



Annual Management Report
Independent Auditor's Report
Financial Statements

Mutual Fund Advance Eastern Europe

31 December 2016

advance eastern europe 
KAROLL CAPITAL MANAGEMENT

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ANNUAL MANAGEMENT REPORT

OF

MF ADVANCE EASTERN EUROPE

FOR 2016

1. DEVELOPMENT, OPERATING RESULTS AND STATUS OF THE MUTUAL FUND, DESCRIPTION OF MAIN RISKS

1.1. Registration and license of the Fund

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

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

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

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

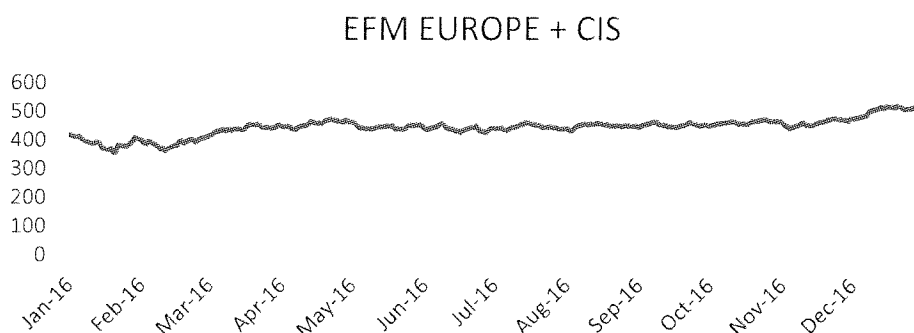
The capital of the Fund is variable and may change depending on the number of issued and repurchase units, but it is always equal to the net asset value of the Fund. The nominal value of a unit is EUR 1.

1.2. Investment activity in 2016

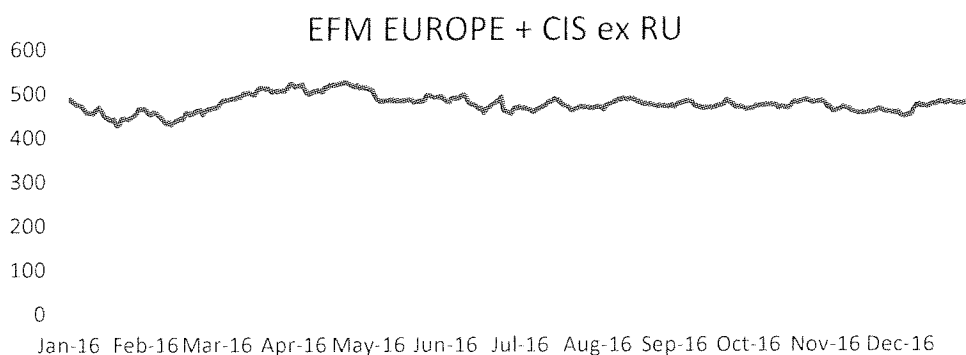
The past year was extremely dynamic for the global markets, with the BREXIT referendum and presidential elections in the US contributing greatly to increased volatility and reversing trends. At the same time, economic data showed continued recovery, and the positive trend dominated in most markets. For the first time since 2010, emerging markets bested the performance of the developed ones. Several of the East European markets ranked in the top 10 best performers globally.

The strongest trend was observed in Russia, which - as a result of a number of risks, and above all, the pressure on oil prices - had a very weak performance in the previous years. In 2016 we saw a distinct reversal of the Russian stocks and currency - the dollar-denominated RTS index surged by over 50%. As a result, given the high weight of Russia, the MSCI EFM Europe + CIS index recorded a growth of over 24% (in EUR). However, the index excluding Russia ended the year in negative territory (-1.29%), mainly due to the depreciation of the Turkish lira.

Dynamics of MSCI EFM Europe+CIS (E+C) in EUR – 2016



Dynamics of MSCI EFM Europe+CIS (E+C) ex RU in EUR – 2016



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

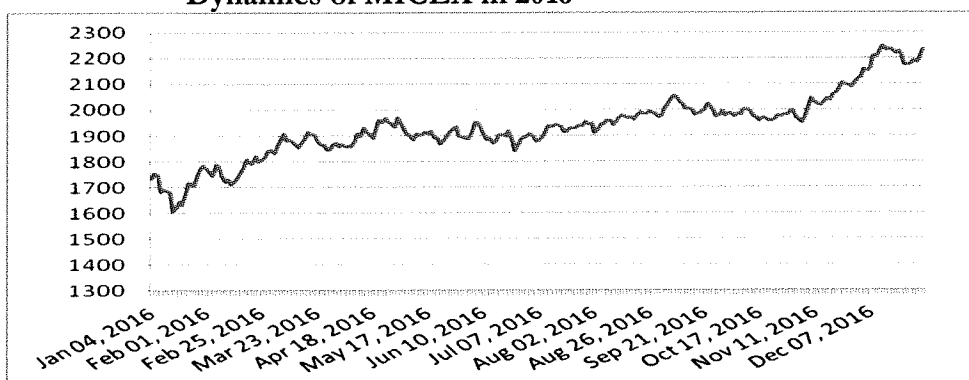
Russia

In 2016, Russia was the fifth best-performing market in the world, based on the \$-denominated RTS index, which jumped more than 52%. The rise of the ruble (+ 20% vs. \$) was behind this solid growth, supported by an increase in oil prices.

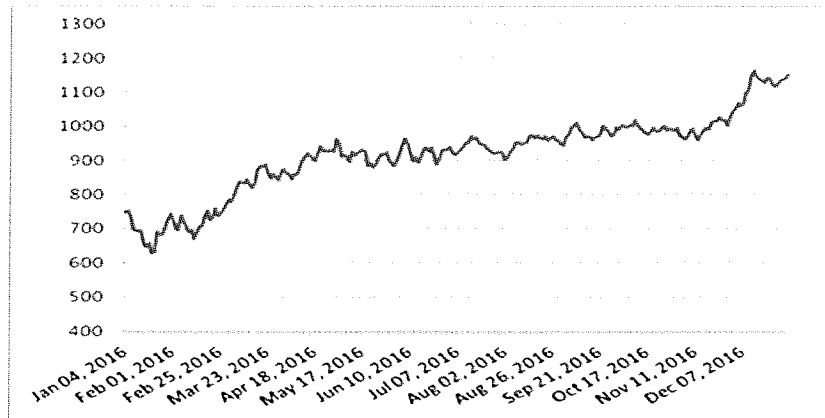
After two years of recession, the Russian economy is expected to return to growth in 2017. Internal changes in the economy will be complemented by external factors such as the improving situation in raw materials' market. Economic data in 2016 was better than expected - Q3 GDP shrank 0.4% per year (slightest decline for the past two years). The recovery of the economy is also supported by the real incomes' growth, respectively consumption, and by the intensification of investments. After falling out of foreign investors' sight based on political risks and Western sanctions, in 2016 Russia again came into focus. President Trump's election in United States has further increased interest towards Russian stocks, along expectations of improved relationships.

Despite the strong market growth, valuation ratios remain among the lowest in the world - by the end of the year, Russian stocks were traded at an average P/E of 9.3x on ttm basis (compared to 12.5x at the end of 2015).

Dynamics of MICEX in 2016



Dynamics of RTS in 2016

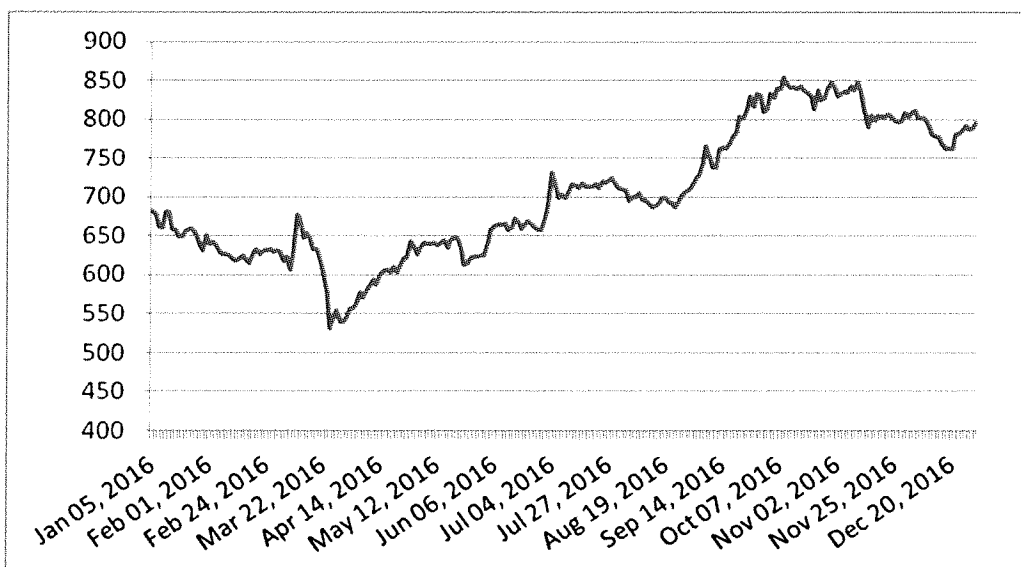


Ukraine

The second half of the year was much more positive for the Ukrainian market, whose UX index collapsed by over 35% in 2015. In 2016, the index ended with a 16% growth, but the Ukrainian hryvnia continued to be under pressure, depreciating again a new 12% versus the dollar. The economic situation in the country has greatly improved since GDP has fallen by nearly 10% in 2015. Estimates show economic growth from 1.5% in 2016 and upward growth to +2.5% in 2017. The improvement in indicators is based on the rise of personal consumption as a result of falling inflation and income growth. Inflation remains at high levels, but below those of 2015 when it exceeded 48%.

In November, Fitch raised the credit rating of the country, namely as a result of increased macroeconomic stability. However, we take into account the continuing presence of political and economic risks - conflicts in the eastern part of the country, as well as the quality of the banking system.

Dynamics of UX in 2016



Romania

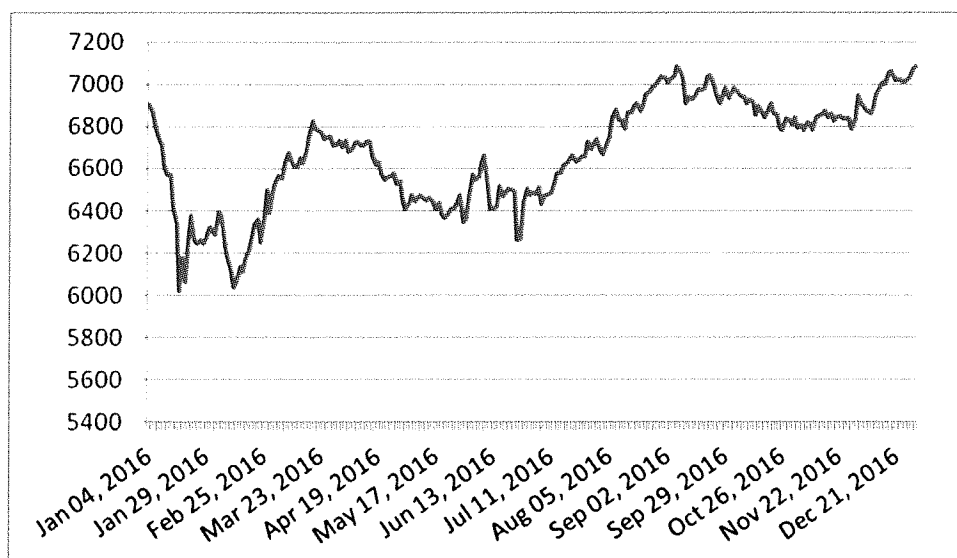
After a poor performance of the Romanian market in the first half of the year, when BET reported a decline of 7.6%, in the second half there was a twist and the index managed to end 2016 at + 1.2%.

In macroeconomic terms Romania remains one of the most well developing countries in the region, having the highest growth rate of GDP in the European Union. In the foundation there is strong domestic consumption, supported by the reduction of VAT rate and increasing disposable income.

The Social Democratic Party's convincing victory at the parliamentary elections, held in December, could lead to an increase in the growth rate of the Romanian economy, given the announced tax cut program for the period 2017-2020.

The average P / E, at which Romanian stocks were traded at the end of the year, was 11.2x. At the same time, the market is also very attractive for its dividend yield - over 5.5%.

Dynamics of BET in 2016



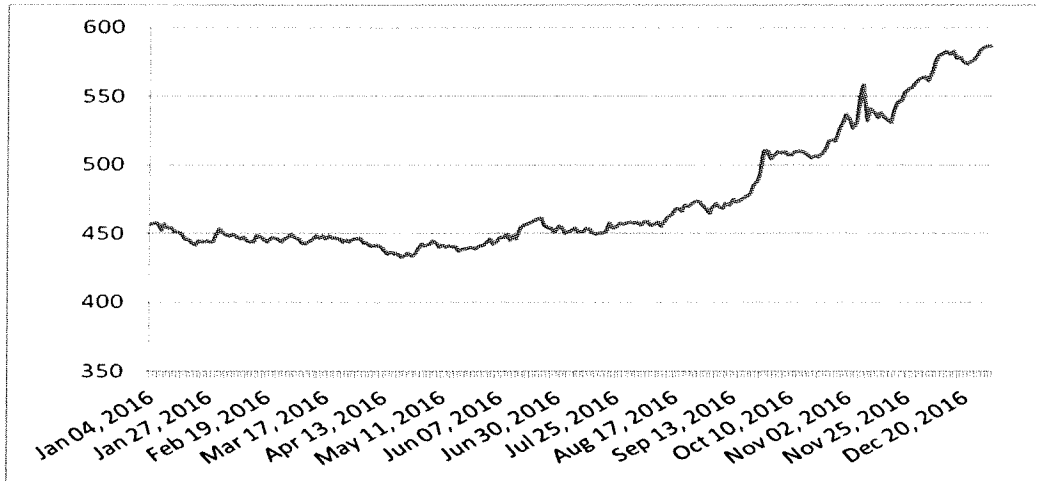
Bulgaria

After a decline of nearly 12% in 2015 and very poor performance in the first half of 2016, the second half was much more positive for the Bulgarian market, whose index proved tenth best performing in the world, with a growth of 27.2%. A strong push for the market was achieved by launching the ETF on SOFIX in September. Rapid fund raising from the ETF has shifted the layers on BSE, raising significantly prices and volumes, as the SOFIX components being the subject of most of deals.

At macroeconomic level, the Bulgarian economy continued its strong performance, with a 3.4% growth in Q3. Bulgaria is one of the fastest growing economies in the European Union due to strong domestic consumption and a positive contribution from exports. Unemployment continues to fall (already 7.1%), while wage growth is among the highest in the EU.

Improvements in corporate earnings have kept the average P / E on the market close to the levels at the end of 2015, despite strong price growth. At the end of 2016, the stocks was traded at an average P / E of 12x.

Dynamics of SOFIX in 2016

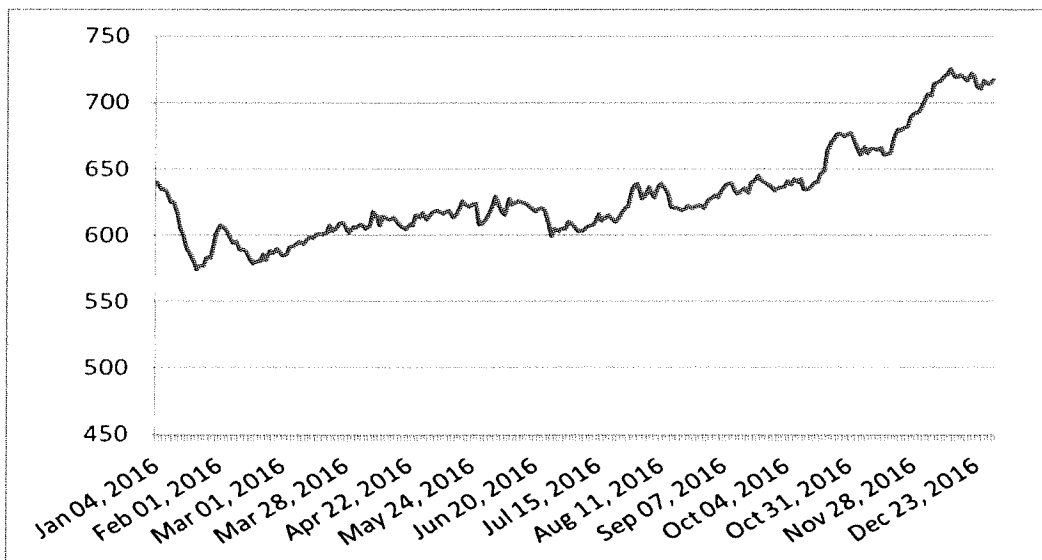


Serbia

The Serbian market started the year very poorly, but the performance improved and BELEX 15 ended in 2016 with a growth of 11.4%. The Serbian economy strengthened its performance as a result of increased investment activity, increased net exports and high consumption. IMF revises upward its forecast for growth for the year to 2.7%. Improved business climate has been reflected in the rise in the country's credit rating by all international rating agencies.

Serbia remains one of the most underestimated markets in the region with a P / E on ttm basis of 9.6x at the end of December. However, as is the case in Bulgaria, low liquidity is still a problem.

Dynamics of Belex 15 in 2016

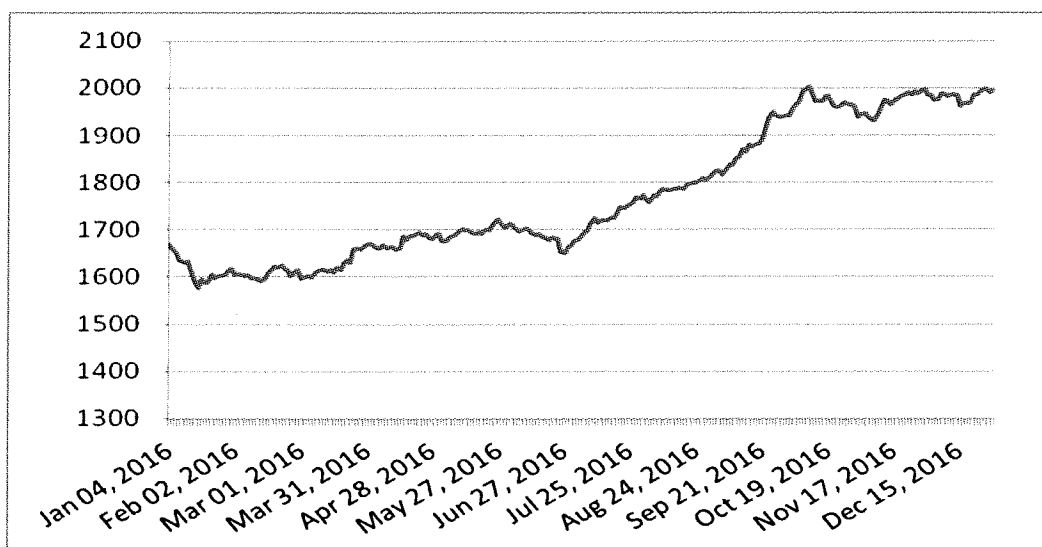


Croatia

The trajectory in Croatia in 2016 was similar to that of Serbia - a weak performance in the first half of the year and a strengthening in the second half. As a result, CROBEX finished with a growth of 18.1%.

Croatian economy also continued to grow at a good pace, supported by domestic consumption and exports. In Q3 a GDP growth of 2.9% has been realized - the highest since 2008. Improvement on the labor market as well as low inflation had a positive effect on the economy. The major contribution to growth, however, has the export of services, in particular after the record peak tourist season in the country. Geopolitical risks and strains in the competitive tourist destinations favored Croatia's tourism sector, which accounts for around 20% of GDP. As a result of better-than-expected results for economic growth and budget execution, in December, S & P raised its Croatian prospects for the first time in nine years.

Dynamics of CROBEX in 2016



Turkey

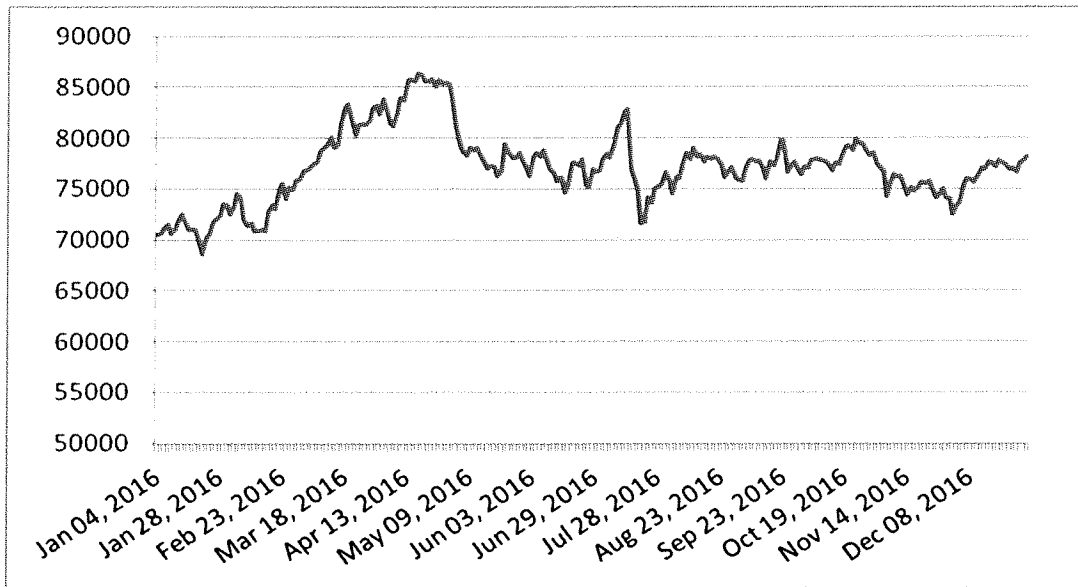
The year was extremely dynamic for the Turkish market as a sign of the significant increase in political risks in the country and sales of the Istanbul stock exchange respectively. With a strong volatility following the political battles between the president and the prime minister and the attempted military coup in July, BIST 100 ended the year with a growth of 8.9%. At the same time, however, the Turkish lira was under severe pressure, with its year-over-year losses vs the dollar rising to 17% and wiping out profits for local stocks in domestic currency.

Increased political risk and tension in Turkey has had an impact on business activity and consumer behavior. In Q3 2016 GDP declined by 1.8% - the first decline in 7 years, for which the collapse of the tourism sector had particularly strong effect.

At the end of November, the EP voted to freeze Turkey's EU membership talks due to the repressive measures taken by Erdogan, while Moody's and S & P lowered the country's credit rating below the investment grade.

With regard to valuation ratios, Turkish stocks are currently among the cheapest, with the average P / E on tmt base at the end of the year being 8.8x - the discount on emerging markets is 30%.

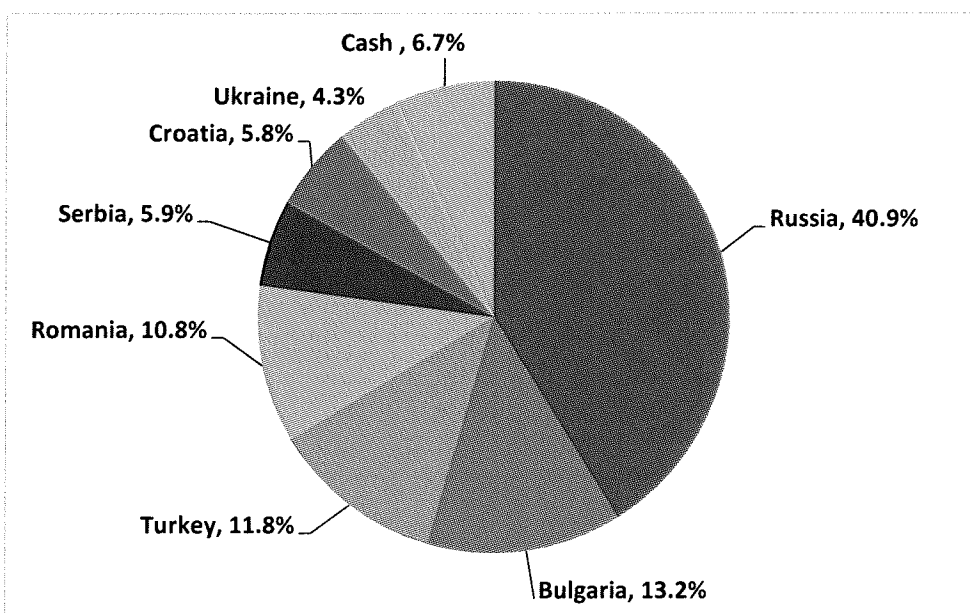
Dynamics of BIST 100 in 2016



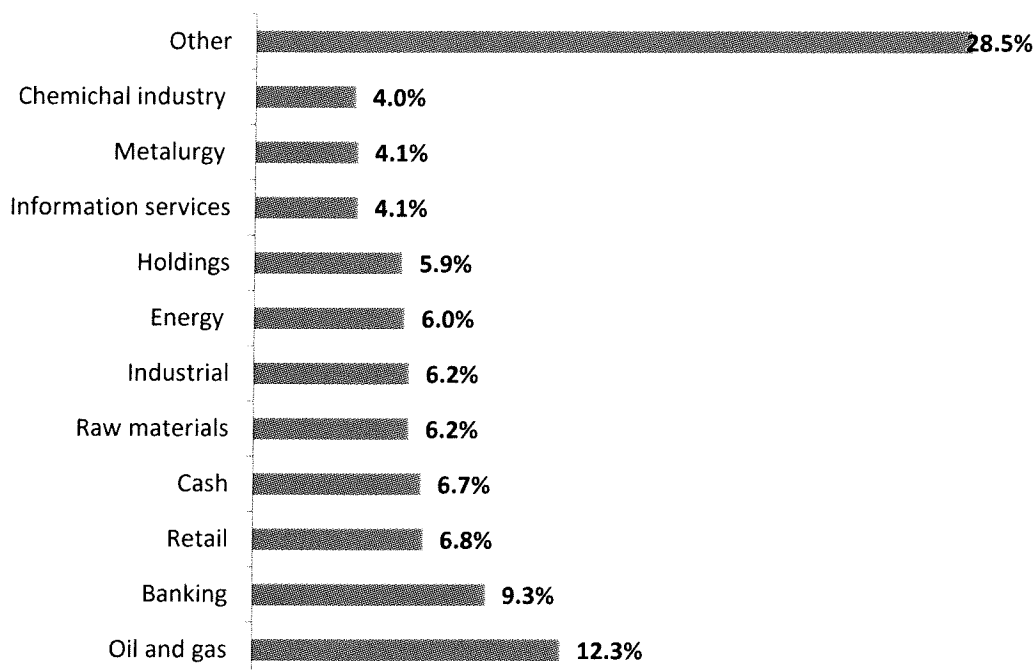
Changes in the Fund's portfolio and operating result for 2016

In 2016, we significantly changed the fund's portfolio to take advantage of changes in market trends. Considering the positive trend in oil and the Russian market respectively, we increased the weight of Russian shares in the portfolio. At the same time, the weight of Bulgaria has been considerably increased given the changed market sentiment. At the beginning of 2016 in the portfolio for the first time Turkey has been included, but due to high political risks, its weight was limited.

Portfolio of MF Advance Eastern Europe as at 31.12. 2016



Assets distribution by sector for 2016



Changes also occurred in terms of sector distribution, to reflect to positive trend in raw materials, particularly oil and gas. We have increased the share of Oil and gas companies in our portfolio, shifting the leadership of banks. Retail sector remained at third position, as our expectations about the economics and individual consumption continues to be positive.

Leading positions in the portfolio and a share of total assets as at 31.12.2016

Company	% of assets
GMK Norliski Nikel (Russia), Materials	5.2%
X5 Retail Group N.V. (Russia), Retail	4.0%
JSC "NOVATEK", Common (Russia), Oil and gas	3.6%
Lukoil (common) (Russia), Oil and gas	3.1%
BASHNEFT PAO (Russia), Oil and gas	3.1%

1.3. Financial result for the year and total comprehensive income.

The financial result of MF Advance Eastern Europe as at 31 December 2016 is a loss of BGN 75 thousand. Total comprehensive income for the year amounted to BGN 600 thousand.

Funds revenues are financial income of BGN 3 064 thousand, from which income from operations with financial assets amounting to BGN 453 thousand, interest income of BGN 1000, dividend

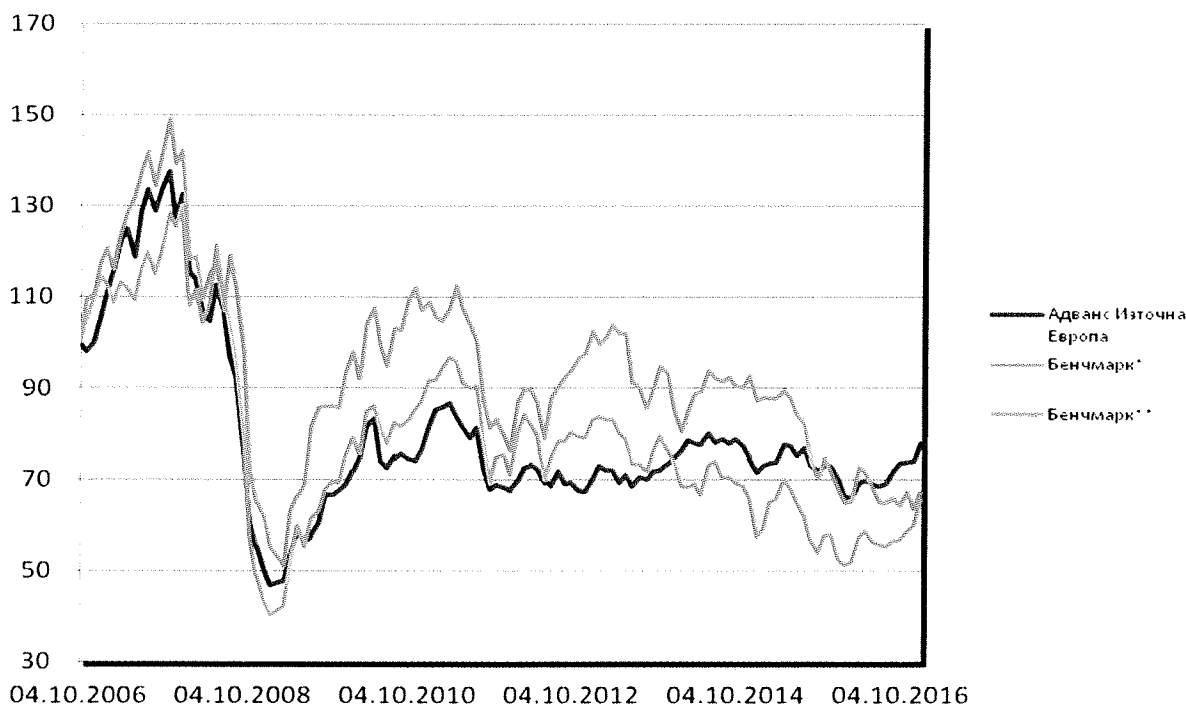
received – BGN 238 thousand, and foreign currency exchange gains at the amount of BGN 2 740 thousand.

In 2016 the Fund’s financial expenses amounted to BGN 3,330 thousand, from which – losses from operations with financial assets at the amount of BGN 601 thousand, foreign currency exchange losses – BGN 2,721 thousand and BGN 8 thousand, representing other financial expenses.

Non-financial expenses totalling BGN 177 thousand are costs of hired services, related to Fund’s operating activity, and are equal to 3.28% of the average net asset value for the period. Management Company’s remuneration amounts to BGN 135 thousand, and is included in the sum above.

1.4. Changes in the price of the fund’s units

In 2016, the Fund performed much better than the benchmark, excluding Russia and slightly poorer than the index which includes Russia. This is mainly due to the great share of Russia in the index, combined with very strong growth in the Russian market. However, the Fund retains a better performance than the two benchmarks since the beginning of the public offering.



Benchmark MSCI EFM Europe + CIS*

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

Results of the Fund, compared to its benchmarks	1 year	3 years (per annum)	5 years (per annum)	Since incorporation (per annum)
MSCI EFM Europe +CIS	24.40%	-3.91%	-1.52%	-4.20%
MSCI EFM Europe +CIS ex RU	-1.29%	-7.72%	-2.60%	-4.67%
Advance Eastern Europe	11.31%	1.54%	2.92%	-2.41%

1.5. 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 the EURO or BGN, because of 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 β -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

2. IMPORTANT EVENTS, OCCURRED AFTER THE REPORTING PERIOD

No adjusting events or significant non-adjusting events have occurred, between the reporting date and the date of approval for publication of these financial statements.

3. EXPECTED FUTURE DEVELOPMENT

The Management Company remains positive about the future development of the Eastern Europe 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 2017 are positive for the development of regional economies, with increase in internal consumption and export, given the indications for recovery in the Euro-zone. Valuation ratios remain among the lowest worldwide. With respect to the good development of the oil market, we are positive about the Russian market. Supposed forthcoming ceasing of the economic restrictions onto Russia might contribute to the rising interest to the market. Given the positive sentiment to raw materials, major part of our investments would be placed on companies from the oil and metallurgy sectors. We are also positive about retail companies, with a view to the low extent of coverage of large retailers in the region. We consider that in other countries there is also space for retail companies to develop growth, given the unemployment decrease and wages increase, contributing to bigger net disposable income for households.

We continue to be positive for the IT sector, which enjoys a high demand for its services both internally and externally from developed markets due to much lower labor costs. Good macroeconomic prospects and growing business confidence will lead to increased demand for loans and, consequently, stronger performance of banks.

With regard to the distribution of the portfolio by markets, by now, we remain at the distribution by the end of 2016, but we will keep an eye on the developments in Turkey, and Turkey's weight can be further reduced. At the moment we will focus actively on stock-picking and searching for companies that will be the beneficiaries of the dollar's appreciation against the pound. Russia will continue to hold the largest weight (40% of the portfolio).

4. RESEARCH AND DEVELOPMENT

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

5. INFORMATION PURSUANT TO 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 period 79,061.9533 units were issued and 124 505.6156 units were redeemed, with par value of EUR 1. In 2016 the net asset value increased to BGN 6,023 thousand at the end of the year.

The number of unitholders declined during the year, from 410 at the end of 2015 to 393 as at 31 December 2016, with 380 individuals and 13 legal entities.

Equity as at 31.12.2016 in the amount of BGN 6,023 thousand, consists of:

- Share capital: BGN 7,735 thousand;
- Premium reserve from issue of units: BGN : 5,519 thousand;
- Reserve from subsequent revaluation of securities: BGN 766 thousand;
- General reserves: BGN 3 thousand;
- Accumulated loss from previous years: BGN (10,011) thousand
- Retained earnings from previous years: BGN 2,086 thousand
- Current period result: loss - BGN (75) thousand.

The Fund has not distributed dividends. The Fund has no registered branches. As of 31 December 2016 there are no restrictions imposed on the rights of members of the Board of Directors of the Management Company to acquire units of the Fund. As at 31 December 2016, Alexander Liudmilov Nikolov owns 2068.3329 units of the Fund and Daniel Yovchev Ganev owns 338.4864 units of the Fund.

During 2016 the Management Company selected the specialized auditing company Grant Thornton OOD with Reg No. 032 to audit the annual financial statements for 2016. The remuneration is at the amount of BGN 4,900.00 before VAT and represents entirely the remuneration for an independent financial audit.

09 March 2017

Daniel Ganev: 
Executive Director



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INDEPENDENT AUDITOR'S REPORT

**To the investors in units of
Mutual Fund Advance Eastern Europe
1, Zlatovrah str., Sofia**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Mutual Fund Advance Eastern Europe** (the Fund), which comprise the statement of financial position as at 31 December 2016 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and Bulgarian legislation.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements of Bulgarian Independent Financial Audit Act, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the annual management report, prepared in accordance with Bulgarian Accountancy Act, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or whether our knowledge obtained in the audit may indicate that there is a material misstatement or otherwise the other information appears to be

materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and Bulgarian Independent Financial Audit Act will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Report on Other Legal and Regulatory Requirements

In addition to our responsibilities for reporting under ISAs, described above in section “Information Other than the Financial Statements and Auditor’s Report Thereon”, regarding annual management report, we have performed the additional procedures contained in the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA), issued on 29 November 2016. The procedures on the existence, form and contents of the other information have been carried out in order to state whether the other information includes the elements and disclosures in accordance with Chapter Seven of Bulgarian Accountancy Act.

Statement Pursuant to Article 37, Paragraph (6) of Bulgarian Accountancy Act

Based on the procedures performed, we describe the outcome of our work:

- (a) the information in the management report is consistent with the financial statements for the same reporting period;
- (b) the management report is prepared in accordance with the applicable legal requirements; and
- (c) as a result of the acquired knowledge and understanding of the activities of the Fund and the environment in which it operates, we have found no cases of material misrepresentation in the management report.

Mariy Apostolov
Managing partner

Milena Mladenova
Registered auditor responsible for the audit


Grant Thornton Ltd.
Audit firm


21 March 2017
Bulgaria, Sofia



MF ADVANCE EASTERN EUROPE
 STATEMENT OF FINANCIAL POSITION
 31 December 2016
 All amounts are presented in BGN'000, unless otherwise stated

	Note	As at 31.12.2016	As at 31.12.2015
Assets			
Current Assets			
Financial assets available for sale	5	5,607	4,902
Current receivables	6	34	29
Cash and cash equivalents	7	405	556
Total assets		6,046	5,487
Net assets, belonging to unitholders			
Share capital	9.1	7,735	7,824
Premium reserve	9.2	5,519	5,481
Revaluation reserve	10	766	91
General reserve		3	3
Accumulated loss		(8,000)	(7,925)
Total net assets, belonging to unitholders		6,023	5,474
Liabilities			
Current liabilities			
Related party payables	13.2	13	11
Current payables	8	10	2
Total liabilities		23	13
Total net assets, belonging to unitholders and liabilities		6,046	5,487

Daniel Ganev: 
 Executive Director
 MC Karoll Capital Management EAD

Stoyka Koritarova: 
 Chief Accountant
 MC Karoll Capital Management EAD

Date: 09.03.2017

Audited, according to the auditor's report dated 21.03.2017

Milena Mladenova
 Registered auditor, responsible for the audit

Mariy Apostolov
 Managing partner – Grant Thornton Ltd.
 Auditing Company




The accompanying notes on pages from 5 to 32 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 31.12.2016	For the year ended 31.12.2015
Dividend income	11.1	238	218
Loss from the operations with investments, net	11.2	(148)	(69)
Gain/(Loss) from exchange differences, net	11.3	19	(220)
Interest income	11.4	1	2
Other financial costs	11.5	(8)	-
Net profit/(loss) from financial assets		102	(69)
Hired services expenses	12	(177)	(192)
Total operating expenses		(177)	(192)
Loss for the period		(75)	(261)
Other comprehensive income			
Financial assets available for sale:			
- Profit / Loss for the year	10	552	79
- Reclassification to profit or loss	10	123	59
Other comprehensive income		675	138
Total comprehensive income/(loss) for the year		600	(123)

Daniel Ganev: 
Executive Director
MC Karoll Capital Management EAD

Stoyka Koritarova: 
Chief Accountant
MC Karoll Capital Management EAD

Date: 09.03.2017

Audited, according to the auditor's report dated 21.03.2017

Milena Mladenova
Registered auditor, responsible for the audit

Mariy Apostolov
Managing partner – Grant Thornton Ltd.
Auditing Company



The accompanying notes on pages from 5 to 32 form an integral part of the financial statements.


MF ADVANCE EASTERN EUROPE


STATEMENT OF CASH FLOWS

31 December 2016

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

	For the year ended 31.12.2016	For the year ended 31.12.2015
Cash flows from investing activities		
Cash payments for financial assets acquisition	(2,476)	(1,234)
Proceeds from sale of financial assets	2,205	1,134
Interest received	1	2
Dividends received	345	190
Net cash and cash equivalents, used in investing activities	75	92
Cash flows from non-specialized investment activities		
Cash payments related to trade contractors	(41)	(45)
Cash payments related to managing company	(134)	(149)
Net cash and cash equivalents used for non-specialized investment activities	(175)	(194)
Cash flows from financing activities		
Proceeds from units issue	119	9
Payment for units redemption	(170)	(236)
Net cash and cash equivalents from financing activities	(51)	(227)
Net decrease in cash and cash equivalents	(151)	(329)
Cash and cash equivalents at the beginning of the year (note 7)	556	885
Cash and cash equivalents at the end of the year (note 7)	405	556

Daniel Ganev: 
 Executive Director
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MF ADVANCE EASTERT EUROPE
STATEMENT OF CHANGES IN NET ASSETS, BELONGING TO UNITHOLDERS
31 December 2016

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

	Share capital	Premium reserve	Revaluation reserve	General reserves	Accumulated loss	Total
Balance as at 1 January 2015	8,134	5,398	(47)	3	(7,664)	5,824
Issue of share capital	12	(3)	-	-	-	9
Redemption of units	(322)	86	-	-	-	(236)
Transactions with unitholders	(310)	83	-	-	-	(227)
Loss for the year	-	-	-	-	(261)	(261)
Other comprehensive income	-	-	138	-	-	138
Total comprehensive loss for the year	-	-	138	-	(261)	(123)
Balance as at 31 December 2015	7,824	5,481	91	3	(7,925)	5,474
Issue of share capital	155	(35)	-	-	-	120
Redemption of units	(244)	73	-	-	-	(171)
Transactions with unitholders	(89)	38	-	-	-	(51)
Loss for the year	-	-	-	-	(75)	(75)
Other comprehensive income	-	-	675	-	-	675
Total comprehensive loss for the year	-	-	675	-	(75)	(600)
Balance as at 31 December 2016	7,735	5,519	766	3	(8,000)	6,023

Daniel Ganev: 
Executive Director
MC Karoll Capital Management EAD

Stoyka Koritarova: 
Chief Accountant
MC Karoll Capital Management EAD

Date: 09.03.2017

Audited, according to the auditor's report dated 21.03.2017

Milena Mladenova
Registered auditor, responsible for the audit

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The accompanying notes on pages from 5 to 32 form an integral part of the financial statements.

31 December 2016

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

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 capital of the fund varies, depending on the number of units issued and offered to be repurchased, but it is always equal to the net asset value of the Fund. Par value per unit is EUR 1. As at 31 December 2016 there are 3,955,047.0426, compared to 4,000,490.7049 in the end of 2015.

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.

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

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.

2. Basis for preparation

The Company's financial statements 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).

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 2015) unless otherwise stated.

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 policies

3.1. New standards, amendments and interpretations to IFRS that are effective for annual periods beginning on or after 1 January 2016

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 Fund's financial statements for the annual period beginning 1 January 2016:

- 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, adopted by the EU;
- IFRS 11 “Joint Arrangements” (amended) – Acquisition of an Interest in a Joint Operation, effective from 1 January 2016, adopted by the EU;
- IAS 1 „Presentation of financial statements” (amended) – Disclosures, effective from 1 January 2016, adopted by the EU;
- IAS 16 “Property, plant and equipment” and IAS 38 „Intangible assets“ (amended), effective from 1 January 2016, adopted by the EU;
- IAS 16 „Property, plant and equipment “ and IAS 41 „Agriculture“ (amended) – Bearer plants, effective from 1 January 2016, adopted by the EU;
- IAS 27 „Separate financial statements“ (amended), effective from 1 January 2016 r, adopted by the EU.
- Annual Improvements to IFRSs 2012 - 2014 Cycle effective from 1 January 2016, adopted by the EU

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued, but are not effective or adopted by the EU for the financial year beginning on 1 January 2016 and have not been adopted early by the Fund. Information on those expected to be relevant to the Fund's financial statements is provided below.

Management of the Management Company anticipates that all relevant pronouncements will be adopted in the Fund's accounting policies for the first period beginning after the effective date of the pronouncement.

IFRS 9 „Financial instruments” effective from 1 January 2018, 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 Management Company have yet to assess the impact of IFRS 9 on these separate financial statements.

Management Company has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- the classification and measurement of the Fund's financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss.
- if the Fund continues to elect the fair value option for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to the Fund's own credit risk.

IFRS 9 “Financial Instruments” (amended) – Hedge accounting, effective from 1 January 2018, not yet adopted by the EU

These amendments to IFRS 9, 'Financial instruments', bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements.

IAS 7 “Statement of Cash Flows” (amended) effective from 1 January 2017, not yet adopted by the EU

These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The Management Company's directors are still in the process of analysing the possible effects from the adoption of the abovementioned standards, and at this moment is unable to precisely predict the changes in amounts reported in financial statements, as a result from the adoption.

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

The following new standards, amendments and interpretations to existing standards, which have also been issued, but are not yet effective, are not expected to have a material impact on the Fund's financial statements:

- **IFRS 2 "Share Based Payments" (amended)** effective from 1 January 2018, not yet adopted by the EU;
- **IFRS 4 „Insurance contracts" (amended)** 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 date to be determined, 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, adopted by the EU;
- **IFRS 15 "Revenue from Contracts with Customers" (amended)** effective from 1 January 2018, adopted by the EU;
- **IFRS 16 "Leases" effective from 1 January 2019, not yet adopted by the EU;**
- **IAS 12 "Income Taxes" (amended)** effective from 1 January 2017, not yet adopted by the EU;
- **IAS 40 "Investment property" (amended) - Transfers of Investment Property** effective from 1 January 2018, not yet adopted by the EU;
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** effective from 1 January 2018, not yet adopted by the EU;
- **Annual Improvements to IFRS Standards 2014-2016 Cycle**

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.

31 December 2016

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

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 2016, 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 operations with investments

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 3.50% 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 unitholders, including management fee and remuneration of the depository bank are accrued daily, under contracts with the Management Company and Depository bank.

Costs associated with the investment in units of the Fund costs are borne directly by the individual investor / unitholder.

The Fund's units are purchased at their issue price, which is equal to the net asset value per unit plus the cost of issuance, calculated as a percentage of net asset value per unit as follows:

- 1.5% of the net asset value per unit for orders up to EUR 50,00.0 euro;
- 1.0% of the net asset value per unit for orders from EUR 50,000.01 to EUR 250,000;
- 0.5% of the net asset value per unit for orders of EUR 250,000.01 to EUR 500,000;

31 December 2016

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

- 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.

4.6.1. 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

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

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 meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective 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.

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 assets value of MF Advance Invest, under Regulation №44 from 20 October 2011 for operation requirements for collective investment schemes, and closed-type 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 assets the Fund is guided by the following principles:

- Financial assets held for trading are measured at fair value, which is their market price in all cases where they have such;
- when assets have no market price, fair value is determined using valuation models;
- • the main criteria for establishing whether an asset has a market price is its liquidity.

Cash is measured at their nominal value

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 19 "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.

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

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.

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's units 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 can be represented as follows:

	Note	Fair value As at 31.12.2016	Fair value As at 31.12.2015
Shares in BGN	5.1	798	437
Shares in foreign currency	5.2	4,809	4,465
Total		5,607	4,902

	ISIN	As at 31.12.2016	% of assets	As at 31.12.2015	% of assets
5.1. Shares in BGN					
Sopharma Trading AD	BG1100086070	141	2.33	119	2.18
Alterko AD-Blocked	BG1100003166	137	2.27	-	-
Advance Terafond REIT	BG1100025052	123	2.05	122	2.23
Trace Group Hold AD	BG1100049078	101	1.67	59	1.07
Stara Planina Hold AD	BG1100005971	97	1.60	-	-
Monbat AD	BG1100075065	90	1.48	-	-
Sopharma AD	BG11SOSOBT18	85	1.40	-	-
Sirma Group Holding AD	BG1100032140	24	0.40	70	1.27
M+S Hidravlik - Kazanluk	BG11MPKAAT18	-	-	67	1.22
Total		798	13.20	437	7.97

5.2. Shares in foreign currency	ISIN	As at 31.12.2016	% of assets	As at 31.12.2015	% of assets
Gmk Norliski nikel	RU0007288411	314	5.19	173	3.15
X5 Retail Group N.V.	US98387E2054	241	3.98	-	-
JSC "Novatek", common	RU000A0DKVS5	217	3.59	132	2.40
Lukoil (common)	RU0009024277	189	3.12	133	2.42
Bashneft PAO	RU0007976957	186	3.07	83	1.51
Energoprojekt Holding A.D.	RSHOLDE58279	177	2.93	130	2.38
Alrosa PAO	RU0007252813	172	2.84	-	-
Ojsc "Magnit", common	RU000A0JKQU8	167	2.77	138	2.51
Banka Transilvania	ROTLVAACNOR1	148	2.46	315	5.73
Vsmo-avisma	RU0009100291	144	2.37	149	2.71
Adris Grupa D.D.	HRADRSPA0009	136	2.24	107	1.94
Fondul Proprietatea SA	ROFPTAACNOR5	131	2.17	206	3.76

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Akron JSC	RU0009028674	130	2.16	204	3.72
Banca Romana Pentru	ROBRDBACNOR2	128	2.12	253	4.62
Gazprom PJSC	RU0007661625	117	1.94	-	-
LSR Group PJSC	RU000A0JPFPO	116	1.92	-	-
Kernel Holding SA	LU0327357389	113	1.87	-	-
Aerodrom Nikola Tesla AD Beograd	RSAN1BE11090	112	1.85	113	2.06
Phosagro OAO-GDR	RU000A0JRKT8	111	1.83	97	1.76
Sntgn Transgaz S.A.	ROTGNTACNOR8	110	1.81	181	3.30
Novolipetsk steel ojsc	RU0009046452	101	1.68	141	2.57
Klimasan Klima Sanayi VE TIC	TRAKLMSN91H5	100	1.66	-	-
Turkiye Sinai Kalkinma Bankasi	TRATSKBW91N0	100	1.66	-	-
Ros Agro PLC- GDR REG S	US7496552057	98	1.62	-	-
Haci Omer Sabanci Aktie	TRASAHO191Q5	97	1.60	-	-
Tav Hava Limnlari Holding A.S.	TRETAHVH00018	93	1.53	-	-
Migraos Ticaret A.S	TREMGT100012	93	1.53	-	-
Ojsc "Motor sich"	UA4000143135	89	1.48	103	1.88
Polyus Gold OJSC	RU000A0JNAA8	88	1.45	-	-
Podravka Prehrambena Industrija D.D.	HRPODRRA0004	88	1.45	77	1.40
Turkiye Halk Bankasi A.S	TRETHAL00019	86	1.43	-	-
Tupras- Turkiye Petrol Rafine	TRATUPRS91E8	86	1.42	-	-
Qivi PLC	US74735M1080	85	1.41	35	0.64
Ledo dionicko drustvo za proizvodnju i promet slad	HRLEJEDORA0003	74	1.23	62	1.14
Romgaz S.A.	ROSNGNACNOR3	70	1.16	76	1.39
Nis A.D. Novi Sad	RSNISIE79420	67	1.10	55	1.00
Transelectrica	ROTSSELACNOR9	63	1.04	202	3.67
Cimsa Cimento Sanayi Ve Tic	TRACIMSA91F9	61	1.01	-	-
Atlantic Grupa Dionicko drustvo	HRATGRRA0003	55	0.91	51	0.93
Astarta Holding NV	NL0000686509	54	0.90	-	-
Yasynivka Cokery plant	UA0500491008	2	0.03	2	0.04
Atlantska plovidba D.D	HRATPLRA0008	-	0.01	1	0.01
OJSC Stakhanovsky Vagonobuvelny	UA1200661007	-	-	1	0.01
Sif Oltenia S.A.	ROSHFEACNOR4	-	-	194	3.54
Transneft, Pref	RU0009091573	-	-	152	2.77
Valamar riviera D.D.	HRRIVPRA0000	-	-	123	2.25
Imlek A.D. Beograd	RSIMLKE73325	-	-	117	2.12
Tatneft, common	RU0009033591	-	-	111	2.02
Omv Petrom	ROSNPPACNOR9	-	-	103	1.87
Aik Banka A.D. Nish	RSAIKBE79302	-	-	66	1.20
Komercijalna banka a.d.	RSKOBBE16946	-	-	65	1.19
SC Bursa de Valori Bucuresti S.A.	ROVBAAACNOR0	-	-	58	1.06
Koncar - elektroindustrija, D.D.	HRKOEIRA0009	-	-	55	1.00
Ojsc "Sec Centrenergo"	UA4000079081	-	-	51	0.92
Biofarm S.A.	ROBIOFACNOR9	-	-	51	0.94
Hrvatske telekomunicacije DD	HRIFT00RA0005	-	-	32	0.59
Ukrnafta	UA1004781001	-	-	30	0.56
Donbasenergo	UA4000080675	-	-	26	0.48
Jadroplov D.D.	HRJDPLRA0007	-	-	11	0.21
Total		4,809	79.54	4,465	81.37

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Market approach has been used in determining the fair value of all shares in the Fund's portfolio as at 31 December 2016.

Sector distribution of investments:

	As at 31.12.2016	% of assets	As at 31.12.2015	% of assets
Oil and gas	744	12.30	138	2.52
Banking	560	9.26	65	1.18
Commerce	501	8.28	-	-
Metallurgy	417	6.89	141	2.57
Raw materials	377	6.23	175	3.19
Industrials	375	6.20	523	9.53
Holdings	359	5.95	470	8.57
Construction	293	4.85	-	-
Information services	247	4.08	90	1.64
Chemical industry	241	3.99	97	1.77
Healthcare	226	3.74	102	1.86
Energy	188	3.10	834	15.20
Utilities	171	2.85	382	6.96
Agriculture	167	2.77	-	-
Consumer products	162	2.68	376	6.85
Food industry	152	2.52	138	2.52
Finance and real estate	124	2.05	868	15.82
Transportation	112	1.85	113	2.06
Infrastructure	101	1.67	59	1.08
Machinery	90	1.48	-	-
Tourism	-	-	123	2.24
Paper industry	-	-	107	1.95
Financial services	-	-	58	1.06
Telecommunications	-	-	32	0.58
Marine transportation	-	-	11	0.19
Total	5,607	92.74	4,902	89.34

Investments are distributed by states as follows:

State	As at 31.12.2016	% of assets	As at 31.12.2015	% of assets
Russia	2,475	40.94	1,546	28.18
Bulgaria	798	13.20	437	7.97
Turkey	715	11.83	-	-
Romania	651	10.76	1,640	29.89
Serbia	355	5.88	546	9.95
Croatia	354	5.85	519	9.46
Ukraine	259	4.28	214	3.89
Total	5,607	92.74	4,902	89.34

As at 31 December 2016, the Management Company reviewed and analyzed evidence of impairment of financial assets available for sale and, as a result of the analysis, considers that no impairment is required.

6. Current receivables

	As at 31.12.2016	As at 31.12.2015
Receivables from participation	31	29
Receivables from orders for purchase of Fund's units	3	-
ОБЩО	34	29

The Fund has receivables arising from approved, but not yet distributed dividends, from the following companies: Aerodrom Nikola Tesla AD Beograd, Ukrnafta, Centrenergo St. J. NA. UH1, OJSC "Magnit", Common, Lukoil (common) и GMK Norliski Nikel. As at the date of approval of these statements, dividend receivables from GMK Norliski Nikel, Lukoil (common) и OJSC "Magnit", Common, amounting to BGN 15 thousand have been paid to the Fund.

7. Cash and cash equivalents

	As at 31.12.2016	As at 31.12.2015
Cash on hand and in current accounts in BGN	99	53
Cash on hand and in current accounts in foreign currency	306	503
Total	405	556

As at 31 December 2016 there are no blocked cash and cash equivalents.

8. Current payables

	As at 31.12.2016	As at 31.12.2015
Payables to custodian bank	3	2
Payables, related to emission of own units	3	-
Payables related to purchase of financial instruments	4	-
Total	10	2

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

9. Net assets, belonging to unitholders

9.1. Number of units issued

During the presented period, the number of units in circulation is as follows:

	Number of units	Par value	Share capital (BGN'000)
At 01.01.2015	4,159,229.0309	1 EUR/unit	8,134
Issued units 2015	6,204.0449	1 EUR/unit	12
Redeemed units 2015	(164,942.3709)	1 EUR/unit	(322)
At 31.12.2015	4,000,490.7049	1 EUR/unit	7,824
Issued units 2016	79,061.9533	1 EUR/unit	155
Redeemed units 2016	(124,505.6156)	1 EUR/unit	(244)
At 31.12.2016	3,955,047.0426	1 EUR/unit	7,735

9.2. Premium reserve

	2016 BGN'000	2015 BGN'000
Premium reserve as at 1 January	5,481	5,398
Change due to emission	(35)	(3)
Change due to redemption	73	86
Premium reserve	5,519	5,481

9.3. Net asset value per unit

Net asset value per unit is the basis for determining the issue price and the repurchase price of units of MF Advance Eastern Europe and is calculated every work day. Net asset value of the Fund is presented in Euro. The most recent calculation and announced to investors and to the FSC net asset value per unit, issue price and repurchase price is as of 30 December 2016 (30 December 2015). For the purpose of these financial statements and the principles of IFRS the net asset value per unit, issue price and repurchase price is calculated and presented as of 31 December 2016.

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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	31.12.2016	30.12.2016	31.12.2015	30.12.2015
Net asset value	3,079,604.38	3,083,241.80	2,798,781.40	2,787,774.11
Number of units in circulation	3,955,047.0426	3,955,047.0426	4,000,490.7049	4,000,490.7049
Nominal value	1.0000	1.0000	1.0000	1.0000
Net asset value per unit	0.7787	0.7796	0.6996	0.6969
Issue price				
orders up to EUR 50 000 after "issue fee" of 1.5% of the net asset value	0.7904	0.7913	0.7101	0.7074
orders from EUR 50 000.01 to EUR 250 000 after "issue fee" of 1.0% of net asset value	0.7865	0.7874	0.7066	0.7039
orders from EUR 250 000.01 to EUR 500 000.00 after "issue fee" of 0.5% of the net asset value	0.7826	0.7835	0.7031	0.7004
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.	0.7787	0.7796	0.6996	0.6969
Redemption price	0.7787	0.7796	0.6996	0.6969

10. Revaluation reserve

	As at 31.12.2016	As at 31.12.2015
Revaluation reserve from subsequent measurement of available-for-sale financial assets in the beginning of the period	91	(47)
Profit from subsequent measurement of available-for-sale financial assets, presented in 'Other comprehensive income'	662	262
Loss from subsequent measurement of available-for-sale financial assets, presented in 'Other comprehensive income'	(110)	(183)
Profit from available-for-sale financial assets, reclassified from equity to profit/(loss) for the period	563	219
Loss from available-for-sale financial assets, reclassified from equity to profit/(loss) for the period	(440)	(160)
Total	766	91

11. Revenues

11.1. Dividend income

	Year, ended 31.12.2016	Year, ended 31.12.2015
Dividend income from Bulgarian issuers	16	26
Dividend income from Romanian issuers	72	72
Dividend income from Croatian issuers	12	19
Dividend income from Russian issuers	81	81
Dividend income from Turkish issuers	28	-
Dividend income from Serbian issuers	26	15
Dividend income from Ukrainian issuers	3	5
Total	238	218

11.2. Loss from operations with investments, net

	Year, ended 31.12.2016	Year, ended 31.12.2015
Profit from available-for-sale financial assets, reclassified from equity to profit/(loss) for the period	440	160
Loss from available-for-sale financial assets, reclassified from equity to profit/(loss) for the period	(563)	(219)
Profit from sale of available-for-sale financial assets	13	17
Loss from sale of assets available-for-sale financial assets	(38)	(27)
Profit from subsequent measurement of financial assets, held for trading	-	1
Loss from subsequent measurement of financial assets, held for trading	-	(1)
Loss from operations with investments, net	(148)	(69)

11.3. Loss from exchange rate differences, net

	Year, ended 31.12.2016	Year, ended 31.12.2015
Gain on foreign currency revaluation of financial assets	2,727	2,663
Loss from foreign currency revaluation of financial assets	(2,625)	(2,825)
Foreign exchange operations – income	13	3
Foreign exchange operations – expense	(96)	(61)
Total	19	(220)

11.4. Interest income

	Year, ended 31.12.2016	Year, ended 31.12.2015
Interest income from deposits and current accounts	1	2
Total	1	2

11.5. Other financial expenses

Other financial expenses represent impairment, at the amount of BGN 8 thousand, charged to receivables for dividends, not paid more than 1 year. Those receivables are impaired in full.

12. Hired services expenses

	Year, ended 31.12.2016	Year, ended 31.12.2015
Remuneration of the Management Company	(135)	(149)
Remuneration of the custodian bank	(28)	(28)
Advertisement	(4)	(7)
Audit	(6)	(6)
Annual fees	(1)	(1)
Other	(3)	(1)
Total	(177)	(192)

Costs related to the Fund's activity represent 3.28% (2014 : 3.22%) of the average annual net asset value according to the statement of financial position of the Fund.

13. Related parties

The Fund's related parties comprise of the Management Company and the other mutual funds that it manages.

13.1. Transactions during the year

	Year, ended 31.12.2016	Year, ended 31.12.2015
Remuneration of the Management Company (see note 12)	(135)	(149)
Total	(135)	(149)

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 units – 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. For 2016 and the comparative period, these amounts are below BGN 1000, and therefor are not shown in the note.

13.2. Related party balances as at year end

	As at 31.12.2016	As at 31.12.2015
Payables to the Management Company	13	11
Total	13	11

Payables to the Management Company represent remuneration for the management activities for the month of December 2016 and as at the date of preparation of these financial statements are fully repaid.

14. Non-monetary transactions

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

15. Contingent assets and contingent liabilities

The Fund has no commitments or contingent assets as at 31.12.2016.

16. Categories financial assets and financial liabilities

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

Financial assets	Note	2016	2015
		BGN'000	BGN'000
Financial assets :			
Shares	5.1, 5.2	5,607	4,902
		5,607	4,902
Loans and receivables:			
Current receivables	6	34	29
Cash and cash equivalents	7	405	556
		6,046	5,487
Financial liabilities			
	Note	2016	2015
		BGN'000	BGN'000
Financial liabilities, at amortized cost:			
Current liabilities:			
Current payables	8	10	2
Related party payables	13.2	13	11
		23	13

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 17.

17. Financial instrument risks

Management policy and objectives in relation to 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 Management Company.

The Management Company applies 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 units.

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

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 units 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 units 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. Each month, a Risk Management Report of the Fund, which contains an assessment of the calculated liquidity risk indicators, is prepared and presented to the Board of Directors.

The table below analyses Fund's financial liabilities, summarized in groups, based on maturity

	<u>Under 1 month</u>
At 31 December 2016	
Financial liabilities	23
Own units issued, measured at net value of one unit as at year end	6,023
At 31 December 2015	
Financial liabilities	13
Own units issued, measured at net value of one unit as at year end	5,474

Own units are subject to redemption upon decision of their holders.

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.

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.

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

Market risk is concentrated in the following positions:

	At 31.12.2016		At 31.12.2015	
	Fair value	% of net assets measured at market price	Fair value	% of net assets measured at market price
Financial assets available for sale	5,607	92.74	4,902	89.55
Dividend receivables	31	0.52	29	0.53
Total amount, exposed to market risk	5,638	93.26	4,931	90.08

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, assumed by the Management Company in 2016 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 rouble	Serbian dinar	Croatian kuna	Ukrainian hryvna	Turkish lira	Polish zloty	US dollar
31 December 2016								
Financial assets	651	2,149	355	354	91	715	168	326
Total currency risk exposure	651	2,149	355	354	91	715	168	326
31 December 2015								
Financial assets	1,640	1,511	546	519	214	-	-	35
Total currency risk exposure	1,640	1,511	546	519	214	-	-	35

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

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

- Romanian lea (+/- 0.6%)
- Russian rouble (+/- 7.3%)
- Serbian dinar (+/- 0.3%)
- Croatian kuna (+/- 0.7%)
- Ukrainian hryvna (+/- 3.1%)
- Turkish lira (+/- 3.8%)
- Polish zloty (+/- 1.2%)
- US dollar (+/- 2.1%)

All other parameters are assumed to be 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.

31 December 2016	Increase in Bulgarian lev's exchange rate		Decrease in Bulgarian lev's exchange rate	
	Net financial result BGN'000	Equity BGN'000	Net financial result BGN'000	Equity BGN'000
- Romanian lea (+/- 0.6%)	(4)	(4)	4	4
- Russian rouble (+/- 7.3%)	(140)	(140)	140	140
- Serbian dinar (+/- 0.3%)	(1)	(1)	1	1
- Croatian kuna (+/- 0.7%)	(3)	(3)	3	3
- Ukrainian hryvna (+/- 3.1%)	(3)	(3)	3	3
- Turkish lira (+/- 3.8%)	(25)	(25)	25	25
- Polish zloty (+/- 1.2%)	(2)	(2)	2	2
- US dollar (+/- 2.1%)	(6)	(6)	6	6

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.

31 December 2016

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Interest rate 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.

At 31 December 2016	Under 1 month	Interest free assets and liabilities	Total
ASSETS			
Cash and cash equivalents	405	-	405
Available-for-sale financial assets	-	5,607	5,607
Interest receivables	-	34	34
Total assets	405	5,641	6,046
LIABILITIES			
Current payables	-	23	23
Total liabilities	-	23	23
Own units in circulation, measured at net value per unit at year end	-	6,023	6,023
Total exposure to interest rate risk	405	(405)	-
At 31 December 2015			
	Under 1 month	Interest free assets and liabilities	Total
ASSETS			
Cash and cash equivalents	555	1	556
Available-for-sale financial assets	-	4,902	4,902
Interest receivables	-	29	29
Total assets	555	4,932	5,487
LIABILITIES			
Current payables	-	13	13
Total liabilities	-	13	13
Own units in circulation, measured at net value per unit at year end	-	5,474	5,474
Total exposure to interest rate risk	555	(555)	-

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.

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

The Fund measured general price risk of the investment portfolio through the historic volatility of the net asset value per unit, which is measured by the standard deviation. As at 31 December 2016 and 31.12.2015 price risk indicators are calculated as follows:

2016

Name	Currency	Average return (annual)	Standard deviation
MF Advance Eastern Europe	BGN	11.66%	11.65%

2015

Name	Currency	Average return (annual)	Standard deviation
MF Advance Eastern Europe	BGN	0.85%	12.38%

Credit risk

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

Financial assets

	As at 31.12.2016	As at 31.12.2015
Available-for-sale financial assets		
Shares	5,607	4,902
	5,607	4,902
Loans and receivables:		
Current receivables	34	29
Cash and cash equivalents	405	556
	6,046	5,487

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.

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.

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

The Management Company of the Fund measures and assesses counterparty risk and 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 reporting period the Fund has not invested in debt instruments and is not exposed to investment credit risk.

As at the date of the financial statements, no trade receivables have expired, which should have been impaired.

18. 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.

The following table provides information on financial instruments at fair value as at 31 December 2016 and 2015, presented in levels 1 to 3 of the fair value hierarchy:

At 31.12.2016	Level 1	Total
Available-for-sale financial assets		
- Shares	5,607	5,607
Total	5,607	5,607
At 31.12.2015	Level 1	Total
Available-for-sale financial assets		
- Shares	4,902	4,902
Total	4,902	4,902

19. Policies and procedures for management of the net assets, belonging to unitholders

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 units;
- 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.


	2016 BGN'000	2015 BGN'000
Net assets, belonging to unitholders	6,023	5,474
Debt	23	13
- Cash and cash equivalents	(405)	(556)
Net debt	(382)	(543)
Net assets to net debt ratio	1:(0.06)	1:(0.10)

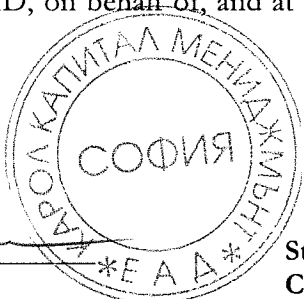
20. Post-reporting date events


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

21. Authorization of the financial statements

The financial statements for the year ended 31 December 2016 (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 2017.

Daniel Ganev: 
 Executive Director
 MC Karoll Capital Management EAD



Stoyka Koritarova: 
 Chief Accountant
 MC Karoll Capital Management EAD