Grant Thornton

# Annual Management Report
# Independent Auditor's Report
# Financial Statements

## Mutual Fund
## Advance Emerging Europe Opportunities

31 December 2018

advance emerging europe opportunities

KAROLL CAPITAL MANAGEMENT

# Contents

# ANNUAL MANAGEMENT REPORT OF MF ADVANCE EMERGING EUROPE OPPORTUNITIES FOR 2018

## 1. Development, operating results and status of the mutual fund, description of main risks

### 1.1. Registration and license

MF Advance Emerging Europe Opportunities is an open-end collective investment scheme, which invests in securities, by raising money through public offering of its own units. MF Advance Emerging Europe Opportunities (formerly MF Advance IPO Fund) is organized by Management Company Karoll Capital Management EAD in 2007. The overall activities of the Fund are administered by the Management Company Karoll Capital Management EAD, entitled for this with decision № 1410 – DF, dated 7 November 2007 of the Financial Supervision Commission. The Fund is registered under art. 30, para. 1, item 5 of the FSCA. MC Karoll Capital Management, on behalf of the Fund, signed a contract for depository services with UniCredit Bulbank AD. The public offering of units of the Fund, began on 23 November 2007. The nominal value of one unit is EUR 1. The capital of the Fund is variable and may change depending on the number of units issued and repurchased, but it is always equal to the net asset value of the Fund.

### 1.2. Investment activity in 2018

Due to growing concerns for decrease of the growth rate of the world economy, the year was overall negative for the global markets. Trade wars launched by US President Donald Trump are expected to have a serious impact on the world trade and, respectively, economic development. World economic growth forecasts have now been revised downwards as for the current year the World Bank expects it to drop to 2.9%, compared to 3% from the past year. In 2018, the global economic activity declined more than expected, which, combined with trade disputes, foreshadows even weaker performance this year.

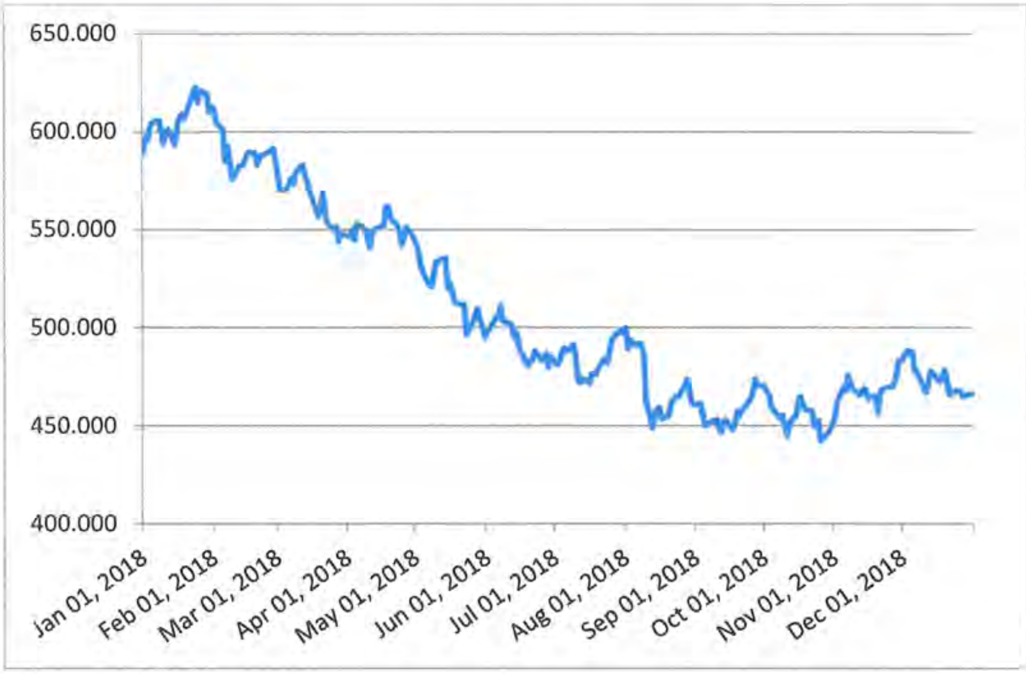
Growth rates in Europe declined considerably as in Q3 of the year, the GDP growth rate of the Euro zone dropped to 1.6%, given 2.4% for Q1 and 2.2% for Q2 of 2018. The PMI index for the Euro zone, which had reached its highest levels in the end of 2017 for the past six and a half years, decreased substantially during the year. Its value in the end of 2018 was the lowest since November 2014.

Growing concerns for decrease in global economic growth had their influence on investors, especially in the end of the year, when a number of markets reported double-digit declines. The MSCI World index dropped nearly 6%. European markets reported significant declines. Emerging markets also suffered from negative sentiments, leading to 12.4% drop of MSCI Emerging Markets index.

Central and Eastern Europe were among the heavily affected regions measured by their common indices, although individual markets had mixed performance. The MSCI EFM Europe+CIS ex RU index was strongly influenced by the drastic depreciation of the Turkish lira and the strong decline in the Turkish market, ending the year with a 21% measured in EUR, compared to growth of over 20% in the prior period.

From a macroeconomic point of view, the region of Central and Eastern Europe continues to develop at a dynamic pace ahead of those in a developed Europe. Despite the slowdown of European economies and the decrease of export to Europe that comes with it, the economic growth in the countries of the region is supported by strong personal consumption as well as by increased investment activity due to enhanced rate of absorption of EU funds. Most countries in the region report a level of unemployment that is lower than the average for Europe, which further decreases as a result of increased demand for labour force. The region attracts various international companies because of the lower labour costs and the improvement of the macroeconomic environment. Thus, the labour market is tightened, wage costs are rising at a faster pace, which in turn stimulates personal consumption.

**Course of MSCI EFM Europe+CIS (E+C) ex RU in 2018, measured in EUR**




**Overview of the markets included in the Fund's portfolio**

**Poland**

Following the strong performance in 2017, the Polish index WIG20 reported negative values in the end of the year, in line with the overall negative sentiment. However, the decline was relatively insignificant due to the sustained performance of the Polish market at the end of the year, when considerable declines in global markets were observed. WIG20 reported a 7.5% drop for the year. In the second half of the year, it managed to erase some of the losses reported in the first six months. The Polish zloty lost 3% against the euro for the year.

From a macroeconomic point of view, the Polish economy continued its sound performance. Polish GDP reported 5.7% annualized growth in Q3 - the highest growth rate in the EU, as well as the highest rate for Poland since 2007. Economic growth is largely driven by personal consumption, like in other countries of the region, but investment activities also increased significantly. On one side there are active public investments, driven by the increased absorption rate of EU funds, as well as significant investments by private companies. Unemployment remains at a low level - 3.8% at the end of the year, which implies maintaining the growth rate of personal consumption.

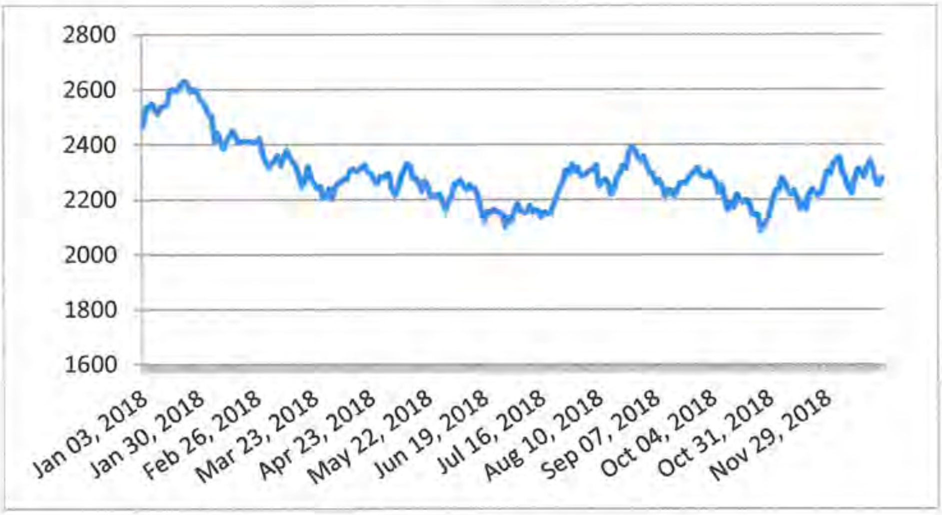
At the end of the year, it became clear that Poland would address the criticism of the European Commission regarding the disputed judicial reform. Combined with clarifying the parameters of the pension reform, the expectation of which was a burden for the market, the risks to Polish equities were significantly reduced.

In 2018, the shares of large companies outperformed the shares of small and medium-sized companies, as the latter reported a big drop of 27.6% and 19.4%, respectively. Small companies are faced with more difficulties in maintaining their profitability due to rising costs.

For the current year, we have higher expectations for larger companies, with new inflows coming from the pension reform in the second half of the year. There are also small companies traded at attractive levels, that we think can provide good return.

In sectoral aspect, large discrepancies between companies were observed. The index of chemical companies collapsed by nearly 39%. At the same time, the index for IT companies reported a much lower drop – only 2.4%, while the index for companies in the oil and gas sector reported an increase of 12%. The year was negative for the banking sector – banking index dropped 12%. Companies in the automotive sector had a very poor annual performance, with nearly 32% index drop.

**Dynamics of WIG 20 in 2018**



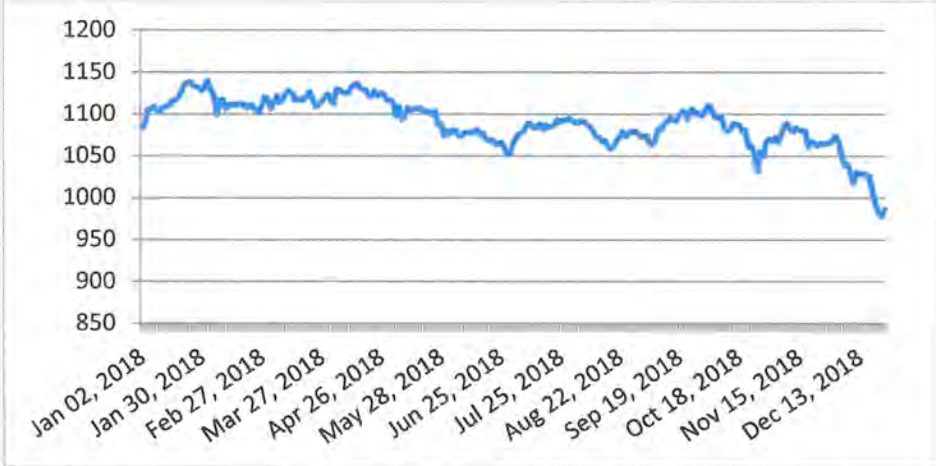

In terms of valuation ratios, Polish market remained appealing, with an average P/E ratio from 12.3x on ttm basis at the end of December. Our expectations remain positive, given the dynamic development of the country and the strong macroeconomic data. We keep our positive views on the IT sector, as the highest share in our portfolio – video games manufacturer CD Project reported 50% annualized growth. Strong macroeconomic development and high consumer confidence Is underlying for our positive views on the banking sector. We continue to avoid energy companies where the political risk is at very high levels, and in 2018 the sector index lost nearly 20%.

A relatively higher correlation with global markets is inherent for the Polish market. We believe that there are prerequisites for stronger growth in emerging markets this year, and that in implementing such a scenario and changing the sentiment, the Polish market should be among the beneficiaries, especially given the strong macroeconomic development and attractive valuation ratios.

## Czech Republic

After the Czech market remained stable in the first half of the year, compared to the overall decrease in global markets, it reported a decline in the second half, with a particularly strong drop in December, in line with global market trends. The PX index reported a 8.5% drop in the end of the year. The Czech Koruny has been relatively stable, ending the year with only a slight change.

**Dynamics of PX in 2018**



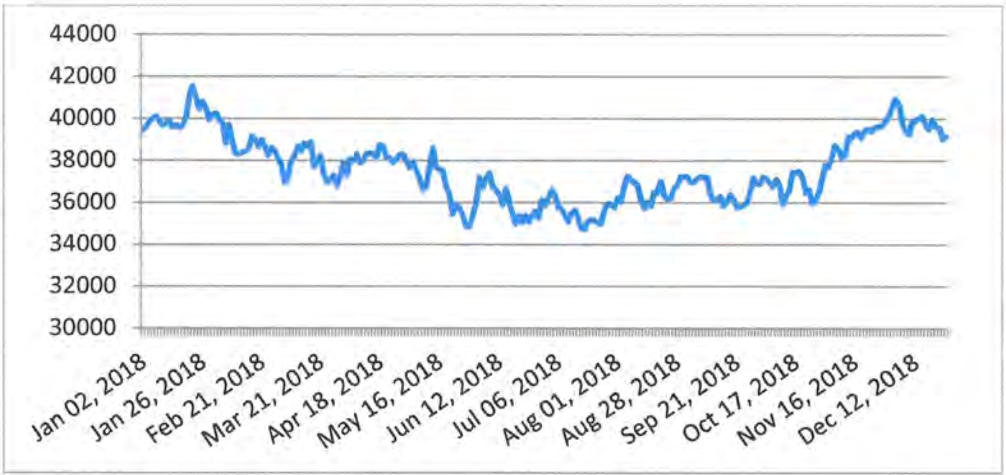

The Czech economy continued to grow at a steady pace but much weaker than the other Central European countries. In Q3, the country's GDP reported a 2.4% annualized growth, against 4.4% in Q1. In our opinion, the weaker growth rate is due to the mature phase of development that the Czech economy entered in. At the same time, the Czech Republic is the country with the lowest unemployment rate throughout the European Union, with the indicator still falling - 1.9% in November, which is an additional barrier to expansion. The tightened labor market situation, that can be described with low unemployment rate and, respectively, higher wage growth than the EU average, leads to strong household consumption.

The Czech market was stable during the first nine months of the year. In the last quarter, however, it was influenced by the overall negative sentiment and reported a 10% drop. Compared to other markets from the region, the Czech market seems more expensive, with e P/E ratio from 15.6x on ttm basis. Nevertheless, we keep our positive views on the market due to our expectations of good earnings growth in 2019, especially in the banking sector. The two listed Czech banks – Moneta Bank and Komercni Banka, reported very strong results in Q3 of 2018 with high net interest income growth and low provisions. Still, in terms of shares, both banks reported negative values in the end of the year, in line with the overall negative sentiment. One of the positions in our portfolio – the CEZ energy company, reported the best performance for the year, with an annualized growth of nearly 15%, despite the decline in Q4. A big event for the Czech market was the IPO of Avast – an anti-virus software company, listed in London and Prague. It attracted over $ 800 million, making it one of the largest IPOs in Europe this year. The stock recorded an increase of nearly 14% compared to the issue value of the listing in May until the end of the year, being one of our top positions at the moment.

**Hungary**

The Hungarian market had a very different dynamics compared to other CEE and global markets. In the first half of the year, the Hungarian index dropped over 8%. In contradiction with the general sentiment in the second half of the year, the market managed to completely erase the losses after a strong performance in November, ending the year with a very slight change (-0.6%). At the same time, however, the Hungarian Forint lost 4.2% against the euro for the year.

**Dynamics of BUX in 2018**




The Hungarian economy reported very strong performance last year, with the country's GDP rising by 5.2% annualized in the third quarter of the year. This is the highest growth rate the country has reported since the fall of communism in 1989. The biggest contribution of this result was the strong domestic demand, while net exports were a negative contribution. Like in other countries in the region, personal consumption was stimulated by the tight labour market – low level of unemployment (3.7%) and a relatively rapid growth rate of wages. Investment activity reported strong dynamics due to new investments and acceleration of the absorption rate of European funds.

Although the Hungarian market is enjoying the attention of foreign investors, the main problem remains – about 95% of the market capitalization is due to only 4 companies. Still, we keep our positive views on Hungarian stocks given the robust macroeconomic development and the notoriously high valuation ratios. Towards the end of the year, the average P / E ratio was 11x on ttm basis whch is below the historical market average.

## Estonia

The Estonian market ended the year on the negative side, but losses were relatively insignificant given thee overall negative sentiment. After the Estonian market picked up somewhat in the middle of the year, it went down in the second half of the year, ending the year with a decline of 6.4%.

**Dynamic of OMX Talinn in 2018**

After the strong performance of the Estonian economy in 2017, the growth rate declined in 2018, but still remains higher than the average for the developed countries in Europe. In Q3, the country's GDP reported 3.8% annualized increase. Again, domestic demand was the main reason for growth, while the external sector had a negative contribution. The labor market strongly stimulated personal consumption, with Q3 wages reporting one of the strongest growth rates in Europe (+ 10.8% annualized). In addition, changes in income taxes also had a positive effect on household consumption. Significant investment projects by private companies have also boosted the country's growth. The negative demographic situation in Estonia, as well as low unemployment level (5.3% at the end of the year), implies additional investment aiming to increase productivity.

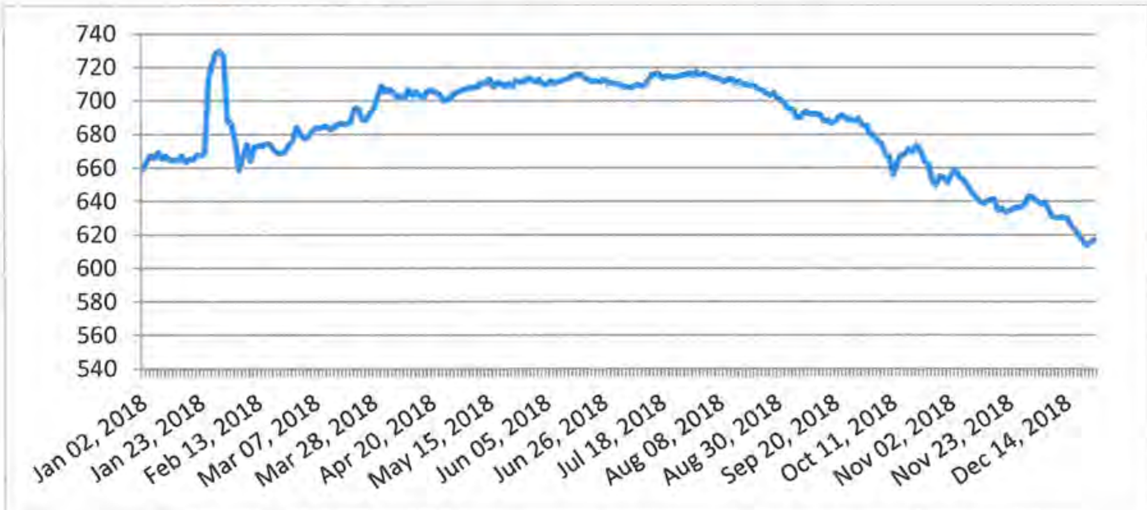
In 2018, an important event for the Estonian Stock Exchange led to optimism among investors. The government successfully privatized the state port through the stock exchange, with an IPO of nearly EUR 150 million being the third in the history of the Estonian borrowing fund. The IPO attracted both institutional and retail investors and will hopefully raise stock market liquidity and attract other companies as well. In addition, the state port shares were the strongest in Estonia last year, with a reported increase of 20% since the IPO until the end of the year.

Estonian stocks are traded at higher ratios than other markets in the region, with an average P/E of 18.9x at the end of the year. The main problem of the market remains the relatively weak liquidity.

**Lithuania**

After a good performance in the first half of the year, the main index of the Lithuanian market dropped 5.6% at year-end.

**Dynamics of OMX Vilnius in 2018**



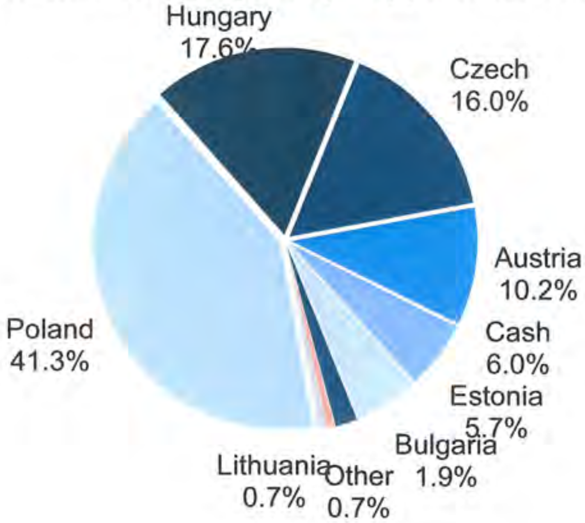

The Lithuanian economy growth rate declined significantly – 2.9% annualized decrease and 3.5% drop for the past two quarters. Again, domestic demand was the main reason for growth, and, as in Estonia, a strong wage growth was observed (+10% in Q3). On the other hand, the Lithuanian economy is highly dependent on exports and worsening external conditions will lead to even more noticeable delays. With weak exports in 2019, investment activity will not be particularly strong.

Lithuanian stocks are traded at attractive ratios, with an average P / E of 11.4x for the market at the end of December. The problem of weak liquidity, however, remains, same as in the other Baltic markets.

**Changes in the portfolio of MF Advance Emerging Europe Opportunities, and operating results in 2018**

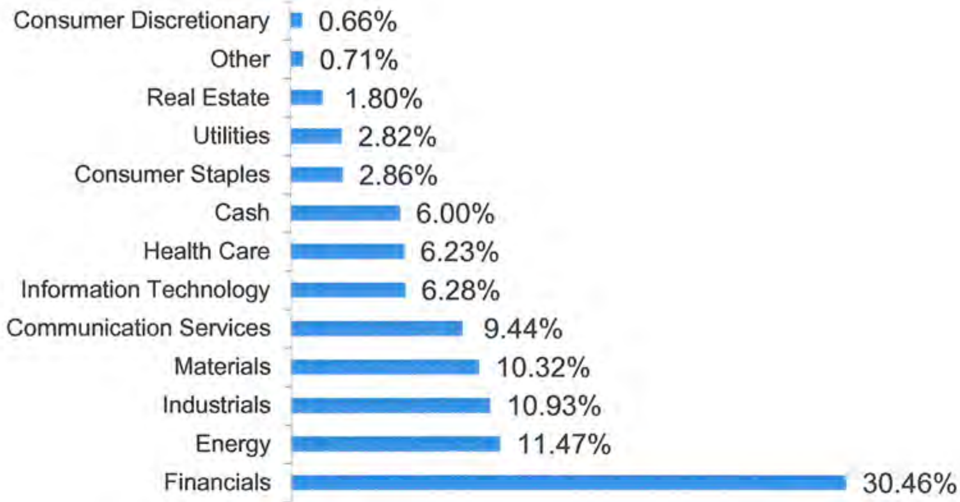
In 2018, Polish equities continued to have the major share in the Fund's portfolio – over 40% of total assets. Two of our Czech positions were delisted during the period. That combined with the stronger performance of the Hungarian market helped Hungary take the second place in our portfolio.

**Portfolio of MF Advance Emerging Europe Opportunities as at 31.12.2018**




**Sector distribution of the assets in the portfolio of MC Advance Emerging Europe Opportunities as at 31.12.2018**

The banking sector continued to hold the most significant part of the Fund's portfolio as a result of the strong macroeconomic development in the region that increased the confidence among consumers and businesses, which led to an increase in lending. The oil sector also remained at the forefront, given the improved conditions on the petrol market, despite the fall in oil prices in the last quarter of the year. The share of IT companies has doubled both as a result of the strong performance of portfolio shares and increased investments, given our positive expectations for the sector.



**Main exposures in the portfolio as proportion of total assets as at 31.12.2018**

| Company | % of total assets |
|---|---|
| CD PROJEKT SA (Poland), IT | 4.35% |
| Avast, (Czech Republic), IT | 4.21% |
| OTP BANK (Hungary), Banking | 4.19% |
| MOL Hungary Oil and Gas (Hungary), Energy | 3.94% |
| KOMERCNI BANKA (Czech Republic), Banking | 3.56% |

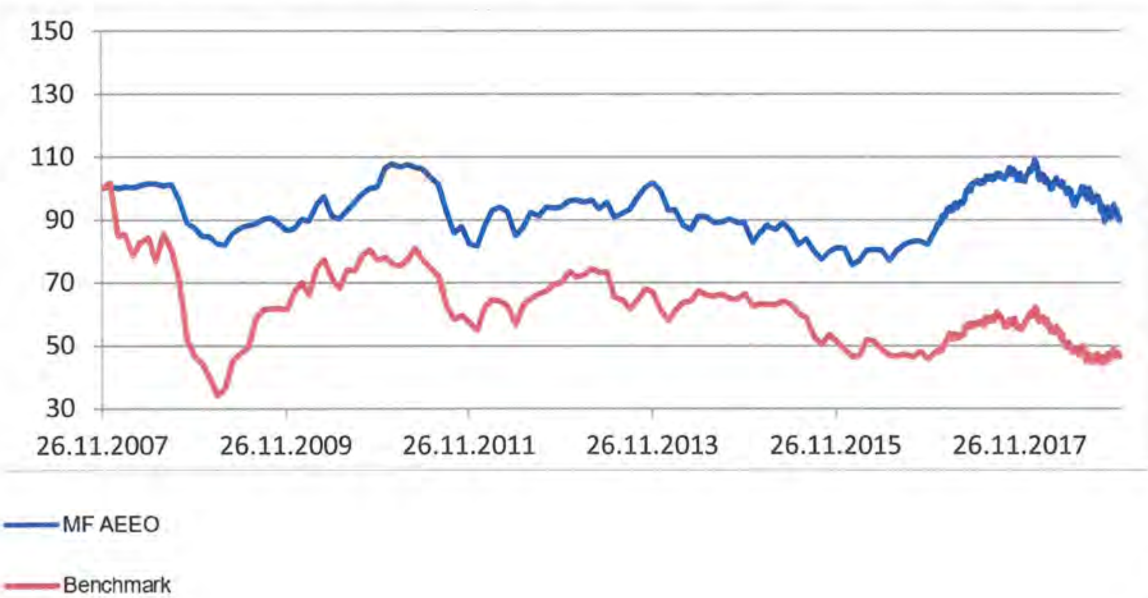
### 1.3. Financial result for 2018

The financial result of MF Advance Emerging Europe Opportunities as at 31 December 2018 is loss at the amount of BGN 1 098 thousand. It is formed by net loss from financial assets amounting to BGN 944 thousand, and non-financial costs at the amount of BGN 154 thousand.
Net gain from operations with financial assets is comprised of dividend income amounting to BGN 230 thousand, net loss from operations with investments of BGN 991 thousand and loss from currency exchange differences of BGN 183 thousand.
Non-financial costs consist of expesnes, related to the Fund's operations, being 2.19% of the average net assets value as at 31.12.2018. The remuneration payable to the management company, according to the Rules of the Fund is BGN 112 thousand.

### 1.4. Changes in the unit price for the period

Principal indicator of the management effectiveness of MF Advance Emerging Europe Opportunities is the change in the price of the Fund's units, calculated based on the net asset value. Net assets value per share has decreased to EUR 0.9034 as at 31 December 2018, compared to EUR 1.4910 as at 31 December 2017.
In 2018 the Fund's performance was close to the benchmark, but for a long-term, the Fund's performance remains considerably better.

*Comparison between the performances of MF Advance Emerging Europe Opportunities and the benchmark, since Fund's inception*



*Benchmark: MSCI EFM Europe + CIS ex RU*

| Performance as at 31.12.2018 | Fund | Benchmark |
|---|---|---|
| YTD | -13.89% | -20.91% |
| 1 y | -13.29% | -20.91% |
| 3 y, annualized | +3.76% | -1.51% |
| 5 y , annualized | -1.87% | -5.32% |
| Since Fund's inception (annualized) | -0.93% | -6.64% |

### 1.5. Financial risks related to the investment portfolio and techniques for their management

The risks associated with the investments of MF Advance Emerging Europe Opportunities are:

***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 risks are interest risk, associated with stock investments in shares, currency risk, and price risk, associated with investments in shares or other equity securities.

***Interest rate risk associated with investments in shares***
The interest rate risk has two manifestations in terms of equity investments. First, interest rate risk is associated with a change in the cost of financing companies if the companies in which the Fund has invested use external financing. And second, interest rates reflect the discount rate used in the valuation using the discounted net cash flow method.

***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.

***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 two types of credit risk: counterparty risk of OTC counterparty default and settlement risk arising from the possibility that the mutual fund will not receive cash or financial instruments on settlement date after they have fulfilled their obligations to a counterparty under a given deal.

***Operational risk***
The possibility of incurring losses, associated with 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 of the Fund, 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 the staff and technological risks, while external operation risks include risks of the environment and physical interference. The management company adopts two-layer approach in managing operational risks, namely - a strategy for the management of operational risk in the long and short term. The management company adopts clear and precise rules and procedures for managing the activities of MF Advance Emerging Europe Opportunities.
The rules and procedures regulate the organizational structure of the Fund in accordance with the adopted rules for the internal organization of the management company in its management activities, the responsibilities and powers of the persons involved in its management as well as the control mechanisms of the individual units in the organizational structure. The rules and procedures are formulated in accordance with the Fund's objectives and the regulatory framework for management companies and mutual funds. Thus, drafted and executed, these rules and procedures are aligned with the overall environment and delineate the long-term strategy of the Fund, which guarantees relevance, safety and resource support for operating processes – both in terms the human and technological factors.

***Liquidity risk***
Risk arising from possible losses due to sales of assets in adverse market conditions to meet unexpected short-term obligations. The liquidity risk of the Fund is managed in accordance with the adopted "Rules for Maintenance and Management of Liquidity of Advance Opportunities in New Europe".

***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. The management company closely monitors the compliance with the limits for investments of the mutual fund.

## 2. Important post balance sheet events

No adjusting or significant non-adjusting events occurred between the date of the financial statements and the date of their approval for publication.

## 3. Expected future development

Despite the overall negative performance of the markets in Central and Eastern Europe in the first half of 2018, we remain positive for the region, because of its dynamic macroeconomic development and low valuation ratios. The capital outflow in 2018 was mainly due to the negative sentiment towards emerging markets. At the same time, the markets from the Fund's portfolio performed relatively well compared to the overall negative sentiment.

The region continues to develop at a very dynamic pace well above those of the developed European countries. The tightened labor market with lower than the EU average levels of unemployment and considerable wage growth, is the basis for strong domestic demand, which is the strongest contributor to high levels of GDP growth. In addition, the acceleration of the absorption rate of European funds further stimulated the growth after the previous few years had a negative effect given the depletion of funds from the previous programming period and the delay in the start of the implementation of the new ones. On the other hand, the deterioration of external trade disputes and the slowdown in global growth will continue to put pressure on growth as a result of a negative contribution from net exports.

We remain positive about Poland, which is the largest and most developed market in the portfolio of the Fund, with the largest share in its assets. The country, which has escaped recession during the major financial crisis, continues to develop very dynamically. At the same time, the expectation that the planned pension reform will negatively affect the cash flows to Polish stocks is not justified; as opposite – additional inflows to the market are expected. In addition, the controversial judicial reform that the country is contemplating has sparked criticism from the European Commission. Corresponding to these criticisms is a good indicator of political risk.

We expect that the good macroeconomic prospects in the region and the increasing confidence of the business will lead to increased demand for loans and, consequently, stronger performance of banks. We are particularly positive about the IT sector in the region as a whole due to the general trends as well as the expected new funding for European projects. We will also monitor the retail sector companies that we expect to continue to be beneficiaries of the increase in household disposable income. In addition, a number of industrial companies also present interest, as they will benefit from the expected strengthening of external demand. Given lower labor costs and the availability of highly skilled labor force, these companies have strong competitive advantages.

We will continue to apply the stock-picking approach, with the Polish market retaining its leading position due to the very wide variety of companies in different sectors traded on it as well as our positive expectations for the Polish economy and market. We are also positive about the Czech and Hungarian markets, because both economies are developing very dynamically. At the same time, all three markets have low valuation ratios. The share of the Baltic markets will remain lower due to weaker liquidity

In the end of December, MSCI EFM Europe + CIS (E + C) ex RU was at levels about 55% lower than its peak in 2007. At the same time, the region is traded at valuation ratios significantly lower than those for global emerging and developed markets and historical average. All this implies a serious catching-up potential, despite the likelihood of additional volatility in the markets stemming from trade disputes and the fears of slowing global economic development.

**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 Act**

The Funds equity as at 31 December 2018 is comprised of 4,085,759.8945 units with par value of EUR 1 per unit. In 2018 the Fund issued 2,413,924.0319 units and redeemed 83,161.3741. The number of shareholders changed during the period, reaching 238 as of the end of 2018, with 220 individuals and 18 legal entities.

Equity at the amount of BGN 7,220 thousand consists of:
- Share capital: BGN 7,991 thousand;
- Share premium: BGN 1,044 thousand;
- Accumulated loss from prior periods: BGN (3,289) thousand;
- Retained earnings from prior periods: BGN 2,572 thousand;
- Current period loss: BGN (1,098) thousand.

The Fund has not distributed dividends, and does not have registered branches. There are no restrictions on the Board members from the management company to purchase shares of the Fund. As of 31 December 2018, Daniel Ganev holds 511.1408 shares and Karoll Capital Management EAD owns 240,950.5227 shares of the Fund.

In 2018, the Management Company elects audit firm Grant Thornton OOD, reg. Number 032 to audit the annual financial statements for 2018. The remuneration for independent financial audit is BGN 2,625.00, VAT excluded and is fully paid.

**6. Changes in net assets and net asset value per share**

| | 31.12.2018 EUR | 31.12.2017 EUR | 31.12.2016 EUR |
|---|---|---|---|
| Net assets | 3,691,264.82 | 1,841,100.82 | 1,275,754.75 |
| NAV per share | 0.9034 | 1.0491 | 0.8673 |

**7. Remuneration policy of the management company**

The management company discloses details for the remuneration policy and all subsequent changes in it to all interested parties, without disclosing any information whose confidentiality might be legally protected.

Remuneration policy covers all forms of remuneration paid by the management company as well as any amounts paid directly by the managed collective investment schemes, including:
- wages;
- any financial incentives, incl. performance bonuses;
- other material incentives, incl. any transfer of units or shares in collective investment schemes to the employees subject to this policy and to the benefit of any other employee whose total remuneration is comparable to the remuneration of those employees and whose professional activities have an impact on the risk profile of the collective investment schemes, managed by the management company;
- remunerations related to pension or health insurance.

The remuneration policy applies to the remuneration of the following categories of staff:
- management;
- employees whose duties are associated with taking risks;
- employees whose duties are associated with internal control activities;
- all other employees whose total remuneration is comparable to the remuneration of management and those employees whose professional activities have an impact on the risk profile of the collective investment schemes, managed by the management company.

Where the remuneration is tied to performance, its overall amount is based on a combination of the performance appraisal of the individual and of the organizational unit in which he works or the relevant collective investment scheme or other investment product, taking into account their risk profile , as well as the overall performance of the management company.

For the purpose of determining the variable remuneration of its employees, the management company has assessed the performance of the Fund as a whole and a thorough analysis of the results from management of the collective investment schemes, the results from management of an individuals' portfolios as a trustee, results from providing investment advice , and from marketing and distribution of collective investment schemes managed by other management companies, as well as of the results of other activities activities carried out by the company.

There are no remuneration paid directly by the collective investment scheme itself, including a performance fee. The мanagement цompany has paid annual variable remuneration to the members of the Board of Directors with a total amount per person not exceeding 30 per cent of the total fixed remuneration and not exceeding BGN 30,000. The management company has reviewed and evaluated the current Remuneration Policy and assessed that there is no need to change and update it.

Total amount of accrued remuneration for the financial year paid by the management company to its employees:

| Staff category | Average number of employees | Fixed remunerations BGN'000 | Variable remunerations BGN'000 | Pension and health insurance |
|---|---|---|---|---|
| Management | 9 | 506 | 122 | 5 |
| Employees involved in risk taking | 3 | 63 | - | 2 |
| Employees exercising control functions | 2 | 14 | - | 1 |
| Employees whose remuneration is commensurate with the remuneration of managerial employees and employees whose activities involve risk-taking and whose professional activities affect the risk profile of the collective investment scheme managed by the management company | 1 | 11 | - | - |
| Other | 6 | 59 | - | 3 |

## 8. Information on the method for calculating the total risk exposure of the Fund

In 2018, the management company identifies and measures all risk factors associated with the individual instruments in the Fund's portfolio, then measures the total exposure of the portfolio to these factors and takes decisions on limits, tolerance and risk management at the portfolio level. The Fund's total risk exposure is calculated once a day. The risk management department calculates the measurement and market risk assessment indicators.

The Management Company measures the market risk associated with a decrease in the value of the investments through one of the quantitative methods applicable to the relevant securities market:

- historical volatility measured by standard deviation;
- if a standard deviation is not possible, the management company uses the standard deviation of the selected index on the regulated market in which the shares are traded as a substitute for the overall portfolio analysis;
- β- coefficient to indices in the relevant markets (the relationship between the price of the individual share and the market price as a whole) of the individual share and the market price as a whole).

In calculating the Fund's overall risk exposure, the Management Company may consider netting and hedging agreements if these agreements do not disclose obvious and significant risks and lead to a clear reduction in risk exposure.

The total risk exposure is equal to the sum of:
(a) the absolute value of the exposure for each individual derivative instrument not participating in netting or hedging agreements;
(b) the absolute value of the net exposure received net of netting and hedging agreements.

In 2019, the management company will modify the Risk Management Rules of MF Advance Emerging Europe Opportunities by developing a Value-at-Risk Model (VaR). The rules will be applied after approval by Financial Supervision Commission.

31.01.2019

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

КАРОЛ КАПИТАЛ МЕНИДЖМЪНТ СОФИЯ * ЕАД *

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# INDEPENDENT AUDITOR'S REPORT

**To the shareholders of**
**Mutual Fund Advance Emerging Europe Opportunities**
**1 Zlatovrah Str., Sofia**

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of **Mutual Fund Advance Emerging Europe Opportunities** (the Fund), which comprise the statement of financial position as at 31 December 2018 and the statement of profit or loss and other comprehensive income, statement of changes in net assets belonging to shareholders and 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 2018 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 Company 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 Company'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 Company 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 Company'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 Company'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 Company 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). 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 Company and the environment in which it operates, we have found no cases of material misrepresentation in the management report.

**Mariy Apostolov**
**Managing partner**

**Grant Thornton Ltd.**
**Audit firm**

**Silvia Dinova**
**Registered auditor responsible for the audit**

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 032
ГРАНТ ТОРНТОН ООД

19 March 2019
Bulgaria, Sofia, 26 Cherni Vrah Blvd.

All amounts are in BGN thousand, unless otherwise stated

| | Note | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Financial assets at fair value through profit or loss | 5 | 6,745 | 3,289 |
| Cash and cash equivalents | 6 | 434 | 319 |
| Current receivables | 7 | 51 | 1 |
| **Total assets** | | **7,230** | **3,609** |
| **Net assets, belonging to the shareholders** | | | |
| Share capital | 8.1 | 7,991 | 3,433 |
| Premium reserve | 8.2 | 1,044 | 885 |
| Accumulated loss | | (1,815) | (717) |
| **Total net assets, belonging to the shareholders** | | **7,220** | **3,601** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Related party payables | 12.2 | 8 | 7 |
| Current payables | 9 | 2 | 1 |
| **Total liabilities** | | **10** | **8** |
| **Total net assets, belonging to shareholders and liabilities** | | **7,230** | **3,609** |

**Daniel Ganev:** ____________ **Stoyka Koritarova:** ____________
**Executive Director** **Chief Accountant**
**MC Karoll Capital Management EAD** **MC Karoll Capital Management EAD**

КАРОЛ КАПИТАЛ МЕНИДЖМЪНТ ЕАД СОФИЯ

**Date: 31.01.2019**

**Audited, according to auditor's report, dated 19.03.2019**

**Silvia Dinova**
**Registered auditor, responsible for the audit**

**Mariy Apostolov**
**Manager – Grant Thornton**
**Audit company**

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

All amounts are in BGN thousand, unless otherwise stated

| | Note | For the year ending 31.12.2018 | For the year ending 31.12.2017 |
|---|---|---|---|
| Dividend income | 10.1 | 231 | 69 |
| (Loss) / profit from operations with investments, net | 10.2 | (990) | 550 |
| (Loss) / profit from foreign currency exchange differences, net | 10.3 | (183) | 73 |
| Other finance costs | | (1) | - |
| **Net (loss) / profit from financial assets** | | **(944)** | **692** |
| Hired services expenses | 11 | (154) | (105) |
| **Total operating expenses** | | **(154)** | **(105)** |
| (Loss) / profit for the year | | **(1,098)** | **587** |
| **Total comprehensive (loss) / income** | | **(1,098)** | **587** |

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

**Stoyka Koritarova:** ________________
**Chief Accountant**
**MC Karoll Capital Management EAD**

КАРОЛ КАПИТАЛ МЕНИДЖМЪНТ
СОФИЯ
*ЕАД*

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The accompanying notes on pages from 5 to 28 form an integral part of the financial statements

All amounts are in BGN thousand, unless otherwise stated

| | Note | For the year ending 31.12.2018 | For the year ending 31.12.2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash payments for financial assets acquisition | | (5,467) | (825) |
| Proceeds from sale of financial assets | | 801 | 472 |
| Dividends received | | 221 | 68 |
| Cash payments related to foreign currency operations | | (4) | - |
| Cash payments related to trade counterparties | | (42) | (21) |
| Cash payments related to the management company | | (113) | (85) |
| **Net cash flow from operating activities** | | **(4,604)** | **(391)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from units issue | | 4,867 | 1,552 |
| Payment for units repurchase | | (148) | (1,030) |
| **Net cash flow from financing activities** | | **4,719** | **522** |
| | | | |
| **Net increase in cash and cash equivalents** | | **115** | **131** |
| | | | |
| **Cash and cash equivalents at the beginning of the year** | 6 | **319** | **188** |
| | | | |
| **Cash and cash equivalents at the end of the year** | 6 | **434** | **319** |

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

**Stoyka Koritarova:** ______
**Chief Accountant**
**MC Karoll Capital Management EAD**

КАРОЛ КАПИТАЛ МЕНИДЖМЪНТ
СОФИЯ
*ЕАД*

**Date: 31.01.2019**

**Audited, according to auditor's report, dated 19.03.2019**

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**Registered auditor, responsible for the audit**

**Mariy Apostolov**
**Manager – Grant Thornton**
**Audit company**

ОДИТОРСКО ДРУЖЕСТВО
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All amounts are in BGN thousand, unless otherwise stated

| | Share capital | Premium reserve | Accumulated loss | Total |
|---|---|---|---|---|
| **Balance as at 1 January 2017** | **2,877** | **922** | **(1,304)** | **2,495** |
| Issue of units | 1,615 | (66) | - | 1,549 |
| Repurchase of units | (1,059) | 29 | - | (1,030) |
| Transactions with shareholders | 556 | (37) | - | 519 |
| Profit for the year | - | - | 587 | 587 |
| Total comprehensive income for the year | - | - | 587 | 587 |
| **Balance as at 31 December 2017** | **3,433** | **885** | **(717)** | **3,601** |
| Issue of units | 4,721 | 154 | - | 4,875 |
| Repurchase of units | (163) | 5 | - | (158) |
| Transactions with shareholders | 4,558 | 159 | - | 4,717 |
| Loss for the period | - | - | (1,098) | (1,098) |
| Total comprehensive loss for the year | - | - | (1,098) | (1,098) |
| **Balance as at 31 December 2018.** | **7,991** | **1,044** | **(1,815)** | **7,220** |

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

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

**Date: 31.01.2019**

КАРОЛ КАПИТАЛ МЕНИДЖМЪНТ
СОФИЯ
*ЕАД*

**Audited, according to auditor's report, dated 19.03.2019**

**Silvia Dinova**
**Registered auditor, responsible for the audit**

**Mariy Apostolov**
**Manager – Grant Thornton**
**Audit company**

ОДИТОРСКО ДРУЖЕСТВО
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The accompanying notes on pages from 5 to 28 form an integral part of the financial statement

# Notes to the financial statements

## 1. General information

MF Advance Emerging Europe Opportunities (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 № 1410 – MF/7.11.2007 of FSC to organize and manage MF Advance Emerging Europe Opportunities. The Fund has been registered in the register according to art. 30, para 1, pt. 5 of FSCA. In 2015 the name of MF Advance IPO Fund has changed to MF Advance Emerging Europe Opportunities, with Decision №112-MF/23.02.2015, Decision №113-MF/23.02.2015 and №114-MF/23.02.2015.

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 Emerging Europe Opportunities chooses UniCredit Bulbank AD as a custodian bank that will hold dematerialized securities and cash of the Fund.

The public offering of units of MF Advance Emerging Europe Opportunities started on 23 November 2007. They are denominated in euro, with par value of 1 euro per unit.

The fund capital is a variable and may vary depending on the number of issued and offered for redemption units, but is always equal to the net asset value of the Fund. The number of units in circulation as at 31 December 2018 and 2017 is respectively 4,085,759.8945 and 1,754,997.2367.

### 1.1. Investing strategy of the Fund

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

The Fund's investment portfolio is structured based on an active approach, on the grounds of investments in companies from the region of Central and Eastern Europe, primarily Poland, Czech Republic, Hungary, Estonia, Lithuania, Latvia. The Fund may also invest in equities of Austrian companies, whose revenues are mainly generated in the mentioned region. The policy of the Fund provides for active management of the portfolio of financial instruments and cash, investing in financial assets that can be purchased or sold, easily and without significant loss of value, as well as achieving sustainable and optimal growth in combination with risk mitigation. The investment strategy involves providing income in the form of capital gains and dividends. The Fund does not target specific industrial sector for its investments, and do not pursue result linked to some those of any market indexes.

Risk management is conducted by diversification of assets, such as the Management Company may apply appropriate strategies to avoid various risks when necessary.

The Fund will pursue an aggressive strategy in the event of more significant market disruptions or the risk of such management company can significantly reduce the weight of shares in the portfolio by maintaining higher balances in cash and bank deposits.

## 2. Basis for preparation of the financial statements

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

The financial statements are presented in Bulgarian leva (BGN), which is also the functional currency of the Fund. All amounts are presented in thousand Bulgarian leva (BGN'000) (including comparative information for 2017) unless otherwise stated.

The financial statements are prepared under the going concern principle.

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

## 3. Changes in accounting policy

### 3.1. New standards, amendments and interpretations to IFRS that are effective for annual periods beginning on or after 1 January 2018

The Fund has adopted the following new standards, amendments and interpretations 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 2018:

**IFRS 9 "Financial instruments" effective from 1 January 2018, adopted by the EU**

IFRS 9 "Financial instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

When adopting IFRS 9, the Fund has applied transitional relief and opted not to restate prior periods.

No changes in the classification of the financial assets of the Fund have arose from the adoption of IFRS 9. The investment portfolio continues to meet the classification requirements of the standard as "held for trading", therefore it continues to be accounted for at fair value through profit or loss. The Fund continues to hold other financial assets (receivables and bank deposits) to collect the associated cash flows. They continue to be measured at amortized cost.

There is no material effect of applying the new requirements of IFRS 9 in respect of the impairment of financial assets. The expected credit loss model has an effect on the Fund's receivables, but as of 1.1.2018 and as of the reporting date the management of the Management Company is of the opinion that the expected credit losses on the Fund's receivables are insignificant (below 0.01% of its net assets) and have not been accounted for.

The following table compares the classification and measurement of the different types of financial assets held by the Fund as of 1.1.2018 (the date of initial application of IFRS 9) under IFRS 9 and IAS 39.

| **Financial assets as at 1.1.2018** | **Classification under IAS 39** | **Carrying amount under IAS 39 (BGN'000)** | **Classification under IFRS 9** | **Carrying amount under IFRS 9 (BGN'000)** |
|---|---|---|---|---|
| Equity instruments | Held for trading at fair value through profit or loss | 3 289 | Fair value through profit or loss | 3 289 |
| Receivables | Loans and receivables | 1 | Amortized cost | 1 |

The Fund has adopted the following new standards, amendments and interpretations 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 2018 but do not have a significant impact on the Fund's financial results or position:

- IFRS 2 "Share Based Payments" (amended) effective from 1 January 2018, adopted by the EU
- IFRS 4 "Insurance contracts" (amended) effective from 1 January 2018, adopted by the EU
- IFRS 15 "Revenue from Contracts with Customers" effective from 1 January 2018, adopted by the EU
- IAS 40 "Investment property" (amended) - Transfers of Investment Property effective from 1 January 2018, adopted by the EU
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" effective from 1 January 2018, adopted by the EU
- Annual Improvements to IFRSs 2014-2016 effective from 1 January 2018, 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 Fund

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 9 "Financial Instruments" (amended) – Prepayment features with negative compensation, effective from 1 January 2019, adopted by the EU
- IFRS 14 "Regulatory deferral accounts" effective from 1 January 2016, not yet adopted by the EU
- IFRS 16 "Leases" effective from 1 January 2019, adopted by the EU
- IFRS 17 "Insurance Contracts" effective from 1 January 2021, not yet adopted by the EU
- IAS 19 "Employee benefits" (amended) – Plan amendment, curtailment or settlement - effective from 1 January 2019, not yet adopted by the EU
- IAS 28 "Investments in associates and joint ventures" (amended) – Long-term interests in associates and joint ventures effective from 1 January 2019, not yet adopted by the EU

- IFRIC 23 "Uncertainty over income tax treatments" effective from 1 January 2019, not yet adopted by the EU
- Annual Improvements to IFRSs 2015-2017 effective from 1 January 2019, not yet adopted by the EU

## 4. Accounting policy

### 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". The Company has elected to present the statement of profit or loss and other comprehensive income as a single statement.

Two comparative periods are presented for the statement of financial position when the Fund applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements and this has a material impact on the statement of financial position at the beginning of the preceding period.

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. 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.

#### 4.4.1. Interest income

Interest income on bank deposits is reported on an accrual basis using the effective interest method in accordance with the requirements of IFRS 9 "Financial instruments".

Dividend income is recognized at the time the right to receive payment is established.

### 4.4.2. 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.

### 4.4.3. 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.

## 4.5. Expenses

Expenses associated with the operations of the Fund are recognized in profit or loss in the statement of profit or loss following the accrual basis.

By a decision of the Board of Directors dated 02.02.2018 the Management Company accepts a reduction of the total amount of the remuneration expenses of the Custodian Bank, the registered auditors, the current supervisory and membership fees and other necessary expenses due in connection with the activity of Mutual Fund Advance Emerging Europe Opportunities up to 1% of the Fund's average annual net asset value. The amendments were approved by the FSC with Decision No 197 - MF / 26.02.2018 and are set out in the Fund Rules.

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

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

- 1.5% (1.5 percent) of the net asset value per unit for orders up to EUR 50,000.
- 1% (1.0 per cent) of the net asset value per unit for orders from EUR 50 000.01 to EUR 250 000.

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

Unitholders do not pay expenses for redemption of units of the Fund.

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

## 4.6. Financial instruments under IFRS 9, effective since 1 January 2018

### 4.6.1. Recognition and derecognition

Financial assets and financial liabilities are recognised when the Fund becomes a party to the contractual provisions of the financial instrument.

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

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

### 4.6.2. Classification and initial measurement of financial assets

**Financial assets held for trading**

Depending on the method of subsequent measurement, financial assets are classified into the following categories:

- Debt instruments at amortised cost;
- Financial assets at fair value through profit or loss (FVTPL);
- Financial assets at fair value through other comprehensive income (FVOCI) with or without reclassification in profit or loss, depending on whether they are debt or equity instruments.

The Fund classifies its investments on the basis of both the business model for their management and the contractual cash flow characteristics of the financial asset. The Fund's investment portfolio is managed and its presentation is evaluated on the basis of fair value information. The Management Company of the Fund is focused on information about the fair values of its financial assets and uses this information to make a decision and evaluate the performance of the assets.

The Fund has not chosen to irrevocably classify equity instruments as measured at fair value through other comprehensive income.

The contractual cash flows of the Fund's debt instruments include only interest and principal payments but these securities are neither held for the purpose of collecting the contractual cash flows nor for the purpose of collecting the contractual cash flows and sales. The collection of contractual cash flows is incidental and not essential to achieving the objectives of the Fund's business model.

All investments of the Fund are subsequently measured at fair value through profit or loss.

**Receivables**

The Fund's receivables arise mainly from the reported dividends and receivables related to operations with financial instruments such as participation in capital increases and maturing principal and interest on bonds. They are initially recognized at amortized cost and are held for the purpose of collecting the contractual cash flows.

Receivables are subsequently measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

#### 4.6.3. Impairment of financial assets

IFRS 9's new impairment requirements use more forward-looking information to recognise expected credit losses – the "expected credit loss" (ECL) model. This replaces IAS 39's "incurred loss model".

Instruments within the scope of the new requirements included all debt instruments except those measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Fund first identifying a credit loss event. Instead the Fund considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2)
- Stage 3 would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognised for the first category while "lifetime expected credit losses" are recognised for the second category. Expected credit losses are determined as the difference between all contractual cash flows attributable to the Fund and the cash flows it is actually expected to receive ("cash shortfall"). This difference is discounted at the original effective interest rate (or credit adjusted effective interest rate).

The Fund uses its experience, external indicators and long-term information to calculate the expected credit losses on financial assets measured at amortized cost.

#### 4.6.4. Classification and measurement of financial liabilities

The Fund's financial liabilities include payables to the Management Company which represent trade payables and are initially measured at fair value.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

The Fund does not measure its financial liabilities at fair value through profit or loss.

### 4.7. Financial instruments under IAS 39, effective until 31 December 2017

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

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

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

All financial assets are recognized on their settlement date.

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

### 4.7.1. Financial assets

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

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

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

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

Financial assets held by the Fund are:

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest rate method, less provision for impairment. Any change in their value is recognized in profit or loss in the current period. The Fund's cash and cash equivalents, trade and most of other receivables fall into this category of financial instruments. Discounting is omitted where the effect of discounting is immaterial.

Current receivables are measured at their expected realizable value.

Individually significant receivables are tested for impairment when they are past due or when there is objective evidence that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available feature of shared credit risk characteristics. The impairment percentage is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables is presented within 'Other expenses/income (including financial)'.

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

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that 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 Emerging Europe Opportunities, 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 the process of valuation of financial 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.

### 4.7.2 Financial liabilities

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

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

### 4.8. Cash and cash equivalents

The Fund accounts for cash and cash equivalents available cash on hand 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, belonging to unitholders

The Fund is an open type collective investment scheme that issued its "capital" instruments and then has the responsibility for their repurchase. The funds raised - face value and reserves and issuing financial result determined net asset value belonging to investors.

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

The estimation of the net asset value of the Fund shall be under the rules for determining the net asset value of MF Advance Emerging Europe Opportunities, approved by the Financial Supervision Commission.

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

The net assets value per unit is the basis for determining the issue price and the repurchase of the units of MF Advance Emerging Europe Opportunities, calculated every business day. The net assets value of the Fund is obtained by reducing the value of all assets from the value of liabilities. The net assets value of the Fund shall be declared in euro.

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

- the provisions of the accounting legislations;
- the provisions of the Act for the activities of collective investment schemes and other collective investment entities (ZDKISDPKI), published on 4 October 2011;
- Ordinance №44 - 20 October 2011 for the requirement for the activities of collective investment schemes, close-end investment entities and management companies (NIDKISIDZTUD);
- the rules and 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, considering the risks and uncertainties associated with the present obligation. Where there are several 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 an asset. 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 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 of the 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**

Credit losses are the difference between all contractual cash flows due to the Fund and all cash flows that the Fund expects to receive. Expected credit losses are a probability-weighted estimate of credit losses that require the Fund's judgment.

Expected credit losses are discounted at the original effective interest rate (or the credit-adjusted effective interest rate for purchased or initially created financial assets with credit impairment).

All amounts are in BGN thousand, unless otherwise stated

## 5. Financial assets at fair value through profit or loss

| | Note | Fair value as at 31 December 2018 | Fair value as at 31 December 2017 |
|---|---|---|---|
| Shares in BGN | 5.1 | 137 | - |
| Shares in foreign currency | 5.2 | 6,608 | 3,289 |
| **Total** | | **6,745** | **3,289** |

### 5.1. Shares in BGN

| Type of security | ISIN | As at 31.12.2018 | % of total assets | As at 31.12.2017 | % of total assets |
|---|---|---|---|---|---|
| GRADUS AD | BG1100002184 | 137 | 1.88 | - | - |

### 5.2. Shares in foreign currency

| Type of security | ISIN | As at 31.12.2018 | % of total assets | As at 31.12.2017 | % of total assets |
|---|---|---|---|---|---|
| CD PROJEKT SA | PLOPTTC00011 | 314 | 4.35 | 100 | 2.77 |
| AVAST PLC ORD | GB00BDD85M81 | 304 | 4.21 | - | - |
| OTP Bank | HU0000061726 | 303 | 4.19 | 122 | 3.37 |
| Mol Hungarian Oil And Gas PL | HU0000153937 | 285 | 3.94 | 91 | 2.52 |
| Komercni Banka | CZ0008019106 | 258 | 3.56 | 105 | 2.91 |
| Moneta Money Bank | CZ0008040318 | 248 | 3.43 | 76 | 2.1 |
| Wizz Air Holdings PLC | JE00BN574F90 | 239 | 3.31 | 154 | 4.27 |
| Richter Gedeon Nyrt | HU0000123096 | 232 | 3.20 | 128 | 3.55 |
| Powszechny Zaklad Ubezpieczen Spolka Akcyjna | PLPZU0000011 | 228 | 3.15 | - | - |
| Cyfrowy Polsat | PLCFRPT00013 | 226 | 3.12 | 87 | 2.42 |
| PKOBP | PLPKO0000016 | 224 | 3.10 | 135 | 3.74 |
| Any Security Printing Go | HU0000093257 | 213 | 2.95 | 101 | 2.8 |
| Polskie Gornictwo Naftowe I Gazownictwo Spolka AKC | PLPGNIG00014 | 207 | 2.87 | 65 | 1.8 |
| RAIFFEISEN BANK INTERNAT. AG | AT0000606306 | 204 | 2.82 | - | - |
| CEZ AS | CZ0005112300 | 203 | 2.81 | 68 | 1.9 |
| Pfleiderer Grajewo SA | PLZPW0000017 | 201 | 2.78 | 76 | 2.09 |
| Alior Bank S.A. | PLALIOR00045 | 198 | 2.74 | 123 | 3.4 |
| KGHM POLSKA MIEDZ SA | PLKGHM000017 | 194 | 2.68 | 83 | 2.31 |
| Kruk S.A. | PLKRK0000010 | 185 | 2.56 | 92 | 2.54 |
| Uniqa Insurance Group AG | AT0000821103 | 184 | 2.55 | 104 | 2.87 |
| OMV AG | AT0000743059 | 180 | 2.48 | 103 | 2.86 |
| Tallink GRP | EE3100004466 | 179 | 2.47 | 110 | 3.05 |
| Ciech Spolka Akcyjna | PLCIECH00018 | 177 | 2.45 | 0 | 0 |
| Alumetal S.A. | PLALMTL00023 | 175 | 2.41 | 83 | 2.31 |
| Erste Group Bank AG | AT0000652011 | 170 | 2.36 | 106 | 2.93 |
| AS Tallinna Sadam | EE3100021635 | 160 | 2.21 | 0 | 0 |
| Polski Koncern Naftowy Orlen | PLPKN0000018 | 157 | 2.18 | 79 | 2.2 |
| Celon Pharma SA | PLCLNPH00015 | 157 | 2.17 | 60 | 1.65 |
| LIVECHAT SOFTWARE SA | PLLVTSF00010 | 150 | 2.07 | 84 | 2.33 |
| Central European Media Enterprises ltd. | BMG200452024 | 142 | 1.97 | 115 | 3.19 |

All amounts are in BGN thousand, unless otherwise stated

| | | | | | |
|---|---|---|---|---|---|
| Globe Trade Centre Spolka Akcyjna | PLGTC0000037 | 130 | 1.80 | - | - |
| Tallinna Kaubamaja Gruoo As | EE0000001105 | 71 | 0.98 | 77 | 2.14 |
| Neuca | PLTRFRM00018 | 62 | 0.86 | 50 | 1.39 |
| Apranga PVA | LT0000102337 | 48 | 0.67 | 58 | 1.62 |
| Getback S.A. | PLGTBCK00297 | - | - | - | - |
| UNIPETROL AS | CZ0009091500 | - | - | 115 | 3.19 |
| Fortuna Entertainment Group. N.V | NL0009604859 | - | - | 102 | 2.83 |
| Emperia Holding SA | PLELDRD00017 | - | - | 93 | 2.58 |
| Pegas Nonwovens SA | LU0275164910 | - | - | 76 | 2.09 |
| Powszechny Zaklad Ubezpieczen Spolka Akcyjna | PLPZU0000011 | - | - | 73 | 2.02 |
| Olympic Entertainment Group | EE3100084021 | - | - | 71 | 1.96 |
| Synthos | PLDWORY00019 | - | - | 69 | 1.9 |
| Fabryki Mebli Forte Spolka Akcyjna | PLFORTE00012 | - | - | 55 | 1.52 |
| **Total** | | **6,608** | **91.40** | **3,289** | **91.12** |

Market approach has been used in determining the fair value of all shares in the Fund's portfolio as at 31 December 2018, except GETBACK SA (PLGTBCK00297) which by decision of the Management Company's Board of Directors from 28.09.2018. is valued at zero.

Investments are allocated by countries are follows:

| **Country** | **As at 31.12.2018** | **% of total assets** | **As at 31.12.2017** | **% of total assets** |
|---|---|---|---|---|
| Poland | 2986 | 41.30 | 1407 | 38.97 |
| Hungary | 1032 | 14.28 | 442 | 12.24 |
| Czech Republic | 851 | 11.77 | 657 | 18.21 |
| Austria | 739 | 10.21 | 313 | 8.66 |
| United Kingdom | 543 | 7.51 | 154 | 4.27 |
| Estonia | 409 | 5.66 | 258 | 7.15 |
| Bulgaria | 137 | 1.88 | - | - |
| Lithuania | 48 | 0.66 | 58 | 1.62 |
| **TOTAL** | **6,745** | **93.28** | **3,289** | **91.12** |

Investments are allocated by sectors are follows:

| | **As at 31.12.2018** | **% of total assets** | **As at 31.12.2017** | **% of total assets** |
|---|---|---|---|---|
| Financial services and real estate | 2,202 | 30.46 | 935 | 25.88 |
| Energy | 829 | 11.47 | 521 | 14.47 |
| Industrial manufacturing | 791 | 10.94 | 365 | 10.12 |
| IT services | 768 | 10.63 | 184 | 5.10 |
| Materials | 747 | 10.32 | 311 | 8.61 |
| Healthcare | 451 | 6.23 | 238 | 6.59 |
| Communication services | 368 | 5.09 | 203 | 5.61 |
| Consumer staples | 208 | 2.86 | 93 | 2.58 |
| Utilities | 203 | 2.81 | - | - |
| Real estate | 130 | 1.80 | - | - |
| Consumer goods and services | 48 | 0.67 | 439 | 12.16 |
| **Total** | **6,745** | **93.28** | **3,289** | **91.12** |

## 6. Cash and cash equivalents

| | As at 31.12.2018 | As at 31.12.2017 |
|---|---|---|
| Cash on hand and in current accounts in BGN | 91 | 267 |
| Cash on hand and in current accounts in foreign currency | 343 | 52 |
| **Total** | **434** | **319** |

The Fund has evaluated the expected credit losses on cash and cash equivalents.

The estimated amount is less than 0.1% of the gross amount of cash deposited in financial institutions, which is therefore considered to be immaterial and has not been accounted for in the financial statements of the Fund.

The Fund has no blocked cash and cash equivalents.

## 7. Current receivables

| | As at 31.12.2018 | As at 31.12.2017 |
|---|---|---|
| Dividend receivables | 3 | 1 |
| Receivables from sales of financial assets | 48 | - |
| **Total** | **51** | **1** |

As at 31.12.2018 г. the Fund has dividend receivables from LIVECHAT SOFTWARE SA (Poland). As at the date of the financial statements it is fully paid. By resolution of the Board of Directors, the dividend receivables from ACTION (PLACTIN00018) at the amount of BGN 1 thousand is determined to be uncollectible and is written-off. The loss is presented in the statement of profit or loss under „Other financial expenses".

Receivables from sales of financial assets is formed by a concluded transaction with a settlement date on January 2, 2019. At the settlement date, the proceeds of the sale have been paid in full to the Fund's account and the receivable is closed.

## 8. Net assets belonging to unitholders

### 8.1 Number of units issued

**Number and values of units issued**

| | Number of units EUR | Nominal value | Share capital BGN'000 |
|---|---|---|---|
| **As at 01.01.2017** | **1,470,874.3834** | **1 EUR/дял** | **2,877** |
| Units issued 2017 | 825,764.5666 | 1 EUR/дял | 1,615 |
| Units repurchased 2017 | (541,641.7133) | 1 EUR/дял | (1,059) |
| **As at 31.12.2017** | **1,754,997.2367** | **1 EUR/дял** | **3,433** |
| Units issued 2018 | 2,413,924.0319 | 1 EUR/дял | 4,721 |
| Units repurchased 2018 | 83,161.3741 | 1 EUR/дял | (163) |
| **As at 31.12.2018** | **4,085,759.8945** | **1 EUR/дял** | **4,558** |

### 8.2 Share premium

| | 2018 BGN'000 | 2017 BGN'000 |
|---|---|---|
| Share premium as at 1 January | 885 | 922 |
| Change due to units issued | 154 | (66) |
| Change due to units repurchased | 5 | 29 |
| **Share premium as at 31 December** | **1,044** | **885** |

### 8.3 Net asset value per share

Net asset value per share is the basis for determining the issue price and the repurchase price of units of MF Advance Emerging Europe Opportunities, 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 share, issue price and repurchase price is as of 31.12.2018. For the accurate use of financial information and given that the Fund declares the net asset value in euro, this note is presented in EUR:

| **All amounts are in EUR** | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Net asset value | 3,691,264.81 | 1,841,100.82 |
| Number of units issued | 4,085,759.8945 | 1,754,997.2367 |
| Nominal value | 1.0000 | 1.0000 |
| Net asset value per share | 0.9034 | 1.0491 |
| Issue price | | |
| orders up to EUR 50 000 after "issue fee" of 1.5% of the net asset value | 0.9170 | 1.0648 |
| orders from EUR 50 000.01 to EUR 250 000 after "issue fee" of 1.0% of net asset value | 0.9124 | 1.0596 |
| orders from EUR 250 000.01 to EUR 500 000.00 after "issue fee" of 0.5% of the net asset value | 0.9079 | 1.0543 |
| 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. | 0.9034 | 1.0491 |
| Redemption price | 0.9034 | 1.0491 |

### 9. Current payables

| | As at 31.12.2018 | As at 31.12.2017 |
|---|---|---|
| Payables to the custodian bank | 2 | 1 |
| **Total** | **2** | **1** |

All amounts are in BGN thousand, unless otherwise stated

## 10. Revenue

### 10.1 Dividend income

| | For the year ended 31.12.2018 | For the year ended 31.12.2017 |
|---|---|---|
| Dividend income from Polish issuers | 128 | 23 |
| Dividend income from Estonian issuers | 11 | 14 |
| Dividend income from Hungarian issuers | 29 | 11 |
| Dividend income from Czech issuers | 34 | 9 |
| Dividend income from Austrian issuers | 25 | 9 |
| Dividend income from Lithuanian issuers | 4 | 3 |
| **Total** | **231** | **69** |

### 10.2 (Loss) / Gain from operations with investments, net

| | For the year ended 31.12.2018 | For the year ended 31.12.2017 |
|---|---|---|
| Loss from operations with financial assets at fair value through profit or loss, (net) | (17) | (5) |
| (Loss) / Gain from change in fair value of financial assets, (net) | (974) | 555 |
| **Total** | **(991)** | **550** |

### 10.3 (Loss) / Gain from exchange rate differences, net

| | For the year ended 31.12.2018 | For the year ended 31.12.2017 |
|---|---|---|
| Gain on foreign currency revaluation of financial assets at fair value through profit or loss | 1,278 | 615 |
| Loss on foreign currency revaluation of financial assets at fair value through profit or loss | (1,403) | (528) |
| Loss from foreign exchange, net | (58) | (14) |
| **Total** | **(183)** | **73** |

## 11. Hired services expenses

| | For the year ended 31.12.2018 | For the year ended 31.12.2017 |
|---|---|---|
| Remuneration of the Management Company | (112) | (83) |
| Remuneration of the custodian bank | (25) | (14) |
| Audit | (3) | (4) |
| Advertisement | (7) | (2) |
| Annual fees | (2) | (1) |
| Other | (5) | (1) |
| **Total** | **(154)** | **(105)** |

All amounts are in BGN thousand, unless otherwise stated

Costs related to the Fund's activity represent 2.19% (2017: 3.16%) %) of the average annual net asset value, according to the statement of financial position of the Fund.

## 12. Related parties

The Fund's related parties consist of the Management Company and the other mutual funds, manage by it, and other companies under the control of the ultimate owner of the Management Company – Stanimir Karolev.

### 12.1 Transactions from the period

| | For the year ended 31.12.2018 | For the year ended 31.12.2017 |
|---|---|---|
| Remuneration to the management company (incl. also in note 11) | (112) | (83) |
| Transactions related to units issued | (2) | (3) |

The Management Company receives remuneration for its management activities. By resolution of the Board of Directors from 02.02.2018, the amount of the remuneration changes from 2.5% to 1.5% of the average annual net asset value of the Fund. The change is approved by FSC and are applicable from 26.02.2018 forward.

For issue of units, the Fund charges an issuing fee that is income for the Management Company and initially originates in the Fund, as part of the issue value. It is subsequently paid to the Management Company without being reflected in the Fund's comprehensive income.

### 12.2 Related party balances as at year end

| | As at 31.12.2018 | As at 31.12.2017 |
|---|---|---|
| Payables to the Management Company | 8 | 7 |
| **Total** | **8** | **7** |

Payables to the Management Company represent remuneration for the management activities for the month of December 2018 and as at the date of preparation of these financial statements are fully repaid.

## 13. Non-monetary transactions

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

## 14. Contingent assets and contingent liabilities

The Fund has no commitments or contingent assets as at 31.12.2018.

All amounts are in BGN thousand, unless otherwise stated

## 15. Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

| **Financial assets** | **Note** | **As at 31.12.2018** | **As at 31.12.2017** |
|---|---|---|---|
| Financial assets carried at fair value through profit or loss: | | | |
| Equity instruments | 5 | 6,745 | 3,289 |
| | | **6,745** | **3,289** |
| Loans and receivables: | | | |
| Cash and cash equivalents | 6 | 434 | 319 |
| Current receivables | 7 | 51 | 1 |
| | | **7,230** | **3,609** |

| **Financial liabilities** | **Note** | **As at 31.12.2018** | **As at 31.12.2017** |
|---|---|---|---|
| Financial liabilities measured at amortized cost: | | | |
| Current liabilities: | | | |
| Trade payables | 9 | 2 | 1 |
| Related party payables | 12.2 | 8 | 7 |
| | | **10** | **8** |

See notes 4.6 and 4.7 about information related to the accounting policy for each category financial instruments and the methods which are used for assessment of fair value of financial assets and liabilities measured at fair value. Description of the risk management objectives and policies of the Fund related to the financial instruments is presented in note 16.

## 16. Financial instruments risk

### Risk management objectives and policies

To adequately manage financial risk 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 must be conducted on a daily basis from the Risk Management Department of the Management Company.

Karoll Capital Management applies the appropriate procedures for risk management, as it is disclosed below:

### *Liquidity risk*

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

Liquidity risk can arise as a consequence from the low liquidity on the capital market as well as when there are unusually large orders for repurchase of shares which can lead to insufficiency of cash.

The Fund invests in equities, traded on an active stock market and when it is necessary it can provide cash and cash equivalents to repurchase own units within the statutory imposed 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 deposits and in current accounts, in order to meet liquidity needs. The portfolio manager monitors on a daily basis 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 shows financial liabilities of the Fund, summarized in groups by maturity from the reporting date to the date they are due.

| | **Until 1 month** |
|---|---|
| **As at 31 December 2018** | |
| **Current payables** | |
| Total financial liabilities | 10 |
| **As at 31 December 2017** | |
| **Current payables** | |
| Total financial liabilities | 8 |

***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 in BGN thousand, unless otherwise stated

Market risk is concentrated in the following positions:

| | As at 31.12.2018 | | As at 31.12.2017 | |
|---|---|---|---|---|
| | Fair value | % of net assets, valued using market price | Fair value | % of net assets, valued using market price |
| Financial assets at fair value through profit or loss | 6,745 | 91.53 | 3,289 | 91.12 |
| **Total amount, exposed to market risk** | **6,745** | **91.53** | **3,289** | **91.12** |

### *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 presented in the statement of profit or loss and other comprehensive income. Such exposures are the monetary assets and liabilities of the Fund, denominated in currency other than BGN and EUR.

The investment strategy, that the management company followed in 2018 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 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 Emerging Europe Opportunities is exposed, suggesting that long-term exchange rate movements are not bound to each other and largely neutralized.

Given these arguments, in 2018 all currency exposures of the Fund were not hedged against unfavourable change in foreign exchange rates. Despite, the Management Company acknowledges the influence that short term deviations of exchange rates have on the net asset value per share, and with the objective to protect better the shareholders, it will consider the possibility of hedging certain currency positions in 2019, but only if hedging costs are not excessive.

During the reporting period the Fund did not carry out transactions with derivative instruments.

Concentration of assets and liabilities in foreign currency, different from euro, and recalculated in BGN as at year end:

| | Polish zloty | Czech koruna | Hungarian forint | British pound |
|---|---|---|---|---|
| **31 December 2018** | | | | |
| Financial assets | 2,986 | 851 | 1,032 | 543 |
| **Total currency risk exposure** | **2,986** | **851** | **1,032** | **543** |
| **31 December 2017** | | | | |
| Financial assets | 1,407 | 657 | 442 | 154 |
| **Total currency risk exposure** | **1,407** | **657** | **442** | **154** |

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

- Polish zloty (+/- 0.62%)
- Czech koruna (+/- 0.06%)
- Hungarian forint (+/- 0.01%)
- British pound (+/- 1.83%)

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 2018 | Increased exchange rate of BGN | | Decreased exchange rate of BGN | |
|---|---|---|---|---|
| | Net financial result | Net assets | Net financial result | Net assets |
| | BGN'000 | BGN'000 | BGN'000 | BGN'000 |
| Polish zloty (+/- 0.62%) | (16) | (16) | 16 | 16 |
| Czech koruna (+/- 0.06%) | (1) | (1) | 1 | 1 |
| Hungarian forint (+/- 0.01%) | - | - | - | - |
| British pound (+/- 1.83%) | (9) | (9) | 9 | 9 |

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

***Interest 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.

During the reporting periods, the Fund did not invest in financial assets that carry a significant interest rate risk.

***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 in BGN thousand, unless otherwise stated

The Management Company measured general price risk of the investment portfolio through the historic volatility of the net asset value per share, which is measured by the standard deviation. As at 31.12.2018 and 31.12.2017 price risk indicators are calculated as follows:

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| **Name** | **Currency** | **Average return (annualized)** | **Standard deviation** | **Average return (annualized)** | **Standard deviation** |
| MF Advance Emerging Europe Opportunities | EUR | -13.81% | 11.89% | 21.18% | 7.42% |

The Management Company assesses and monitors the price risk of individual positions through the historical volatility of the shares in the Fund's portfolio as measured by the standard deviation.

***Credit risk***

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

| **Financial assets** | **As at 31.12.2018** | **As at 31.12.2017** |
|---|---|---|
| Financial assets at fair value through profit or loss | | |
| Shares | 6,745 | 3,289 |
| | **6,745** | **3,289** |
| Loans and receivables: | | |
| Cash and cash equivalents | 434 | 319 |
| Current receivables | 51 | 1 |
| | **485** | **3,609** |

The Management Company believes that all of the above-described financial assets that are not impaired during the presented reporting periods, are financial assets with good credit quality, including those with maturity past due.

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.

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

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

## 17. 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 Fund is defined as unobservable. Both data sets the three levels of the fair value hierarchy.

- 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 following table provides information on financial instruments at fair value as at 31 December 2018 and 2017, presented in levels 1 to 3 of the fair value hierarchy:

| **As at 31.12.2018** | **Level 1** |
|---|---|
| Financial assets at fair value through profit or loss | |
| - Equity instruments | 6,745 |

| **As at 31.12.2017** | **Level 1** |
|---|---|
| Financial assets at fair value through profit or loss | |
| - Equity instruments | 3,289 |

## 18. Policies and procedures for management of the net assets belonging to shareholders

The objectives of the management company regarding capital management are:

- achieve profitability with minimum risk for investors;
- maintain high liquidity for timely repayment of obligations to investors that could arise when repurchasing shares;
- adequate ratio between cash invested in securities and cash instruments.

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

| | 2018 BGN'000 | 2017 BGN'000 |
|---|---|---|
| Net assets, belonging to unitholders | 7,220 | 3,601 |
| Debt | 10 | 8 |
| - Cash and cash equivalents | (434) | (319) |
| **Net debt** | **(424)** | **(311)** |
| **Net assets to net debt ratio** | **1:(0.06)** | **1:(0.09)** |

## 19. Post-reporting date events

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

## 20. Authorization of the financial statements

The financial statements for the year ended 31 December 2018 (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 Emerging Europe Opportunities, on 12 February 2018.

Daniel Ganev
Executive Director
MC Karoll Capital Management EAD

КАРОЛ КАПИТАЛ МЕНИДЖМЪНТ
СОФИЯ
*ЕАД*

Stoyka Koritarova
Chief Accountant
MC Karoll Capital Management EAD