2014), representing the completion of its project to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’. The new standard introduces extensive changes to IAS 39’s guidance on the classification and measurement of financial assets and introduces a new ‘expected credit loss’ model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The Company’s management have yet to assess the impact of IFRS 9 on these consolidated financial statements.

#### **IAS 1 “Presentation of financial statements” (amended) – Disclosure Initiative, effective from 1 January 2016, not yet adopted by the EU**

These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports. They clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

The Managing company’s officials are still assessing the possible effects of future implementation of the new standards, interpretations and amendments.

The following new standards and interpretations were issued, which are not relevant to and effective for the Company's financial statements:

- IFRS 9 “Financial Instruments” (amended) – Hedge accounting, effective from 1 January 2018, not yet adopted by the EU
- IFRS 10 “Consolidated financial statements” and IAS 28 “Investments in associates and joint ventures” (amended), effective from 1 January 2016, not yet adopted by the EU
- IFRS 10 “Consolidated financial statements”, IFRS 12 “Disclosures of interests in other entities” and IAS 28 “Investments in associates and joint ventures“ - Investment Entities: Applying the Consolidation Exception (amended), effective from 1 January 2016, not yet adopted by the EU
- IFRS 11 “Joint Arrangements” (amended) – Acquisition of an Interest in a Joint Operation, effective from 1 January 2016, not yet adopted by the EU
- IFRS 14 “Regulatory deferral accounts” effective from 1 January 2016, not yet adopted by the EU
- IFRS 15 “Revenue from Contracts with Customers” effective from 1 January 2018, not yet adopted by the EU
- IAS 16 “Property, plant and equipment” and IAS 38 “Intangible Assets” (amended), effective from 1 January 2016, not yet adopted by the EU
- IAS 16 “Property, plant and equipment” and IAS 41 “Agriculture” (amended) - Bearer Plants, effective from 1 January 2016, not yet adopted by the EU
- IAS 27 “Separate financial statements” (amended), effective from 1 January 2016, not yet adopted by the EU;
- Annual Improvements to IFRSs 2014 effective from 1 January 2016, not yet adopted by the EU

## **4. SUMMARY OF ACCOUNTING POLICIES**

### **4.1. Overall considerations**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below.

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used for the preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

### **4.2. Presentation of financial statements**

The financial statements are presented in accordance with IAS 1 "Presentation of Financial Statements" (revised 2007). The Fund has elected to present the statement of profit or loss and other comprehensive income in two statements: a statement of profit or loss and a statement of comprehensive income.

Two comparative periods are presented for the statement of financial position when the Company:

- (i) applies an accounting policy retrospectively,
- (ii) makes a retrospective restatement of items in its financial statements, or
- (iii) reclassifies items in the financial statements

The Fund has none of the above conditions for the presentation of two comparative periods so the financial statements are therefore presented with a single comparative period.

### **4.3. Foreign currency transactions**

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate as published by the Bulgarian National Bank). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognized in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

### **4.4. Segment reporting**

With Part III of the Listing Rules now being effective and by decision of the Board of Directors of Bulgarian Stock Exchange - Sofia AD and Protocol № 26/09 May 2014, the registration of all issues admitted to trading on the Segment for collective investment schemes is terminated, effective from 12 May 2014. As at 31 December 2015, the shares of the Fund are not traded on a regulated market. The Fund operates in a single economic sector because of legal restrictions and the purpose for which it was created. For these reasons no information will be presented regarding various sectors.

#### **4.5. Revenue**

The main financial revenue of the Fund comprises revaluation of securities, realized gains or losses from transactions with securities, interest income on deposits and interest-bearing securities and from dividends.

##### **4.5.1. Interest income**

Interest income from bank deposits is recognized in the Statement of profit or loss and other comprehensive income of the Fund, according to the terms of the contracts. Interest income is recognized on an accrual basis.

Interest received on bank deposits is presented in the statement of cash flows as interest income.

Dividend income is recognized in profit or loss at the time of origination of the right to receive payment.

##### **4.5.2. Net income from investment operations**

Subsequent measurement, due to changes in the market (*fair*) value of securities is presented in the statement of profit or loss and other comprehensive income of the Fund as net income from investment operations.

Differences from changes in the value of financial instruments are reported as current income or expense from revaluation of financial assets when those assets are held for trade and in equity as revaluation reserves when these assets are available for sale.

The difference between the revalued amount and the price of the financial instruments, when sold is recognized as current revenue or expense from operations with financial instruments.

##### **4.5.3. Net income from foreign exchange operations**

Foreign currency transactions are recognized in BGN by applying the exchange rate of the Bulgarian National Bank (BNB) as of the date of the respective transaction. Assets and liabilities denominated in foreign currency are reported by applying the closing exchange rate of BNB at the date of preparation of the statement of financial position.

Gains and losses from exchange rate differences and from trade with currency are reported in the Statement of profit or loss and other comprehensive income in the period of their occurrence.

The subsequent measurement, due to changes in foreign exchange rates are reflected in the statement of profit or loss and other comprehensive income as net income from foreign exchange operations. The effects of changes in exchange rates in the subsequent measurement of financial assets denominated in foreign currencies at fair value through profit or loss, are recognized after taking into account changes in the market prices in original currencies.

#### **4.6. Expenses**

Expenses associated with the operations of the Fund are recognized in profit or loss in the statement of profit or loss and other comprehensive income following the accrual basis. The annual operating expenses of the Fund cannot exceed 4.50% of the average annual net asset value of the Fund. The percentage is determined by the management of the Management Company, as it is set in the Prospectus of the Fund and approved by the Financial Supervision Commission. Costs relating to the activities that are borne indirectly by all its shareholders, including management fee and remuneration of the depository bank are accrued daily, under contracts with the Management Company and Depository bank.

The costs of issuing shares are included in the issue price per share. Costs associated with the investment in units of the Fund costs are borne directly by the individual investor / shareholder. The costs of issuing shares depending on the amount of the accepted order and are as follows:

- 1.5% (1.5 percent) of the net asset value per unit for orders up to EUR 50,00.0 euro;
- 1.0% (1.0 percent) of the net asset value per unit for orders from EUR 50,000.01 to EUR 250,000;
- 0.5% (0.5 percent) of the net asset value per unit for orders of EUR 250,000.01 to EUR 500,000;
- For orders above EUR 500,000– no expenses on issuance, as well as for orders on behalf of institutional investors, and orders on behalf of investors, resulting from, and empowered by a contract for portfolio management with MC Karoll Capital Management EAD.

These expenses are payable by the Fund to the Management Company and are due until the 5th of following month.

#### **4.7. Financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to contractual agreements, which include financial instruments.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires. Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

All financial assets are recognized on their settlement date

Financial assets and financial liabilities are subsequently measured as described below.

#### **4.7.1. Financial assets**

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- investments, held to maturity;
- available-for-sale financial assets.

Financial assets are assigned to the different categories, depending on the purpose for which the investments were acquired. The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income. All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment is applied for each category of financial assets, which is described below.

All income and expenses relating to financial assets are recognized in profit or loss upon receipt, regardless of how the carrying value of the financial assets to which they relate is estimated, is presented in the statement of profit or loss and other comprehensive income within "Gains / (losses) from operations with investments, net", except for impairment of trade receivables which is presented within 'Other expenses/income (including financial)'.

Financial assets held by the Fund are:

##### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest rate method, less provision for impairment.

Any change in their value is recognized in profit or loss in the current period. The Fund's cash and cash equivalents, trade and most of other receivables fall into this category of financial instruments. Discounting is omitted where the effect of discounting is immaterial. Current receivables are measured at their expected realizable value. Individually significant receivables are tested for impairment when they are past due or when there is objective evidence that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available feature of shared credit risk characteristics. The impairment percentage is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables is presented within 'Other expenses/income (including financial)'.

##### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that upon initial recognition are classified as financial assets at fair value through profit or loss. All derivative financial instruments fall into this category, except for those specifically classified as hedging instruments. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

### **Available-for-sale financial asset**

Financial assets available for sale are non-derivative financial assets that are classified as financial assets available for sale or do not belong to any of the other categories of financial assets. Financial assets within this category are subsequently measured at fair value, except those for which there is no market price in an active market and whose fair value cannot be reliably determined. The latter are measured at amortized cost using the effective interest rate or cost in the event that no fixed maturity. Changes in fair value are recorded in other comprehensive income and reported in a reserve in the statement of equity, net of taxes, with the exception of impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When a financial asset available for sale are sold or impaired, the accumulated gains and losses recognized in other comprehensive income are reclassified from equity to profit or loss for the period and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in profit or loss as "finance income". Recovery of impairment losses recognized in other comprehensive income with the exception of debt financial instruments, which are recognized in profit or loss only if the reversal can be related objectively to an event occurring after the impairment is recognized.

Subsequent daily valuation of financial instruments is carried out according to the accounting policy for valuation complying with the rules of portfolio valuation and determination of the net asset value of the Fund "Advance Eastern Europe," according to Ordinance №44 of 20 October 2011 on the requirements to operation of collective investment schemes, investment companies and management companies (NIDKISIDZTUD), which are approved by the Financial Supervision Commission. Rules can be found on the website of the Fund <http://www.karollcapital.bg>.

In assessing the Fund's assets the following principles are considered:

- investments available for sale and financial assets at fair value through profit or loss are measured at fair value, which is their market price in all cases where they have one;
- when assets have no market price, fair value is determined using valuation models;
- the main criterion for establishing whether an asset has a market price is its liquidity.

Cash is measured at their nominal value.

#### **4.7.2. Financial liabilities**

Financial liabilities of the Fund include trade and other payables. Financial liabilities are recognized when there is a contractual obligation to deliver cash or another financial asset to another entity or a contractual obligation to exchange financial instruments with another company under potentially adverse conditions. All costs associated with changes in fair value of financial instruments are recognized in profit or loss.

Trade payables are recognized initially at their nominal value and subsequently measured at amortized cost, less payments on debt settlement.



#### **4.7.3. Contracts for the sale and repurchase of securities**

Securities may not be rented or sold with a commitment to repurchase (repo). These securities continue to be recognized in the statement of financial position when the significant risks and rewards of ownership thereof shall be borne by the Fund. In this case, it recognizes a liability to the other party in the statement of financial position when the Fund receives cash remuneration.

The difference between the sale price and the redemption price is recognized deferred for the period of the contract using the effective interest method. Securities rented continue to be recognized in the statement of financial position. Securities leased are not recognized in the statement of financial position, unless they are sold to third parties in which the obligation to repurchase is recognized as commercial liability at fair value and subsequent gains or losses are included in net operating result.

When the Fund rents or buys securities with a commitment to resell them (reverse repo), but acquires the risks and rewards of ownership, securities are recognized in the statement of financial position

#### **4.8. Cash and cash equivalents**

The Fund accounts for cash and cash equivalents available in cash and cash in bank accounts.

#### **4.9. Income taxes**

According to the Corporate Income Tax Art. 174 Collective investment schemes that are admitted for public offering in Bulgaria and licensed investment companies of closed type under the Public Offering of Securities are not subject to corporate tax.

#### **4.10. Net assets, attributable to investors in shares**

The Fund is a mutual fund that issued its "capital" instruments and then has the responsibility for their repurchase. The funds raised - face value and reserves and issuing financial result determined net asset value belonging to investors.

Objectives, policies and processes for managing its obligation to the Fund to redeem the instruments when the holders of these instruments require this are set out in note 18 "Risks associated with financial instruments."

The estimation of the net asset value of the Fund shall be under the rules for determining the net asset value of the Fund "Advance Eastern Europe", approved Resolution № 748 - DF of 30 August 2006 of the Financial Supervision Commission. In 2013 MC "Karoll Capital Management" EAD amended rules for valuation and determination of the net asset value of the Fund pursuant to Ordinance 44 on the activities of collective investment schemes and other undertakings for collective investment. The changes were approved by Decision № 976-DF from 16.12.2013 of the Commission for Financial Supervision.

The methodology for determining the net asset value is based on the legislation related to the Fund and includes the principles and methods of valuation of assets and liabilities of the Fund.

The net asset value per unit is the basis for determining the issue price and redemption price per share of MF Advance Eastern Europe, calculated every business day. The net asset value of the Fund is obtained by subtracting the value of all liabilities from the value of assets. The net asset value of the Fund is declared in euro.

All amounts are presented in thousand Bulgarian leva (BGN'000), unless otherwise stated

The methodology for determining the net asset value of the Fund is based on:

- the accounting legislation's provisions
- provisions of the activities of collective investment schemes and other collective investment undertakings (ZDKISDPKI) published on 04 October 2011
- Regulation №44 from 20 October 2011 on the requirements to collective investment schemes, investment companies and management companies (NIDKISIDZTUD);
- Rules and the Prospectus of the Fund.

Retained earnings / accumulated loss include the current financial result and retained earnings and uncovered losses from previous years.

#### **4.11. Provisions, contingent liabilities and contingent assets**

Provisions are recognized when there is a possibility of present obligations resulting from past events to lead to an outflow of resources from the Fund and can be made reliable estimate of the amount of the obligation. Timing or amount of the outflow may still be uncertain. Present obligation arises from the presence of a legal or constructive obligation as a result of past events, such as legal disputes.

Restructuring provisions are recognized only if there is a developed and implemented detailed formal restructuring plan or management has announced the main points of the restructuring plan to those affected by it. Provisions for future operating losses are not recognized.

The amount recognized as a provision is calculated based on the most reliable estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow to settle the obligation is determined by considering the class of obligations as a whole. Provisions are discounted when the effect of the time value of money is significant.

Benefits, from third parties, in connection with obligations, to which the Fund is confident, that it would receive, are recognized as a separate assets. This asset may not exceed the value of the related provision.

Provisions are reviewed at each reporting period and their value is adjusted to reflect the current best estimate.

In cases, where it is considered unlikely, that outflow of economic resources will arise as result of a current liability, this liability is not recognized.

Possible inflows of economic benefits that do not yet meet the criteria for recognition of an asset are considered contingent assets.

#### **4.12. Significant management judgements in applying accounting policies**

Significant management judgments in applying the accounting policies of the Fund which have the most significant impact on the financial statements are described below:

- The issue and redemption price of Fund shares are based on the net asset value of the Fund at the date of determination. The Management Company is assessing the portfolio, determine the net asset value of the Fund, net asset value per unit and calculate the issue price and the redemption price under the control of the Custodian in accordance with regulatory requirements;
- The Management Company invests the Fund's assets in securities and in proportions determined in accordance with Art. 38 of the Law on the activities of collective investment schemes and other collective investment entities (ZDKISDPKI) published on 04 October 2011 and the Fund Rules;
- The subsequent valuation of the Fund's assets shall be made in accordance with the Fund's Rules and Regulation № 44/20 October 2011 on the requirements to the activities of collective investment schemes, investment companies and management companies;
- According to agreement with the Management Company and the Custodian, fees are collected daily;
- The management of the Fund is carried out by the Management Company. The Fund does not have the right, and has no tangible or intangible assets, investment property. The Fund is not entitled to be a party of lease agreements and thus no accounting policy has been adopted regarding this type of assets.
- The Fund does not have its own staff and thus no accounting policy has been adopted for pension and other employee obligations, as well as for staff remuneration based on shares.

#### **4.13. Uncertainty in accounting estimates**

##### **4.13.1 Fair value of financial instruments**

Management uses techniques to assess the fair value of financial instruments in the absence of quoted prices in an active market in accordance with the Fund's Rules and Ordinance № 44 / 20 October 2011 on the requirements to the activities of collective investment schemes, investment companies of closed-end type and management companies, which is approved by the Financial Supervision Commission.

In applying the valuation techniques, management makes maximum use of market data and assumptions that market participants would use in pricing the financial instrument. These estimates may differ from the actual prices that would be determined in a fair market transaction between knowledgeable and willing parties, in the end of the reporting period.

##### **4.13.2. Impairment of financial assets**

Management assesses at each reporting date, whether there is objective evidence, that a financial asset or group of financial assets should be impaired.

If there is objective evidence for an impairment loss from loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows. The carrying amount of the asset is reduced either directly or through an allowance account. The amount of the loss is recognized in profit or loss.

All amounts are presented in thousand Bulgarian leva (BGN'000), unless otherwise stated

A financial asset or group of financial assets are considered impaired and impairment losses are incurred when there is objective evidence for impairment arising from one or more events that occurred after the initial recognition of the asset (event “loss”) and when this event “loss” (or events) has an effect on the estimated future cash flows from an asset or group of financial assets that can be measured reliably.

It may not be possible to identify a single event that caused the impairment. Rather, the impairment may be caused by the combined effect of several events.

Losses expected as a result of future events, no matter how likely, are not recognized.

## 5. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale as at 31 December 2015 are as follows:

	Note	Fair value As at 31.12.2015	Fair value As at 31.12.2014
Shares in BGN	5.1	437	372
Shares in foreign currency	5.2	4,465	4,400
<b>TOTAL</b>		<b>4,902</b>	<b>4,772</b>

	ISIN	As at 31.12.2015	% of assets	As at 31.12.2014	% of assets
<b>5.1. Shares is BGN</b>					
Advance Terafond REIT	BG1100025052	122	2.23	99	1.70
Sopharma Trading AD	BG1100086070	119	2.18	141	2.42
Syrma Group Holding AD	BG1100032140	70	1.27	-	-
M+C Hydraulic AD – Kazanlak	BG11MPKAAT18	67	1.22	68	1.17
Trace Group Hold AD	BG1100049078	59	1.07	64	1.09
<b>Total</b>		<b>437</b>	<b>7.97</b>	<b>372</b>	<b>6.38</b>

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5.2. Shares in foreign currency	ISIN	As at		As at	
		31.12.2015	% of assets	31.12.2014	% of assets
Banka Transilvania	ROTLVAACNOR1	315	5.73	344	5.89
Banca Romana Pentru	ROBRDBACNOR2	253	4.62	185	3.17
Fondul Proprietatea SA	ROFPTAACNOR5	206	3.76	230	3.95
Akron JSC	RU0009028674	204	3.72	56	0.97
Transelectrica	ROTSELACNOR9	202	3.67	204	3.50
Sif Oltenia S.A.	ROSIFEACNOR4	194	3.54	163	2.79
Sntgn Transgaz S.A.	ROTGNTACNOR8	181	3.30	238	4.07
Gmk Norliski nikel	RU0007288411	173	3.15	177	3.03
Transneft, Pref	RU0009091573	152	2.77	207	3.55
Vsmo-avisma	RU0009100291	149	2.71	83	1.42
Novolipetsk steel ojsc	RU0009046452	141	2.57	174	2.98
Ojsc "Magnit", common	RU000A0JKQU8	138	2.51	138	2.36
Lukoil (common)	RU0009024277	133	2.42	146	2.50
JSC "Novatek", common	RU000A0DKVS5	132	2.40	174	2.98
Energoprojekt Holding A.D.	RSHOLDE58279	130	2.38	115	1.97
Valamar riviera D.D.	HRRIVPRA0000	123	2.25	100	1.71
Imlek A.D. Beograd	RSIMLKE73325	117	2.12	109	1.86
Aerodrom Nikola Tesla AD Beograd	RSANTBE11090	113	2.06	-	-
Tatneft, common	RU0009033591	111	2.02	92	1.58
Adris Grupa D.D.	HRADRSPA0009	107	1.94	-	-
Omv Petrom	ROSNPPACNOR9	103	1.87	146	2.5
Ojsc "Motor sich"	UA4000143135	103	1.88	177	3.03
Phosagro OAO-GDR	RU000A0JRKT8	97	1.76	-	-
Bashneft PAO	RU0007976957	83	1.51	-	-
Podravka Prehrambena Industrija D.D.	HRPODRRA0004	77	1.4	67	1.15
Romgaz S.A.	ROSNNGNACNOR3	76	1.39	-	-
Aik Banka A.D. Nish	RSAIKBE79302	66	1.2	135	2.31
Komercijalna banka a.d.	RSKOBBE16946	65	1.19	-	-
Ledo dionicko drustvo	HRLEDORA0003	62	1.14	-	-
SC Bursa de Valori Bucuresti S.A.	ROBVBAACNOR0	58	1.06	-	-
Nis A.D. Novi Sad	RSNISHE79420	55	1	121	2.08
Koncar – elektroindustrija, D.D.	HRKOEIRA0009	55	1	77	1.33
Ojsc "Sec Centrenergo"	UA4000079081	51	0.92	181	3.09
Biofarm S.A.	ROBIOFACNOR9	51	0.94	51	0.88
Atlantic Grupa Dionicko drustvo	HRATGRRA0003	51	0.93	81	1.39
Qiw PLC	US74735M1080	35	0.64	37	0.63
Hrvatske telekomunicacije DD	HRHT00RA0005	32	0.59	34	0.58
Ukrnafta	UA1004781001	30	0.56	-	-
Donbasenergo	UA4000080675	26	0.48	76	1.29
Jadroplov D.D.	HRJDPLRA0007	11	0.21	46	0.79
Yasynivka Cokery plant	UA0500491008	2	0.04	4	0.07
OJSC Stakhanovsky Vagonobudivelny	UA1200661007	1	0.01	-	-
Atlantska plovidba D.D	HRATPLRA0008	1	0.01	1	0.01
Ukrnafta	UA4000117501	-	-	48	0.82
Stahanov Car production facility	UA4000108724	-	-	3	0.05
Sberbank, common	RU0009029540	-	-	30	0.51
Raiffeisen Bank Aval	UA4000069603	-	-	33	0.57
JSC Vtb Bank	RU000A0JP5V6	-	-	61	1.04
Azovstal Iron & Steel works	UA4000075758	-	-	56	0.95
<b>Total</b>		<b>4,465</b>	<b>81.37</b>	<b>4,400</b>	<b>75.35</b>

Market approach has been used in determining the fair value of all shares in the Fund's portfolio as at 31 December 2015.

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Investments are allocated by sectors as follows:

	<b>As at</b>		<b>As at</b>	
	<b>31.12.2015</b>	<b>% of assets</b>	<b>31.12.2014</b>	<b>% of assets</b>
Finance and Real estate	868	15.82	979	16.77
Energy	834	15.20	1,092	18.71
Industrial	523	9.53	385	6.60
Holdings	470	8.57	394	6.74
Utilities	382	6.96	442	7.57
Consumer goods	376	6.85	317	5.42
Raw materials	175	3.19	237	4.05
Metallurgy	141	2.57	174	2.98
Oil and gas	138	2.52	121	2.08
Food industry	138	2.52	138	2.36
Hotels and tourism	123	2.24	100	1.71
Transport	113	2.06	-	-
Paper industry	107	1.95	-	-
Healthcare	102	1.86	133	2.27
Chemical industry	97	1.77	-	-
Informational services	90	1.64	114	1.96
Banks	65	1.18	-	-
Infrastructure	59	1.08	64	1.09
Financial services	58	1.06	-	-
Telecommunications	32	0.58	33	0.57
Sea transportation	11	0.19	46	0.79
Machinery	-	-	3	0.05
<b>Total</b>	<b>4,902</b>	<b>89.34</b>	<b>4,772</b>	<b>81.72</b>

Investments are allocated by countries as follows:

	<b>As at</b>		<b>As at</b>	
<b>Country</b>	<b>31.12.2015</b>	<b>% of assets</b>	<b>31.12.2014</b>	<b>% of assets</b>
Romania	1,640	29.89	1,562	26.76
Russia	1,546	28.18	1,375	23.54
Serbia	546	9.95	480	8.22
Croatia	519	9.46	406	6.95
Bulgaria	437	7.97	372	9.18
Ukraine	214	3.89	577	9.87
<b>Total</b>	<b>4,902</b>	<b>89.34</b>	<b>4,772</b>	<b>81.72</b>

As of 31 December 2015 the Fund's management has reviewed financial assets available for sale for impairment and as a result of the analysis, the management believes that no impairment is needed.

## 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

### 6.1. SHARES OF COLLECTIVE INVESTMENT SCHEMES

Distribution of financial assets at fair value through profit or loss by type is as follows:

Financial assets held for sale	ISIN	As at		As at	
		31.12.2015	% of assets	31.12.2014	% of assets
MF Advance Conservative Fund	BG9000002121	-	-	164	2.80
<b>Total</b>		<b>-</b>	<b>-</b>	<b>164</b>	<b>2.80</b>

Shares in collective investment schemes, owned by the Fund are valued using market approach – redemption price as per the last business day of 2014.

## 7. CURRENT RECEIVABLES

	As at	As at
	31.12.2015	31.12.2014
Dividend receivables	29	18
<b>Total</b>	<b>29</b>	<b>18</b>

The Fund has receivables arising from approved, but not yet distributed dividends, from the following companies: Komercijalna Banka AD Beograd, Aerodrom Nikola Tesla AD Beograd, Ukrnafta, Centrenergo St. J. NA. UH1, Motor Sich, Lukoil (common) and GMK Norilski Nikel. As at the balance sheet date, dividend receivables from Lukoil and GMK Norilski Nikel, amounting to BGN 8 thousand have been received by the Fund.

## 8. CASH AND CASH EQUIVALENTS

	As at	As at
	31.12.2015	31.12.2014
Cash on hand and in current accounts in BGN	53	186
Cash on hand and in current accounts in BGN	503	699
<b>Total</b>	<b>556</b>	<b>885</b>

As at 31.12.2015 the Fund does not have blocked cash and cash equivalents.

## 9. CURRENT PAYABLES

	As at	As at
	31.12.2015	31.12.2014
Payables to the depository bank	2	3
<b>Total</b>	<b>2</b>	<b>3</b>

## 10. NET ASSETS, BELONGING TO THE SHAREHOLDERS

### 10.1. Number of shares in circulation

#### Number of shares in circulation and value of the shares

	Number of shares in EUR	Nominal value	Share capital (BGN'000)
<b>As at 01.01.2014</b>	<b>3,353,367.5193</b>	<b>1 EUR/share</b>	<b>6,559</b>
Issued shares 2014	1,124,815.5459	1 EUR/share	2,199
Repurchased own shares 2014	(318,954.0343)	1 EUR/share	(624)
<b>As at 31.12.2014</b>	<b>4,159,229.0309</b>	<b>1 EUR/share</b>	<b>8,134</b>
Issued shares 2015	6,204.0449	1 EUR/share	12
Repurchased own shares 2015	164,942.3709	1 EUR/share	(322)
<b>As at 31.12.2015</b>	<b>4,000,490.7049</b>	<b>1 EUR/share</b>	<b>7,824</b>

### 10.2. Premium reserve

	2015 BGN'000.	2014 BGN'000
Premium reserve as at 1 January	5 398	5 729
Increase due to share emission	86	136
Decrease due to repurchase of own shares	(3)	(467)
<b>Premium reserve as at 31 December</b>	<b>5 481</b>	<b>5 398</b>

### 10.3. Net asset value per share

Net asset value per share is the basis for determining the issue price and the repurchase price of shares of MF "Advance Eastern Europe", calculated every work day. Net asset value of the Fund is presented in Bulgarian Lev. The most recent calculation and announced to investors and to the FSC net asset value per share, issue price and repurchase price is as of 30 December 2015 (30 December 2014). For the purpose of these financial statements and the principles of IFRS the net asset value per share, issue price and repurchase price is calculated and presented as of 31 December 2015.



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For the purposes of correct presentation of financial information, and with regard to the fact that the Fund announces its net asset value in euro, this note is presented in euro.

EUR	31.12.2015	30.12.2015	31.12.2014	30.12.2014
Net asset value	2,798,781.40	2,787,774.11	2,978,057.96	3,035,322.22
Number of shares in circulation	4,000,490.7049	4,000,490.7049	4,159,229.0309	4,159,229.0309
Nominal value	1.0000	1.0000	1.0000	1.0000
Net asset value per share	0.6996	0.6969	0.7160	0.7298
Issue price				
orders up to EUR 50 000 after "issue fee" of 1.5% of the net asset value	0.7101	0.7074	0.7267	0.7407
orders from EUR 50 000.01 to EUR 250 000 after "issue fee" of 1.0% of net asset value	0.7066	0.7039	0.7232	0.7371
orders from EUR 250 000.01 to EUR 500 000.00 after "issue fee" of 0.5% of the net asset value	0.7031	0.7004	0.7196	0.7334
for orders above EUR 500 000.01 as well as orders from institutional investors, and orders resulting from, and empowered by a contract for portfolio management with MC Karoll Capital Management – no issuance fee.	0.6996	0.6969	0.7160	0.7298
Redemption price	0.6996	0.6969	0.7160	0.7298

## 11. REVALUATION RESERVE

	<b>As at 31.12.2015</b>	<b>As at 31.12.2014</b>
<b>Revaluation reserve from subsequent measurement of available-for-sale financial assets in the beginning of the period</b>	<b>(47)</b>	<b>326</b>
Profit from subsequent measurement of available-for-sale financial assets, presented in 'Other comprehensive income'	262	549
Loss from subsequent measurement of available-for-sale financial assets, presented in 'Other comprehensive income'	(183)	(690)
Profit from available-for-sale financial assets, reclassified from equity to profit/(loss) for the period	219	147
Loss from available-for-sale financial assets, reclassified from equity to profit/(loss) for the period	(160)	(379)
<b>Total</b>	<b>91</b>	<b>(47)</b>

## 12. REVENUES

### 12.1. Dividend income

	<b>Year ended 31.12.2015</b>	<b>Year ended 31.12.2014</b>
Dividend income from Bulgarian issuers	26	54
Dividend income from Romanian issuers	72	54
Dividend income from Croatian issuers	19	6
Dividend income from Russian issuers	81	62
Dividend income from Serbian issuers	15	19
Dividend income from Ukrainian issuers	5	3
<b>Total</b>	<b>218</b>	<b>198</b>

**12.2. (Loss) / Gain from operations with investments, net**

	<b>Year ended 31.12.2015</b>	<b>Year ended 31.12.2014</b>
Profit from available-for-sale financial assets, reclassified from equity to profit/(loss) for the period	160	379
Loss from available-for-sale financial assets, reclassified from equity to profit/(loss) for the period	(219)	(147)
Profit from sale of available-for-sale financial assets	17	15
Loss from sale of assets available-for-sale financial assets	(27)	(44)
Profit from subsequent measurement of financial assets, held for trading	1	25
Loss from subsequent measurement of financial assets, held for trading	(1)	(17)
<b>(Loss)/gain from operations with investments, net</b>	<b>(69)</b>	<b>211</b>

**12.3. Loss from exchange differences, net**

	<b>Year ended 31.12.2015</b>	<b>Year ended 31.12.2014</b>
Gain on foreign currency revaluation of financial assets	2,663	1,329
Loss from foreign currency revaluation of financial assets	(2,825)	(1,419)
Foreign exchange operations – income	3	14
Foreign exchange operations – expense	(61)	(81)
<b>Total</b>	<b>(220)</b>	<b>(157)</b>

**12.4. Interest income**

	<b>Year ended 31.12.2015</b>	<b>Year ended 31.12.2014</b>
Interest income from deposits	2	3
Interest income from repurchase agreements with shares	-	2
<b>Total</b>	<b>2</b>	<b>5</b>

### 13. HIRED SERVICES EXPENSES

	Year ended 31.12.2015	Year ended 31.12.2014
Remuneration of the management company	(149)	(155)
Remuneration of the custodian bank	(28)	(29)
Advertisement	(7)	(4)
Audit	(6)	(4)
Annual fees	(1)	(1)
Other	(1)	(1)
<b>Total</b>	<b>(192)</b>	<b>(194)</b>

Costs related to the Fund's activity represent 3.22% (2014 : 3.12%) of the average annual net asset value, according to the statement of financial position of the Fund.

These financial statements have been audited by Grant Thornton Ltd. (specialized audit company) with managing partner Mariy Apostolov and registered auditor, responsible for the audit – Milena Mladenova. The remuneration of the auditor is for independent financial audit of the financial statements. During the year, the registered auditor did not provide other services. This disclosure is in compliance with the requirements of Art. 38 para. 5 of the Accountancy Act.

### 14. RELATED PARTIES

#### 14.1. Transactions during the year

	Year ended 31.12.2015	Year ended 31.12.2014
Remuneration under contract regarding management of activities (stated in note 13)	(149)	(155)
Payables to the managing company for issuance of shares	-	(4)
<b>Total</b>	<b>(149)</b>	<b>(159)</b>

For its management activities the Management Company shall receive remuneration amounting to 2.5 % of the average annual net asset value of the Fund.

For issuance of shares – the Fund accrues fee, which is a revenue for the Management Company, and originally is payable to the Fund from investors, and then proceeds to the Managing Company, with no effect on the Fund's comprehensive income.

#### 14.2. Related party balances as at year end

	As at 31.12.2015	As at 31.12.2014
Payables to the Management company	11	12
<b>Total</b>	<b>11</b>	<b>12</b>

Payables to the Management Company represent remuneration for the management activities for the month of December 2015 and as at the date of preparation of these financial statements are fully repaid.

## 15. NON-MONETARY TRANSACTIONS

During the reporting period the Fund has not carried out any investment and financial transactions, during which no cash or cash equivalents were used and which are not reflected in the statement of cash flows.

## 16. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Fund has no commitments or contingent assets as at 31.12.2015.

## 17. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying value of financial assets and liabilities can be presented as follows:

<b>Financial assets</b>	<b>Note</b>	<b>As at 31.12.2015</b>	<b>As at 31.12.2014</b>
Financial assets available-for-sale:			
Shares	5.1, 5.2	4,902	4,772
Financial assets at fair value through profit or loss:			
Collective investment schemes	6	-	164
		<b>4,902</b>	<b>4,936</b>
Loans and receivables:			
Current receivables	7	29	18
Cash and cash equivalents	8	556	885
		<b>5,487</b>	<b>5,839</b>
<b>Financial liabilities</b>	<b>Note</b>	<b>As at 31.12.2015</b>	<b>As at 31.12.2014</b>
Financial liabilities, at amortized cost:			
Current liabilities:			
Current payables	9	2	3
Payables to related parties	14.2	11	12
		<b>13</b>	<b>15</b>

See note 4.7 for information on accounting policy for each category of financial instruments and methods used to estimate fair value. Description of the policies and objectives of the risk management of the Company's financial instruments is presented in note 18.

## 18. RISKS, RELATED TO FINANCIAL INSTRUMENTS

### Management policy and objectives regarding risk management

For the purpose of adequate financial risk management MC Karoll Capital Management EAD has accepted Rules on risk assessment and management, on behalf of the Fund. The methods and procedures stated in the Rules have to be performed on a daily basis from the Risk Management Department of the Managing Company.

The managing company applies the appropriate procedures for risk management, as it is disclosed below.

### ***Liquidity risk***

The Fund is obliged to maintain such a structure of the assets and liabilities that will enable it to carry out its activity unimpeded and to repay its payables on a timely basis at reasonable prices without the need to sell profitable assets. The Fund attracts resources by issue of own shares.

The liquidity risk can arise as a consequence from the low liquidity on the capital market as well as when there are unusual big orders for repurchase of shares which can lead to exhausting the Fund's cash.

The Fund invests in equities, traded on an active stock market and when it is necessary it can provide cash and cash equivalents for the accepted order of repurchase of the own shares within a statutory regulated term.

The Fund manages this risk by keeping a relatively large portion of cash and highly liquid assets in its portfolio, thus reducing to a minimum the possibility of being unable to settle its liabilities on time.

According to the rules for maintenance and management of the liquid funds the Fund holds cash on term and demand deposits in order to meet liquidity needs. The portfolio manager monitors on a daily basis liquid cash as a percentage of the assets while there are controlled by the Board of Directors on a monthly basis.

The table below shows the financial liabilities of the Company, summarized in groups by maturity from the reporting date of the statement of financial to the date of repayment.

	<u>Under 1 month</u>
<b>As at 31 December 2015</b>	
Total financial liabilities	13
Own shares in circulation measured at net value of one share as at year end	5,474
<b>As at 31 December 2014</b>	
Total financial liabilities	15
Own shares in circulation measured at net value of one share as at year end	5,824

Own shares in circulation are a subject of repurchase according to a decision of their owners.

### ***Market risk***

Market risk is a systematic (general) risk, having effect on the value of all assets. It arises from the characteristics of the macroeconomic environment and the condition of the capital market in the country. It cannot be controlled by the issuer and it cannot be diversified. Market risk consists of foreign currency risk, interest rate risk and other price risk. Basic methods for reduction of the systematic risk and its components include collecting and processing of information about the macroeconomic environment and, based on this information, forecasting and adjusting the investment policy to the expected changes in the environment.

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All investments in securities can generate risk of loss of capital. The portfolio manager manages this risk by careful selection of securities and other financial instruments within certain limits. The investment portfolio of the Fund is monitored on a daily basis by the portfolio manager and on a monthly basis by the Board of Directors.

Market risk is concentrated in the following positions

	As at 31.12.2015		As at 31.12.2014	
	Fair value	% of net assets, measured at market price	Fair value	% of net assets, measured at market price
Available-for-sale financial assets	4,902	89.55	4,772	81.93
Financial assets at fair value through profit or loss	-	-	164	2.81
Dividend receivables	29	0.53	18	0.31
<b>Total amount, exposed to market risk</b>	<b>4,931</b>	<b>90.08</b>	<b>4,954</b>	<b>85.05</b>

#### *Currency risk*

The Fund is exposed to foreign currency risk while operating with financial instruments, denominated in foreign currency. Foreign currency transactions result in exchange rate gains and losses represented through the statement of comprehensive income. Such exposures are the monetary assets and liabilities of the Fund, denominated in currency other than BGN and EUR.

The investment strategy, that the management company followed in 2015 with respect to foreign currency risk is that the cost of hedging the currency risk in long-term investment horizon (as is the investment horizon of the Fund) rarely compensate actually realized risk of exchange rate change. This conclusion is reinforced by the observed historically low correlation of the main currencies in which the MF Advance Eastern Europe is exposed, suggesting that long-term exchange rate movements are not bound to each other and largely neutralized.

Concentration of assets and liabilities in foreign currency:

	Short term currency risk exposure					
	Romanian lea	Russian rubble	Serbian dinar	Croatian kuna	Ukrainian hryvna	US dollar
<b>31 December 2015</b>						
Financial assets	1,640	1,511	546	519	214	35
<b>Total currency risk exposure</b>	<b>1,640</b>	<b>1,511</b>	<b>546</b>	<b>519</b>	<b>214</b>	<b>35</b>

All amounts are presented in thousand Bulgarian leva (BGN'000), unless otherwise stated

<b>31 December 2014</b>						
Financial assets	1,561	-	480	406	578	1,375
<b>Total currency risk exposure</b>	<b>1,561</b>	<b>-</b>	<b>480</b>	<b>406</b>	<b>578</b>	<b>1,375</b>

Tables, presented below, show the sensitivity of the financial result and equity to hypothetical change of the Bulgarian lev's exchange rate.

- US dollar (+/- 2%)
- Serbian dinar (+/- 0.6%)
- Croatian kuna (+/- 1.4%)
- Russian rouble (+/- 10.8%)
- Romanian lea (+/- 1.4%)
- Ukrainian hryvna (+/- 9.5%)

All other parameters are assumed constant.

These percentages are determined using averaged exchange rate for the last 12 months. The sensitivity analysis is based on the Fund's investments in foreign currency denominated assets, held as per year end.

<b>31 December 2015</b>	<b>Increase in Bulgarian lev's exchange rate</b>		<b>Decrease in Bulgarian lev's exchange rate</b>	
	<b>Net financial result</b>	<b>Equity</b>	<b>Net financial result</b>	<b>Equity</b>
Romanian lea (+/- 1.4%)	(21)	(21)	21	21
Russian rouble (+/- 10.8%)	(147)	(147)	147	147
Serbian dinar (+/- 0.6%)	(3)	(3)	3	3
Croatian kuna (+/- 1.4%)	(6)	(6)	6	6
Ukrainian hryvna (+/- 9.5%)	(18)	(18)	18	18
US dollar (+/- 2%)	(1)	(1)	1	1



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Exposure to currency risk varies during the year, based on the volume of deals with foreign securities. Although it is assumed, that the analysis, presented above shows the level of currency risk, the Fund is exposed to.

***Interest risk***

Asset value of the Fund depends on the dynamics of interest rates in the economy. The activity of the Fund is subject to the risk of fluctuations in interest rates, as the cost of interest-bearing assets with fixed-rate changes as a result of change in market interest rates. On the other hand, the Fund is exposed on assets with floating interest rates, to interest rate risk, as a result of a change in the interest rate index, that is bound to the relevant financial instruments. Upon change of 0.1% in interest rates for one year, the effect on net interest income would be negligible.

<b>As at 31 December 2015</b>	<b>Under 1 month</b>	<b>Interest free assets and liabilities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	555	1	556
Available-for-sale financial assets	-	4,902	4,902
Interest receivables and other assets	-	29	29
<b>Total assets</b>	<b>555</b>	<b>4,932</b>	<b>5,487</b>
<b>LIABILITIES</b>			
Current payables	-	13	13
<b>Total liabilities</b>	<b>-</b>	<b>13</b>	<b>13</b>
Own shares in circulation, measured using net value per share as at year end	-	5,474	5,474
<b>Total amount, exposed to interest rate risk</b>	<b>555</b>	<b>(555)</b>	<b>-</b>

<b>As at 31 December 2014</b>	<b>Under 1 month</b>	<b>Interest free assets and liabilities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	884	1	885
Available-for-sale financial assets	-	4,772	4,772
Financial assets at fair value through profit or loss	-	164	164
Interest receivables and other assets	-	18	18
<b>Total assets</b>	<b>884</b>	<b>4,955</b>	<b>5,839</b>
<b>LIABILITIES</b>			
Current payables	-	15	15
<b>Total liabilities</b>	<b>-</b>	<b>15</b>	<b>15</b>
Own shares in circulation, measured using net value per share as at year end	-	5,824	5,824
<b>Total amount, exposed to interest rate risk</b>	<b>884</b>	<b>(884)</b>	<b>-</b>

All amounts are presented in thousand Bulgarian leva (BGN'000), unless otherwise stated

**Other price risk**

The Fund determines the price risk as the risk of decrease in the price of a financial asset, or portfolio of financial assets, due to factors other than those, arising from interest rate or currency risk.

The Management Company has adopted strict limits on the risk indicators of the positions in the investment portfolio of the Fund. These limits are approved by the Board of Directors of the Management Company, and their compliance is monitored on a daily basis by the "Risk Management" Department.

The Fund measured general price risk of the investment portfolio through the historic volatility of the net asset value per share, which is measured by the standard deviation.

2015

NAME	CURRENCY	AVERAGE RETURN (ANNUAL)	STANDARD DEVIATION
MF Advance Eastern Europe	BGN	0.85%	12.38%

2014 r.

NAME	CURRENCY	AVERAGE RETURN (ANNUAL)	STANDARD DEVIATION
MF Advance Eastern Europe	BGN	-6.09%	11.44%

**Credit risk**

Exposure of the Fund to credit risk is limited to the carrying amount of financial assets, recognized at the reporting date, as indicated below:

Financial assets	As at	As at
	31.12.2015	31.12.2014
Available-for-sale financial assets		
Shares	4,902	4,772
Financial assets at fair value through profit or loss		
Collective investment schemes	-	164
	<b>4,902</b>	<b>4,936</b>
Loans and receivables:		
Current receivables	29	18
Cash and cash equivalents	556	885
	<b>5,487</b>	<b>5,839</b>

The Fund defines credit risk as the possibility of reduction in the value of a position in a financial instrument, due to unexpected credit events, related to issuers of financial instruments; the counterparty in exchange and OTC transactions; as well as countries in which they operate.

All amounts are presented in thousand Bulgarian leva (BGN'000), unless otherwise stated

The Fund distinguishes, assesses and manages the following types of credit risk:

- counterparty risk: risk of default by the contracting party to the OTC deals;
- settlement risk: risk, arising from the possibility that the Fund will not receive the cash or financial instruments on the date of the settlement, after it has fulfilled its obligations, arising from that trade;
- investment credit risk: the risk of reducing the value of an investment in a debt security, due to a credit event with the issuer of the instrument. A credit event includes bankruptcy, insolvency or significant change in the capital structure, reducing the credit rating, and others.

The Management Company of the Fund measures and assesses the counterparty risk and the credit settlement risk by the value of all unconcluded transactions with certain counterparty as a percentage from the value of the investment portfolio. It manages these types of risk by setting limits regarding the value of the unconcluded transactions with certain counterparty and strictly observes them, Counterparty credit risk and the settlement risk are relatively low with respect to the transactions of the Company as most of the transactions are concluded under DVP terms of settlement.

During the period no investments have been made in debt securities that could expose it to investment credit risk.

As at year end, the Fund does not have receivables past due, that should have been impaired.

## **19. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS**

Financial instruments are initially measured at fair value in the statement of financial position. IFRS 7 requires disclosure of the techniques for measurement of the fair value of financial instruments, measured at fair value in the statement of the financial position, after their initial recognition. This Standard introduces a hierarchy of fair values, defined according to the degree of observation of the data used for the measurement. Observable data can be defined as market data obtained from independent sources, while data reflecting market assumptions of the company is defined as unobservable. Both data sets the three levels of the fair value hierarchy.

Financial assets and liabilities measured at fair value in the statement of financial position are grouped in three levels in accordance with the fair value hierarchy based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified, is determined based on the lowest level of significant input to the fair value measurement.

All amounts are presented in thousand Bulgarian leva (BGN'000), unless otherwise stated

<b>As at 31.12.2015</b>	<b>Level 1</b>	<b>Total</b>
Financial assets available-for-sale		
- Shares	4,902	4,902
<b>Total</b>	<b>4,902</b>	<b>4,902</b>
<b>As at 31.12.2014</b>	<b>Level 1</b>	<b>Total</b>
Financial assets available-for-sale		
- Shares	4,772	4,772
Financial assets at fair value, through profit or loss		
- Collective investment schemes	164	164
<b>Total</b>	<b>4,936</b>	<b>4,936</b>

## 20. POLICIES AND PROCEDURES FOR MANAGEMENT OF THE NET ASSETS, BELONGING TO SHAREHOLDERS

The objectives of the Management Company regarding capital management are:

- Achieve profitability with minimum risk for investors;
- Maintain high liquidity with regard to the timely repayment of obligations to investors that could arise when repurchasing shares;
- Adequate ratio between cash invested in securities and cash instruments.

Capital management of the Fund, and its use to generate income, is performed by the Management Company in accordance with the regulations, the Prospectus and the Rules of the Fund. It is made under the supervision of the "Risk Management" department, and with active cooperation with the "Accounting" department, in accordance with the internal structure rules and internal control of the Management Company.

	<b>2015</b>	<b>2014</b>
Net assets, belonging to the shareholders	5,474	5,824
Debt	13	15
- Cash and cash equivalents	(556)	(885)
<b>Net debt</b>	<b>(543)</b>	<b>(870)</b>
<b>Net assets to net debt ratio</b>	<b>1:(0.10)</b>	<b>1:(0.15)</b>

31 December 2015

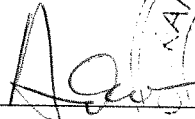
All amounts are presented in thousand Bulgarian leva (BGN'000), unless otherwise stated

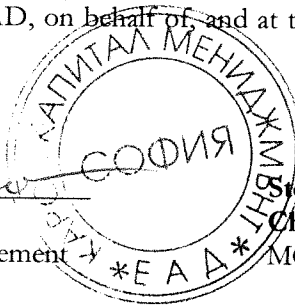
## 21. POST REPORTING DATE EVENTS


No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.

## 22. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2015 (including comparative information) were approved by the Board of directors of the Management Company "Karoll Capital Management" EAD, on behalf of, and at the expense of MF Advance Eastern Europe, on 10 March 2016.

**Daniel Ganev:**   
**Executive Director**  
MC Karoll Capital Management



  
**Stoyka Koritarova**  
**Chief Accountant**  
MC Karoll Capital Management