Grant Thornton

Annual Management Report
Independent Auditor's Report
Financial Statements

Mutual Fund Advance Eastern Europe

31 December 2018

advance eastern europe
KAROLL CAPITAL MANAGEMENT

Contents

ANNUAL MANAGEMENT REPORT OF MF ADVANCE EASTERN EUROPE FOR 2018

1. Development, operating results and status of the Mutual Fund, description of main risks

1.1. Registration and license of the Fund

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

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

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

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

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

1.2. Investment activity in 2018.

After a very positive year for the global markets in 2017, the past year was much more negative, with increased concerns about global growth underpinning particularly increasing volatility in the second half of the year. Trade disputes between the US and China were a dominant topic among investors, with fears about the effects of the trade wars on global economic developments leading to tangible declines especially at the end of the year. The political crisis in Italy in the first half of the year also reflected over the sentiment of the investors, and in addition, the uncertainties surrounding the UK's exit from the European Union further led to stock price pressures.

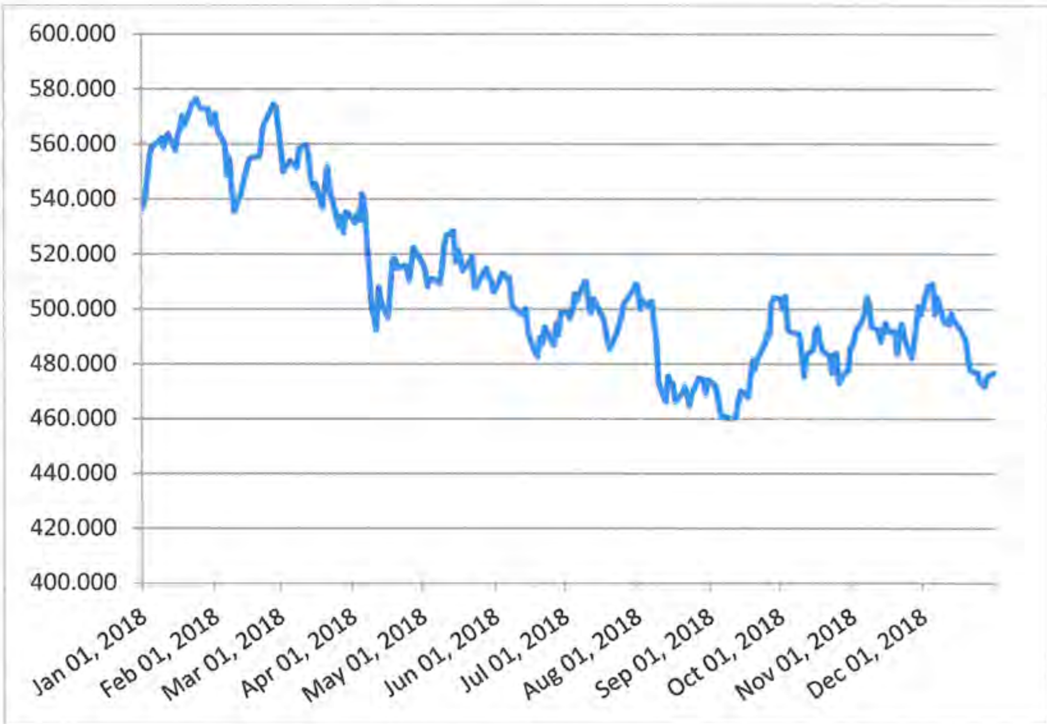
Negative moods led to capital outflows from both developed and emerging markets. The MSCI World index ended the year with a decline of nearly 6%, measured in Euro. The European stocks felt sharply, while the US market ended with a much lower decrease despite a very poor performance in December. Developing markets were also subject to increased sell-outs, as MSCI Emerging Markets finished the year with a decrease of 12.4%, with Asian and Eastern European markets falling the most, while the markets in Latin America were with relatively better performance.

After the signs of growth slowdown in Europe began to appear in the first half of the year, the trend was confirmed in the second half. In the third quarter of the year, the GDP growth in Euro zone slowed down to 1.6% YOY, with 2.4% in the first quarter and 2.2% in the second quarter of 2018. The PMI index for the Euro area, which was at very high levels at the end of 2017, the highest one for the previous six and a half years, decreased in 2018 as its value at the end of the year was the lowest since November 2014.

The Central and Eastern European region, being heavily dependent on the state of the European economies to which a very large share of exports is focused, continued to do well on a macroeconomic level, again underpinning the higher growth than the average for Europe personal consumption. Household consumption is stimulated by low and reducing unemployment, as well as increasing wage levels in demand for quality labor. The high level of consumption is currently able to offset the negative contribution of net exports. However, in a number of countries in the region, there was also a slowdown in growth.

Central and Eastern European markets moved with different dynamics but were generally not spared by negative trends. MSCI EFM Europe + CIS decreased by 11% for the year, measured in Euro, while the benchmark without Russia lost nearly 21% after it had a very strong growth in 2017 (+ 22.4%). The most significant contribution to the fall of both indices was the Turkish market, which was characterized by extremely high volatility, especially in terms of currency. After a poor performance in 2017, last year the Russian market was performing much more strongly, but at the same time the Russian rubble was under pressure as its decline wiped out the profits of the shares in foreign currency.

Dynamics of MSCI EFM Europe+CIS (E+C) ex RU during 2018



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

Russia

After a poor performance in 2017, the Russian market performed much more strongly in 2018, with sentiment backed by the recovery of the Russian economy as well as the positive oil trend observed in October. The denominated MOEX index in local currency ended the year with a growth of 11.8%.

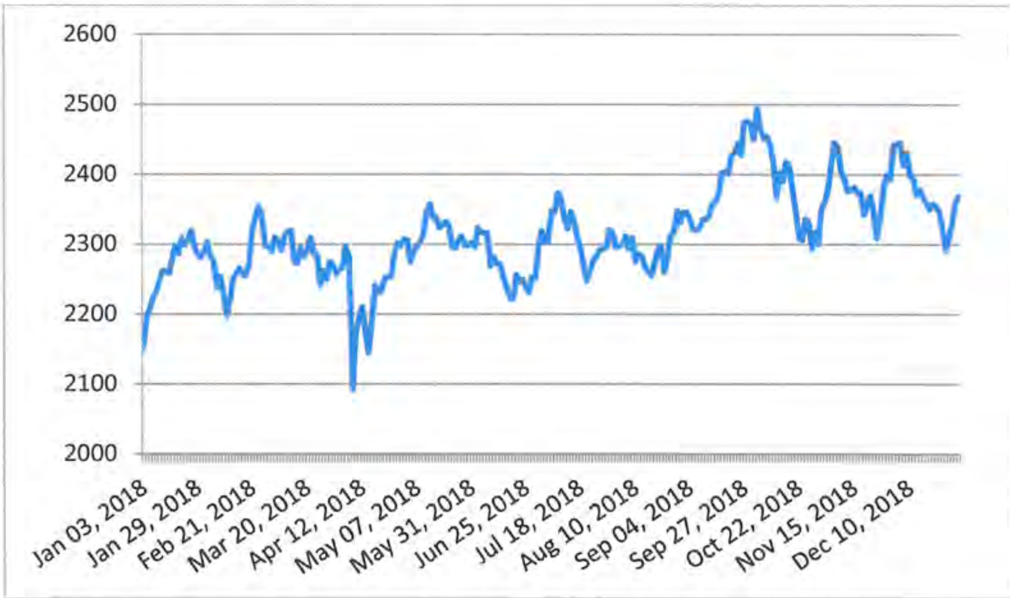
At the same time, the Russian rubble was under pressure as a result of the sanctions imposed on the country by the Western countries. First in April the US announced sanctions against Russian individuals and legal entities, charged with attacks by Russia against the Western democracies. New sanctions were announced in August in relation with the case of the former British spy in UK Sergey Skripal. In addition, a new wave of sanctions is expected to be announced by the US administration.

At the same time, the oil, which was in a high upward trend until early October, in the last quarter of the year went into a retreat as a result of growing fears about demand decreasing as a consequence of the expected slowdown in global economic growth. Thus, the Brent crude oil ended the year with a decline of 19%. The rubble depreciated by 13.3% against the euro in 2018, thus completely wiped out the appreciation of the shares in local currency. The denominated in US dollars RTS index ended the year with a decline of 8.3%.

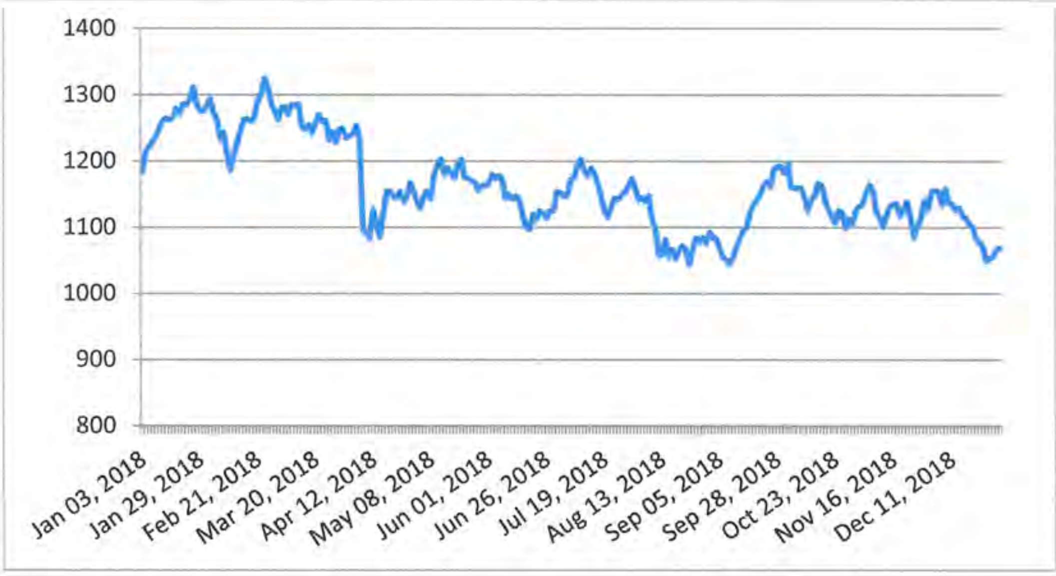
Meanwhile, in the second half of the year, there was a slowdown in the macroeconomic situation, with GDP growth in the third quarter fell to 1.5% after a 1.9% growth in the previous quarter. At the base of the reduction was the weakening of the growth rate of consumer demand. The economic sanctions against the country also have their contribution. At the same time, some data indicate that growth has increased in the last quarter of the year. The fiscal position of the country has improved significantly, and for the first time since 2011, Russia reported a budget surplus. Thus, the reduction in the price of oil in the last quarter of the year will not have much negative impact on its budget.

In negative aspect, the inflation exceeded the target of the Central Bank of 4%, reaching an 18-month maximum in December from 4.2%. The expectations are inflation to increase further in the light of the expected changes in the VAT regime, which will have an impact on consumer demand.

Dynamics of MICEX during 2018



Dynamics of RTS during 2018

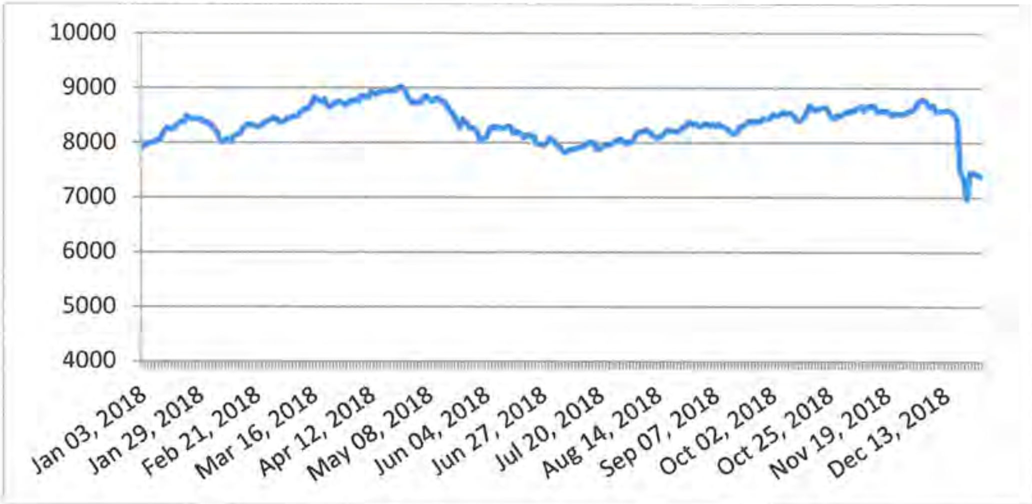


In terms of valuation ratios, the Russian market remains very attractive. Companies' profits report a very high growth as the average profit per share of MOEX-listed companies, increased by 71% on annual basis in the third quarter of 2018. Accordingly, the average P / E ratio of the ttm base on the market decreased to 5.5x, well below the average for the last 5 years of 7.4x. In addition, Russian shares have a very high dividend yield of 7.2%, which is 380 basis points above the average for MSCI EM, and above the average for the Russian market historically. While there are still challenges for the Russian economy and the danger of further sanctions, we believe that the Russian market provides interesting investment opportunities with the dynamic development of the companies and the low valuation ratios.

Romania

By mid-December 2018, the Romanian market was among the most performing markets in the region for the year with a growth of over 10%, which also did not report for the high dividend yield of Romanian shares with avarage level about 8%. In December, however, the government announced measures to fill in the country's budget deficit including a tax on the financial assets of banks, as well as on the turnover of energy and telecom companies that literally plunged the market. In December, the BET index lost nearly 15%, thus completely erased the previously reported earnings, ending the year with a decline of 4.8%.

Dynamics of BET during 2018



From a macroeconomic point of view in 2018, in Romania we observed a high decline in growth, following a 7% GDP growth in 2017. The slowdown began in the first quarter of the year. In the third quarter of 2018, the country's economy reported growth by 4.1% year-on-year. Domestic consumption, which stood at the base of high economic growth in the previous year, has cooled due to increasing inflation. At the same time, public expenditure had increased with the budget deficit almost doubling in the first nine months of the year, mainly due to increased wages in the public sector. Unemployment continues to fall, reaching 3.9% in November. At the same time, labor costs in Romania are growing at the fastest rate throughout the EU(+ 13.9% on an annual basis in the third quarter of 2018). As a result, retail sales in the country report some of the highest growth rates in the EU. Net exports continue to decrease the growth.

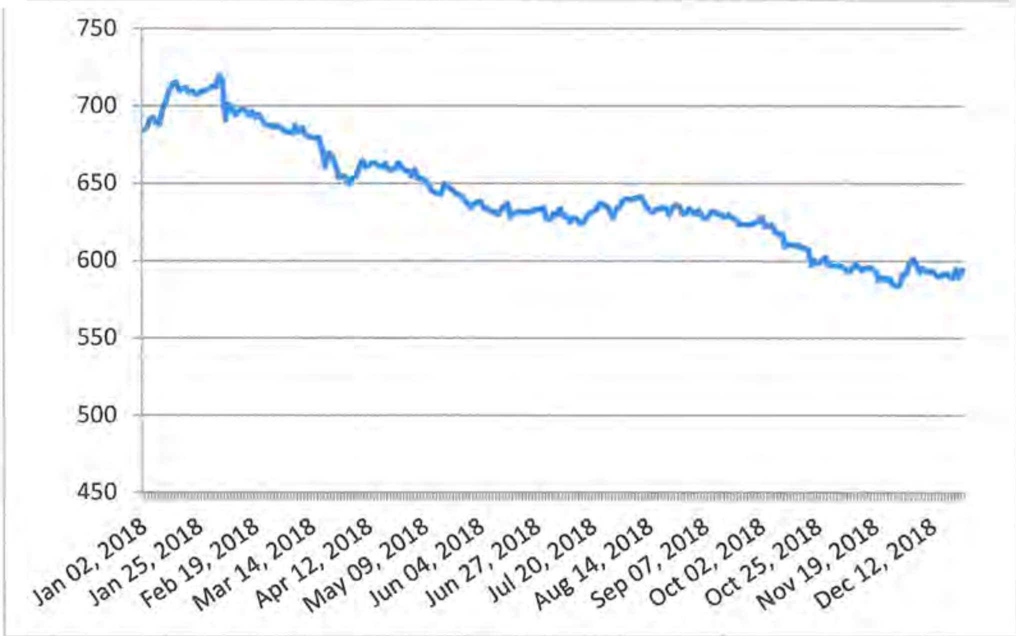
This year is expected to be challenging given the further expected cooling of the economy, the troubled budget deficit and the growing deficit to the current account. Measures announced by the government in December to fill in the budget deficit are likely to have an impact on the confidence in business. Nevertheless, the IMF expects the country to grow to 3.5% in 2019, again significantly above the average for the euro area.

At an average P / E of 6.7x on the market at the end of the year, Romanian shares offer attractive valuation ratios and high dividend yields. At the same time, however, the measures announced by the government, although subsequently adjusted to some extent, will affect the profits of the companies in the concerned sectors. Thus, the imposition of such measures is currently increasing the risks in front of the Romanian market.

Bulgaria

The Bulgarian market continued to perform poorly in the second half of the year, ending 2018 with a decline of 12.3%.

Dynamics of SOFIX during 2018



From a macroeconomic point of view, the situation in the Bulgarian economy was also characterized by slowing growth. Despite high domestic consumption, GDP growth slowed down to 3.1% on an annual basis in the third quarter mainly due to negative contribution of the external sector. However, it could be expected that in 2019 the contribution of the external sector will not be so negative, as in the last quarter of the year it showed signs of improvement mainly on exports outside the EU. On the other hand, investment activity supports growth through the increase in the rate of absorption of EU funds.

The labor market remains in support of personal consumption, as the wages are rising with some of the fastest growth rates in the EU (+ 8.6% on an annual basis in the third quarter of the year).

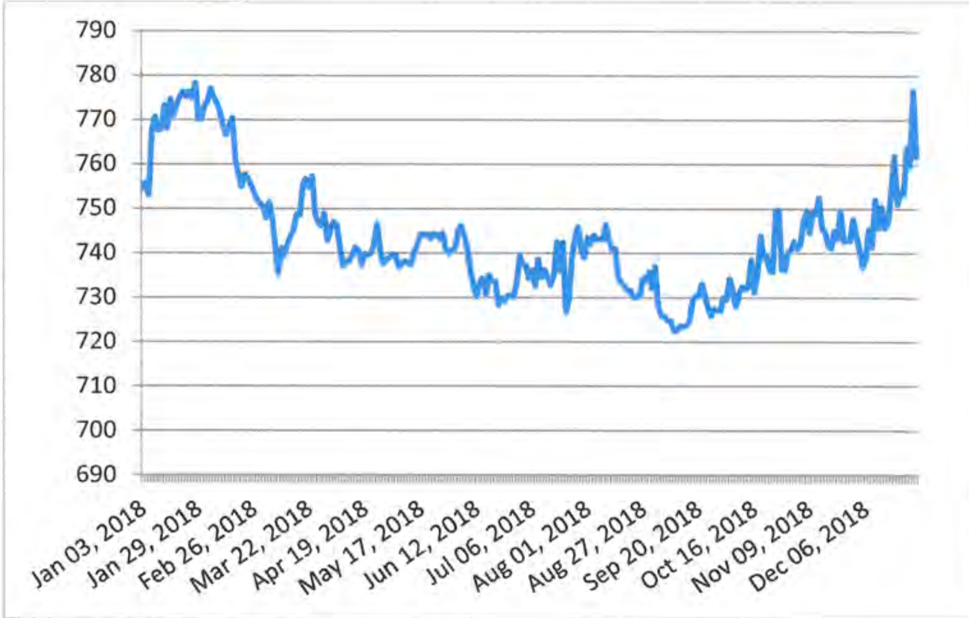
During the year took place the second largest IPO in the history of the Bulgarian capital market, measured in cash raised. The biggest producer of chicken meat in Bulgaria attracted BGN 81 million, taking part in it both institutional and a number of small investors. This is expected to provoke other companies to initiate capital raising through primary public offering. In addition, in the second half of the year, it was started the so-called "voucher scheme" that will finance the emergance of small and medium-sized enterprises on the stock exchange and cover the listing costs. In December, BSE announced that it has been authorized to set up a new SME growth market, with small and medium-sized enterprises able to raise capital on less flexible terms with regard to the scope and periodicity of the exposed information.

By the end of the year the Bulgarian shares traded at an average P / E of 10.4x, which combined with the weak performance on the Bulgarian market after the financial crisis of 2008, suggests a potential for catching up. However, the weak liquidity remains an obstacle, which in turn discourages tangible influx of foreign investors.

Serbia

The Serbian market performed relatively stable in 2018 against the backdrop of general negative sentiment as the main index ended the year almost unchanged.

Dynamics of Belex 15 during 2018



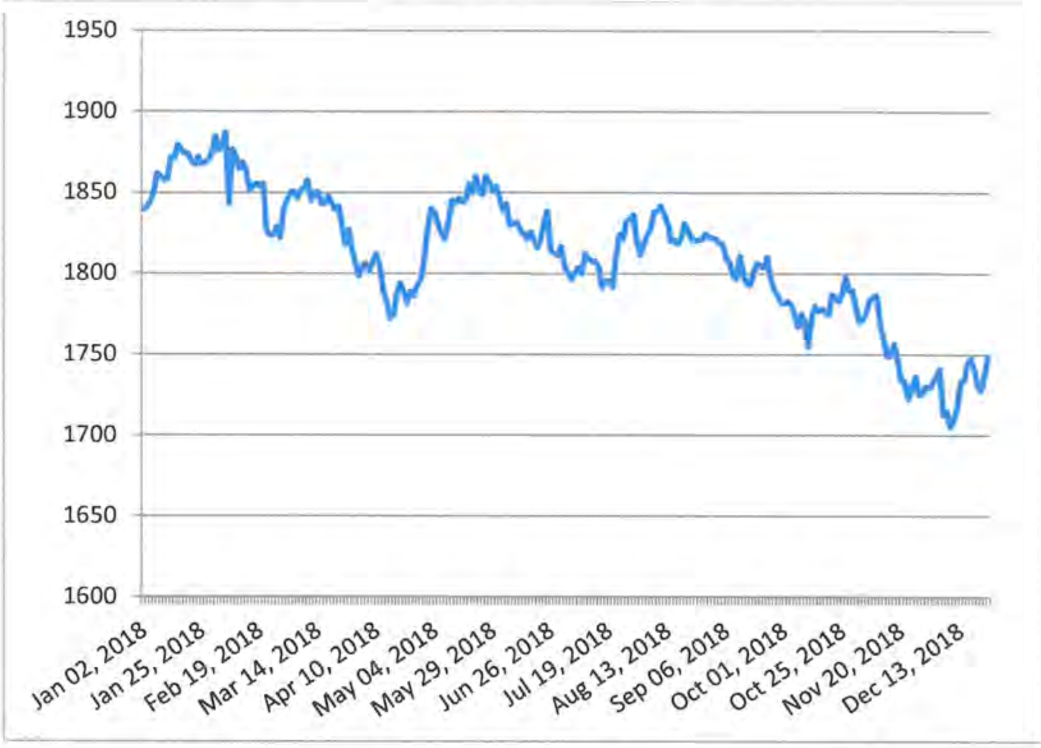
Despite the slowdown in the growth rate of the Serbian economy in the third quarter of the year, it still remains at high levels (+ 3.8% on an annual basis). In the foundation of the growth was the investment activity, mainly through major infrastructure projects. Latest retail data suggests that in the last quarter of the year we could expect increasing growth, as Serbia's Central bank is expecting an increase of 4.2% for 2018. Personal consumption is also expected to be strong, given the decline in unemployment rates and wage growth.

Serbia remains one of the underestimated markets in the region with P / E on ttm base from under 9x by the end of December. A problem, however, as with Bulgaria, is the low liquidity. We continue to have positive expectations for the banking sector in view of the improving prospects for the Serbian economy.

Croatia

The Croatian market continued to perform poorly in 2018 with a CROBEX drop of 12.3%.

Dynamics of CROBEX during 2018



The Croatian economy was developing positively this year, recording a 2.7% growth in Q3. As for other countries in the region, main drivers of growth were personal consumption and investments, while net exports have a minimal positive contribution. Unemployment remains at higher levels than the average for Europe, but continues to fall rapidly - to 7.8% in November, a new historical minimum and 2.2 percentage points lower than a year ago. Inflation remains at moderate levels, combined with falling unemployment, supporting consumer confidence and a good indicator of personal consumption.

Companies from the transport and industrial sectors recorded the weakest performance on the stock market during the year and lost an average of 38% and 24.5% respectively. Only companies in the food industry ended the year with positive values, reporting a 6.1% growth. Tourism companies ended the year with a decline, albeit lower than that of the main index (-2.3%). After a strong tourist season in 2017, last year was positive for Croatia's tourism sector, but was characterized by moderate growth rates largely due to the recovery of some competing destinations like Turkey, especially in view of the strong depreciation of the Turkish lira.

At year end, the Croatian stocks are traded at an average P/E of 12.9x.

Turkey

The past year was even more volatile for the Turkish market compared to 2017, particularly for the Turkish lira, which was subject to very strong pressure due to the increased macroeconomic risks in the country. By August, the Turkish lira had lost about 40% of its value against the euro since the beginning of the year. To a large extent, this drastic depreciation was due to the strong inflation in the country, which exceeded 20% as well as on the inaction of the Central Bank in terms of interest rate policy in the country. However, in September, the Central Bank raised interest rates more than expected, which, combined with some signs of normalizing US relations as a result of the release of US pastor Andrew

Brunson, led to the strong growth of the Turkish lira in the last quarter of the year. Still, the Turkish currency ended the year with a fall of over 23% against the euro. In addition, Turkish stocks lost just over 20% in local currency.

Dynamics of BIST 100 during 2018

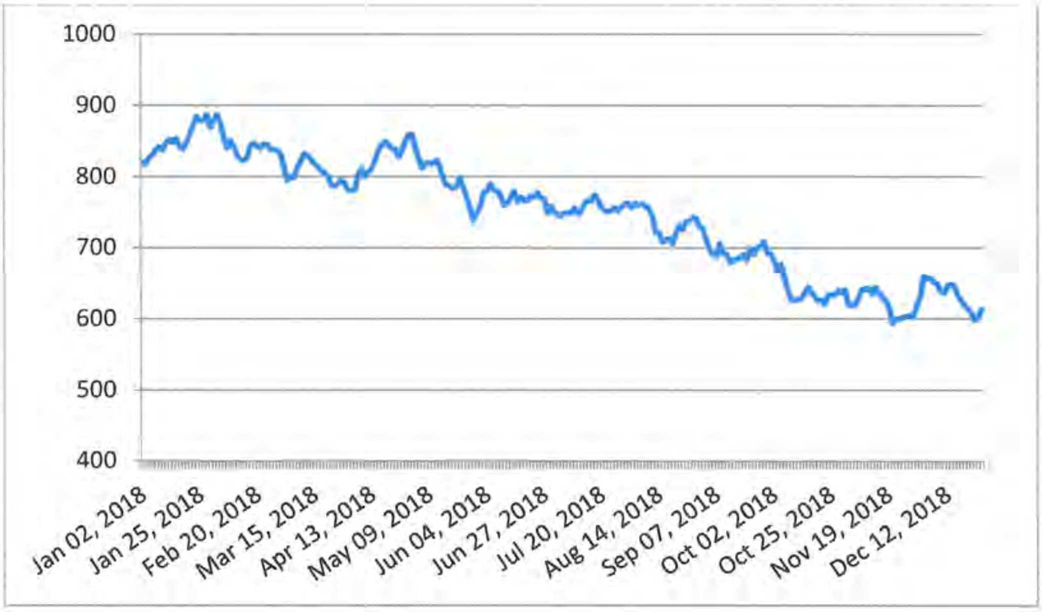
As expected, the macroeconomic situation witnessed a deterioration, with GDP growth in Q3 sharply falling to 1.6% annualized, compared to 5.3% in Q2. This decline was a result of the strong depreciation of the local currency, the very high inflation, which reached 25% in September, as well as the high interest rates. Business and consumer confidence remained at low levels in the last months of the year, indicating an expected weak performance in the economy in Q4. The manufacturing PMI index remained negative at the end of the year, well below the 50-point mark, which, combined with the decline in corporate loans, would negatively impact companies' investment activity. Only the external sector shows a positive development as a result of the drastic depreciation of the currency and, respectively, the improvement of the competitiveness of Turkish goods and services exported. In Q3, exports reported an annualized increase of 13.6%, while imports shrank by 16.7%. Thus, net exports had a significant contribution to Q3 growth, but it was offset by the very weak growth in personal consumption and the contraction in investment. Inflation began to decline, but still remains high - 20.3% in December.

Despite the worsening prospects for the Turkish economy and the presence of geopolitical risks, the Turkish market remains one of the cheapest in the world. At an average P / E based on expected earnings of 5.9x, Turkish shares are trading at a 45% discount on emerging markets, the highest level for the last 10 years. At the same time, the market is significantly cheaper and historically, the average P / E on the market for the past ten years is 9.6x. On the other hand, given the indications that the US economy has reached its peak, and given the weakening dollar, higher risk assets such as emerging market shares should be heavier. Turkey is also highly dependent on sentiment towards emerging markets as a whole. Thus, in such a change of mood, the Turkish market should be a beneficiary of such a trend. Meanwhile, data shows that confidence in the Turkish market is improving, with the share of foreign investors in free float rising to 65% in December after reaching an intermediate floor of 61% in August.

Greece

The performance of the Greek market was one of the worst in the region, as the base index felt over 23%. To a large extent, the decline was the result of the sell-out of bank stocks due to fears of presumed requirements for additional capital. The very high level of bad debt, amounting to approximately 50% of total loans, remains a problem. The attempts of the authorities to find a solution to this problem at the end of the year did not manage to calm investors due to the lack of coordination and decisive measures.

Dynamics of Athens General Composite during 2018



From a macroeconomic point of view, the Greek economy continues to show signs of recovery given that the country emerged from its eight-year rescue program in August, 2018. With the rise in consumer confidence and strong exports, the Greek economy boosted its growth rate to 2.2% annualized in Q3. The labor market continues to recover, and although unemployment is still at high levels (18.6% in September), it still shows a tangible decline in recent years.

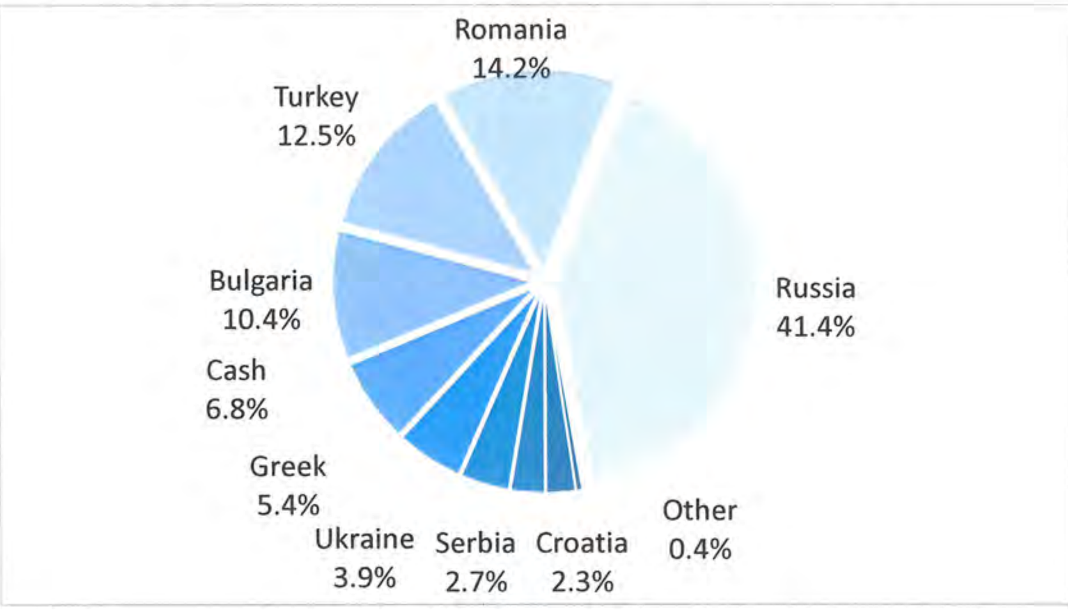
After the weak performance of the Greek stocks in 2018, this year we are moderately positive, because on one hand, we expect a continuation of the economic recovery, but on the other hand, a challenging external environment is ahead of us. Given the improving consumer confidence, we will focus more on companies that are beneficiaries of consumer demand. Compared to regional markets, Greek stocks are trading at a higher average P / E of 15.5x by the end of the year.

Changes in the Fund's portfolio and operating result for 2018

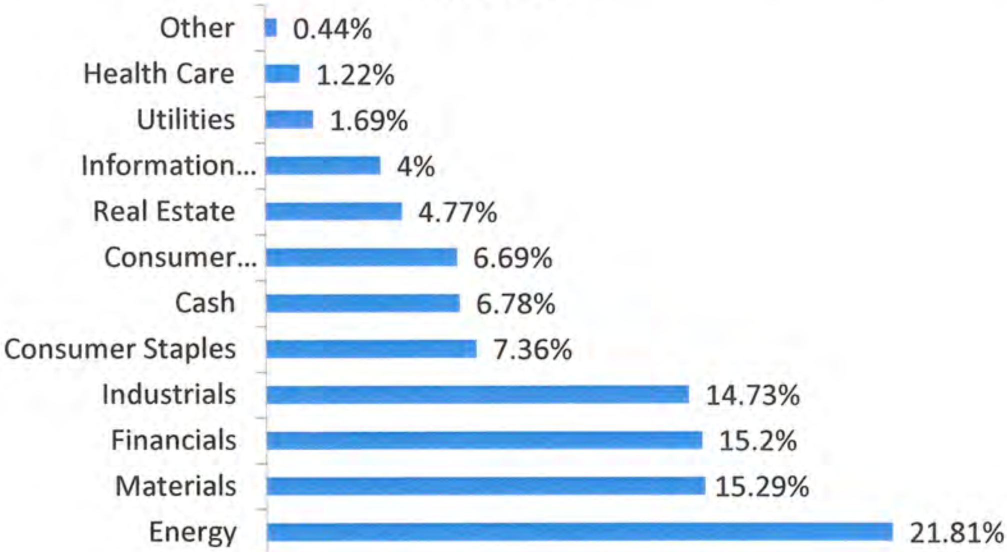
In 2018 we changed the Fund's portfolio in view of the sentiment swings in some of the markets. Given the positive movements in the oil sector in the first nine months of the year and, respectively, the improvement of sentiment towards the Russian market, the share of the Russian market increased, reaching 40% at the end of the year, with under 35% at the end of 2017. The share of the Turkish market has been reduced given the increased country and market risks. The share of the Bulgarian market has also been reduced due to the not particularly good sentiment as well as the weak liquidity. In June, we launched investment in Greece as a result of the stabilization of the country's economy from the financial crisis, and by the end of the year we gradually increased the share of the Greek market to just over 5%.

The average P / E of the companies in the Fund's portfolio at the end of June was 7.6x on a ttm basis, while the dividend yield was very high - 5.7%, largely due to the high levels of the index in Romania and Russia.

Portfolio of MF Advance Eastern Europe as at 31.12.2018



Sector distribution of the assets in the portfolio of MF Advance Eastern Europe as at 31.12.2018



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

Company	% of total assets
GMK Norliski Nikel (Russia), Materials	5.10%
JSC "NOVATEK",(Russia), Oil and gas	4.43%
Lukoil (Russia), Oil and gas	4.40%
BANKA TRANSILVANIA (Romania), Banking	3.75%
X5 Retail Group (Russia), Retail	3.37%

1.3. Financial result and total comprehensive income for 2018

The financial result of MF Advance Eastern Europe as at 31 December 2018 is a loss of BGN 716 thousand. It is formed by loss from operations with investments amounting to BGN 356 thousand, dividend income at the amount of BGN 288 thousand, loss from currency exchange differences of BGN 508 thousand and other financial costs at the amount of BGN 5 thousand. Non-financial cost amount to BGN 135 thousand and represent hired services expenses, related to the Fund's operations, being 2.41 % 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 94 thousand.

1.4. Changes in the unit price of MF Advance Eastern Europe

Principal indicator of the management effectiveness of MF Advance Eastern Europe 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 0.6783 as at 31.12.2018 compared to EUR 0.7730 as at 31 December 2017. The Fund's performance remains better than the performance of the two benchmarks since the beginning of 2018, as well as for the last 5 years.

1.5. Risks related to the investment portfolio and techniques for their management

The risks associated with the investments of MF Advance Eeastern Europe 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.

Counterparty risk
The risk of default by the counterparty to the OTC deal.

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

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

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

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

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

2.Important 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

Increased risks related to the global economic development also increase the risks for Central and Eastern Europe region. Given the tight commercial relationship between the Euro zone and the countries from the region, they could be affected by the trade wars. On the other hand, the negative effects of lower exports in recent years have been compensated with increased personal consumption, stimulated by the tightened labor market, as well as increased investment activity in the EU member states, supported by the increased absorption of EU funds. We expect that this trend will continue given the decrease in unemployment in the region as well as the faster growth of wages compared to developed Europe.

At the same time, the region of Central and Eastern Europe remains the world's cheapest, traded at a very high discount compared to both other emerging and developed markets. Given the indications that the US economy has peaked, and the weakness of the dollar, we may see an increased interest in risky assets and, in particular, emerging market shares this year. In this sense, in reversing the sentiment towards emerging markets, Central and Eastern Europe has the potential to attract cash flows in view of the strong growth of economies and companies and the low valuation ratios.

Turkey is the market with the highest sensitivity to sentiment in emerging markets, with rising tolerance for risk leading to serious inflows into Turkish stocks. Macroeconomic and geopolitical risks remain, but this is largely reflected in prices and the Turkish market is one of the cheapest in the world. Thus, the weight of the Turkish market will be increased if we see more signs for stabilizing. Russian equities are also traded at low valuation ratios. We will keep track of the dynamics in oil trade, as well as on economic sanctions on the part of Western Europe and the United States. Given current circumstances, the Russian market will continue to have the highest share in our portfolio, but given the inherent risks, the share will be lower than the benchmark. Romania's weight will be further reduced in view of the increased political risks, as evidenced by the government's recent government budgetfilling decisions by imposing additional taxes on some sectors. Smaller markets such as Serbia, Bulgaria and Croatia will have a lower weight in view of weaker liquidity. We will monitor the recovery of Greece and the case with the high share of bad credit in the banking system and the measures taken to reduce them.

4. Research and development

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

5. Information pursuant to art. 187d and art. 247 of the Commercial Law

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

During the period 30,736.885 units were issued and 154,540.8846 units redeemed, with par value of 1 EUR. During 2018 the net asset value decreased to BGN 5,009 thousand at year end. The number of unitholders during the year decreased from 398 as at the end of 2017 to 378 at the end of 2018, with 362 individuals and 16 legal entities.

The Funds equity as at 31 December 2018 amounts to BGN 5,009 thousand and consists of:
- Share capital: BGN 7,385 thousand;
- Premium reserves from unit issues: BGN 5,612 thousand;
- General reserves: BGN 3 thousand;
- Accumulated loss from previous years: BGN (10,305) thousand;
- Retained earnings from previous years: BGN 3,030 thousand;
- Current period loss: BGN (716) thousand.

The Fund has not distributed dividends. The Fund has no registered branches. There are no restrictions imposed on the rights of members of the Board of Directors of the Management Company to acquire units of the Fund. As at 31 December 2018 Bistra Koceva owns 882.8252 units and Daniel Ganev owns 1069.4487 units.

During 2018 the Management Company selected the audit firm Grant Thornton Ltd. with Reg No. 032 to audit the annual financial statements for 2018. The remuneration is at the amount of BGN 4,900, VAT excluded.

6. Changes in net assets and net asset value per unit

	31.12.2018 EUR	31.12.2017 EUR	31.12.2016 EUR
Net assets	2,561,228.07	3,014,620.51	3,079,604.38
Net asset value perunit	0.6783	0.7730	0.7787

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 Eastern Europe by developing a Value-at-Risk Model (VaR). The rules will be applied after approval by Financial Supervision Commission.

31.01.2019 г.

Daniel Ganev: ______________
Executive Director
MC Karoll Capital Management EAD

КАРОЛ КАПИТАЛ МЕНИДЖМЪНТ
СОФИЯ
ЕАД

Grant Thornton

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of
Mutual Fund Advance Eastern Europe
1 Zlatovrah Str., Sofia

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Mutual Fund Advance Eastern Europe** (the Fund), which comprise the statement of financial position as at 31 December 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

Silvia Dinova
Registered auditor responsible for the audit

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 032
ГРАНТ ТОРНТОН ООД

Grant Thornton Ltd.
Audit firm

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

All amounts are in BGN'000, unless otherwise stated

	Note	31.12.2018	31.12.2017
Assets			
Current assets			
Financial assets at fair value through profit or loss	5	4,657	-
Financial assets available-for-sale	5	-	5,573
Current receivables	6	19	16
Cash and cash equivalents	7	341	321
Total assets		**5,017**	**5,910**
Net assets, belonging to the unitholders			
Share capital	9.1	7,385	7,628
Premium reserve	9.2	5,612	5,540
Revaluation reserve	10	-	944
General reserves		3	3
Accumulated loss		(7,991)	(8,219)
Total net assets, belonging to the unitholders		**5,009**	**5,896**
Liabilities			
Current liabilities			
Related party payables	13.2	6	11
Current payables	8	2	3
Total liabilities		**8**	**14**
Total net assets, belonging to unitholders and liabilities		**5,017**	**5,910**

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

Silvia Dinova
Registered auditor, responsible for the audit

Mariy Apostolov
Manager – Grant Thornton
Audit company

ОДИТОРСКО ДРУЖЕСТВО
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	Note	For the year ending 31.12.2018	For the year ending 31.12.2017
Dividend income	11.1	288	273
Gain from operations with avalable-for-sale financial assets (unitl 31.12.2017), net	11.2	-	107
Loss from operations with financial assets at fair value through profit or loss (since 01.01.2018), net	11.3	(356)	-
Loss from foreign currency exchange differences, net	11.4	(508)	(399)
Other finance costs		(5)	(1)
Net loss from financial assets		**(581)**	**(20)**
Hired services expenses	12	(135)	(199)
Total operating expenses		**(135)**	**(199)**
Loss for the year		**(716)**	**(219)**
Other comprehensive income			
Avalable-for-sale financial assets:			
-Profit for the year	10	-	276
-Reclassification to profit or loss	10	-	(98)
Other comprehensive income		-	178
Total comprehensive loss for the year		**(716)**	**(41)**

Daniel Ganev: ____________
Executive Director
MC Karoll Capital Management EAD

Stoyka Koritarova: ____________
Chief Accountant
MC Karoll Capital Management EAD

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Mariy Apostolov
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Audit company

София
Рег. № 032

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	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		(1,261)	(1,012)
Proceeds from sale of financial assets		1,325	950
Dividends received		267	270
Cash payments related to trade counterparties		(42)	(42)
Cash payments related to the management company		(99)	(160)
Other cash flows from operating activities		-	(4)
Net cash flow from operating activities		**190**	**2**
Cash flows from financing activities			
Proceeds from units issue		47	1,309
Payment for units redemption		(217)	(1,395)
Net cash flow from financing activities		**(170)**	**(86)**
Net increase in cash and cash equivalents		**20**	**(84)**
Cash and cash equivalents at the beginning of the year	7	**321**	**405**
Cash and cash equivalents at the end of the year	7	**341**	**321**

Daniel Ganev: ____________
Executive Director
MC Karoll Capital Management EAD

Stoyka Koritarova: ____________
Chief Accountant
MC Karoll Capital Management EAD

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Audit company

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	Share capital	Share premium	Revaluation reserve	General reserves	Accumulated loss	Total
Balance as at 1 January 2017	**7,735**	**5,519**	**766**	**3**	**(8,000)**	**6,023**
Issue of units	1,649	(341)	-	-	-	1,308
Unit redeption	(1,756)	362	-	-	-	(1,394)
Transactions with unitholders	(107)	21	-	-	-	(86)
Loss for the year	-	-	-	-	(219)	(219)
Other comprehensive income	-	-	178	-	-	178
Total comprehensive income for the year	-	-	178	-	(219)	(41)
Balance as at 31 December 2017	**7,628**	**5,540**	**944**	**3**	**(8,219)**	**5,896**
Balance as at 1 January 2018	**7,628**	**5,540**	**944**	**3**	**(8,219)**	**5,896**
Adjustments from the adoption of IFRS 9	-	-	(944)	-	944	-
Balance at 1 January 2018 (restated)	**7,628**	**5,549**	**-**	**3**	**(7,275)**	**5,896**
Issue of units	60	85	-	-	-	145
Unit redeption	(303)	(13)	-	-	-	(316)
Transactions with unitholders	(243)	72	-	-	-	(171)
Loss for the year	-	-	-	-	(716)	(716)
Total comprehensive loss for the year	-	-	-	-	(716)	(716)
Balance at 31 December 2018	**7,385**	**5,612**	**-**	**3**	**(7,991)**	**5,009**

Daniel Ganev: ____________
Executive Director
MC Karoll Capital Management EAD

Stoyka Koritarova: ____________
Chief Accountant
MC Karoll Capital Management EAD

КАРОЛ КАПИТАЛ МЕНИДЖМЪНТ
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ЕАД

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
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Notes to the financial statements

1. General information

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

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

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

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

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

The capital of the fund varies, depending on the number of units issued and offered to be repurchased, but it is always equal to the net asset value of the Fund. Par value per unit is EUR 1. As at 31 December 2018 there are 3,776,124.4951 units compared to 3,899,928.4947 units as at the end of 2017.

1.1. Investment strategy of the Fund

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

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

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

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

1.2. Investment strategy of the Fund

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

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

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2. Basis for preparation of the financial statements

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

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

Financial statements are prepared under the going concern principle.

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

3. Changes in accounting policies

3.1. New standards, amendments and interpretations to IFRS that are effective for annual periods beginning on or after 1 January 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. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in the opening balance of the accumulated loss as at 1 January 2018.

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

The adoption of IFRS 9 has impacted the following areas:

- Classification and measurement of the Fund's financial assets

Financial assets previously classified as loans and receivables continue to be accounted for at amortised cost. The Fund holds these assets to collect the associated cash flows.

Investments previously classified as available-for-sale investments are now measured at fair value through profit or loss as the cash flows are not solely payments of principal and interest (SPPI). The Fund did not make the irrevocable election to account for investments in equity instruments at fair value through other comprehensive income.

	Measurement category		Effect of application IFRS 9	
Current financial assets	**Financial assets according to IAS 39**	**Financial assets according to IFRS**	**Carrying amount 31 December 2017 IAS 39**	**Carrying amount 1 January 2018 IFRS 9**
Loans and receivables	Loans and receivables	Amortized cost	16	16
Equity instruments	Available for sale	Fair value through profit or loss	5,573	5,573
			5,589	**5,589**

- Impairment of financial assets applying the expected credit loss model

The expected credit loss model affects the Fund's dividend receivables. The effect as of 01 January 2018 as well as on 31 December 2018 is insignificant.

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 Company 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.

When adopting IFRS 9, the Fund has applied transitional relief and opted not to restate prior periods. One comparative period is presented in the financial statements.

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

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

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

4.4.2. 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 and other comprehensive income following the accrual basis. The annual operating expenses of the Fund cannot exceed 2.50 % of the average annual net asset value of the Fund. The percentage is determined by the management of the

Management Company, as it is set in the Prospectus of the Fund and approved by the Financial Supervision Commission. Costs relating to the activities that are borne indirectly by all its unitholders, including management fee and remuneration of the depository bank are accrued daily, under contracts with the Management Company and the Custodian bank.

Costs associated with unit issues are included in the issue price per unit. Costs associated with the investment in units of the Fund are borne directly by the individual investor / unitholder.

Issue costs depend on the size of the order received as follows:

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

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

4.6. 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 are initially measured at fair value, adjusted for transaction costs, except for financial assets at fair value through profit or loss and trade receivables that do not contain a significant financial component. The initial measurement of financial assets at fair value through profit or loss is not adjusted with transaction costs that are reported as current expenses.

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 classification is determined by both:

- the entity's business model for managing the financial asset;
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within "(Loss)/Gain from operations with investments, net" in the statement of profit or loss and other comprehensive income.

4.6.3. Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions and are not designated as FVTPL:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This category includes non-derivative financial assets like loans and receivables with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Fund's receivables and cash and cash equivalents fall into this category of financial instruments.

- **Receivables**

The Fund's receivables represent non-derivative financial assets with fixed payments that are not quoted in an active market. Typically, they are due to be settled within a short timeframe and are therefore classified as current. Receivables are initially recognized at amortized cost unless they contain significant financial components. The Fund holds receivables for the purpose of collecting the contractual cash flows and therefore measures them at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model than "hold to collect" or "hold to collect and sell", and financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

This category contains equity instruments. The Fund accounts for equity instruments at FVTPL and did not make the irrevocable election to account for equity instruments at FVOCI.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

4.6.4. 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 loans and other debt-type financial assets measured at amortised cost, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not 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. However, none of the Fund's financial assets fall into this category.

"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).

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Receivables

The Fund makes use of a simplified approach in accounting for trade receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument.

As at the effective date of IFRS 9 and at the reporting date the impairment of receivables on the basis of the expected credit losses model is immaterial, it is not accounted for and presented in the financial statements of the Fund.

For dividends receivables amounting to BGN 5 thousand, the management of the Management Company considers that they will not be collected, and they are written-off. For more information, see note 8.

4.6.5. Classification and measurement of financial liabilities

The Fund's financial liabilities include trade and other financial payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Fund designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

4.6.6. Derivative financial instruments and hedge accounting

Derivative financial instruments are accounted for at FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment.

The Fund does not hedge cash flows and does not apply specific hedge accounting. The Fund uses currency forwards to hedge positions representing equity instruments issued in highly volatile currencies.

For more information regarding derivative financial instruments, see note 17.

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 the contractual provisions of the financial instrument.

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 transaction 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 "Gain/(Loss) from operations with investments, net", except for impairment of trade receivables which is presented within 'Other financial expenses/income.

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)'.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Financial assets within this category are subsequently measured at fair value, unless there is no market value at active markets present and hence their fair value cannot be measured reliably. Those without quoted market prices are measured at amortized cost using the effective interest method or at cost in cases when they do not have fixed date of payment. Changes in fair value are recognized in other comprehensive income and reported within the available-for-sale reserve within equity, net of income taxes, except for impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in profit or loss within 'finance income'. Reversals of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

The subsequent daily valuation of the financial instruments is carried out in accordance with the accounting policy for revaluation in accordance with the Portfolio Valuation Rules and the determination of the net asset value of Advance Invest Mutual Fund, in accordance with Ordinance No. 44 of 20 October 2011 on the Requirements for the Activities of the Collective investment schemes, closed-end investment companies and management companies (NIDISIDZDUD), which have been approved by the Financial Supervision Commission. The rules can be found on the Fund's website http://www.karollcapital.bg.

When valuing assets, the Fund is guided by the following basic principles:

- available-for-sale investments and financial assets at fair value through profit or loss are measured at fair value, that is their market price in all cases where they are available;
- where the assets have no market price, the fair value is determined using the valuation models;
- the primary criterion for determining 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

Cash and cash equivalents comprise cash on hand and current 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 19.

The estimation of the net asset value of the Fund shall be under the rules for determining the net asset value of MF Advance Eastern Europe, 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 redemption of the untis of MF Advance Invest, calculated every working 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 assets and contingent liabilities

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 a number of similar obligations, the likelihood that an outflow to settle the obligation is determined by considering the class of obligations as a whole. Provisions are discounted when the effect of the time value of money is significant.

Benefits, from third parties, in connection with obligations, to which the Fund is confident, that it would receive, are recognized as a separate 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) 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.

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

4.13. Uncertainty in accounting estimates

When preparing the financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

Information about significant judgements, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below.

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 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. Measurement of ECL

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).

5. Financial assets

Financial assets of the fund comprise of:

	Note	Fair value As at 31.12.2018	Fair value As at 31.12.2017
Equity instruments in BGN	5.1	524	861
Equity instruments in foreign currency	5.2	4,133	4,712
Financial assets at fair value through profit or loss		**4,657**	**-**
Available-for-sale financial assets		**-**	**5,573**

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

5.1. Equity instruments in BGN

	ISIN	As at 31.12.2018	% of assets	As at 31.12.2017	% of assets
Gradus AD	BG1100002184	111	2.21	-	-
Advance Terafond REIT	BG1100025052	99	1.98	130	2.20
Alterko AD	BG1100003166	86	1.71	83	1.41
CEZ Razpredelenie AD	BG1100025110	85	1.68	149	2.51
Fond za Nedvizimi Imoti Bulgaria REIT	BG1100001053	82	1.63	-	-
Sopharma Trading AD	BG1100086070	61	1.22	112	1.90
Stara Planina Hold AD	BG1100005971	-	-	120	2.02
Monbat AD	BG1100075065	-	-	94	1.60
Trace Group Hold AD	BG1100049078	-	-	87	1.48
Sopharma AD	BG11SOSOBT18	-	-	86	1.45
TOTAL		**524**	**10.43%**	**861**	**14.57%**

5.2. Equity instruments in foreign currency

	ISIN	As at 31.12.2018	% of assets	As at 31.12.2017	% of assets
GMK Norliski Nikel	RU0007288411	256	5.10	245	4.14
JSC "NOVATEK", Common	RU000A0DKVS5	222	4.43	172	2.91
Lukoil (common)	RU0009024277	221	4.40	169	2.86
Banka Transilvania	ROTLVAACNOR1	188	3.75	181	3.06
X5 Retail Group N.V.	US98387E2054	169	3.37	185	3.13
Jumbo SA	GRS282183003	169	3.37	-	-
Fondul Proprietatea SA	ROFPTAACNOR5	142	2.83	139	2.35
Alrosa PAO	RU0007252813	140	2.80	123	2.08
Sberbank, Common	RU0009029540	137	2.73	190	3.22
Gazprom Neft OAO-CLS	RU0009062467	136	2.71	110	1.86
Sntgn Transgaz S.A.	ROTGNTACNOR8	135	2.68	164	2.77
Aerodrom Nikola Tesla AD Beograd	RSANTBE11090	134	2.68	151	2.55
Romgaz S.A.	ROSNGNACNOR3	128	2.55	184	3.11
Banca Romana Pentru	ROBRDBACNOR2	120	2.38	135	2.29
Valamar Riviera D.D.	HRRIVPRA0000	116	2.32	138	2.34
Qiwi Plc	US74735M1080	116	2.31	136	2.30
Turk Hava Yollari AO	TRATHYAO91M5	114	2.28	-	-
Novolipetsk Steel OJSC	RU0009046452	112	2.23	120	2.03
Ojsc "Motor sich"	UA4000143135	107	2.12	151	2.56
Aegean Airlines Stock	GRS495003006	101	2.01	-	-
JSC "Aeroflot", Common	RU0009062285	99	1.98	98	1.65
Tav Hava Limnlari Holding A.S.	TRETAVH00018	97	1.92	121	2.04
Gazprom PJSC	RU0007661625	94	1.88	92	1.56
Kernel Holding SA	LU0327357389	89	1.77	89	1.51
Tupras- Turkiye Petrol Rafine	TRATUPRS91E8	87	1.73	120	2.03
Trakya Cam Sanayii AS	TRATRKCM91F7	87	1.72	159	2.69
Polyus Gold OJSC	RU000A0JNAA8	86	1.72	84	1.42
United Company Rusal PLC	JE00B5BCW814	83	1.65	-	-
Turkiye Vakiflar Bankasi Ta Aktie	TREVKFB00019	79	1.58	-	-
TMK PJSC	RU000A0B6NK6	72	1.44	-	-
Vsmpo-Avisma	RU0009100291	72	1.44	162	2.74
LSR Group PJSC	RU000A0JPFP0	59	1.17	93	1.58
Tofas Turk Otomobil Fabrikasi AS	TRATOASO91H3	50	1.00	-	-

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

Continued	ISIN	As at 31.12.2018	% of assets	As at 31.12.2017	% of assets
Haci Omer Sabanci Aktie	TRASAHOL91Q5	49	0.97	96	1.62
Turkiye Sinai Kalkinma Bankasi	TRATSKBW91N0	48	0.96	98	1.65
Cimsa Cimento Sanayi Ve Tic	TRACIMSA91F9	18	0.35	43	0.73
Atlantska plovidba d.d	HRATPLRA0008	1	0.02	2	0.03
Ledo dionicko drustvo za proizvodnju i promet slad	HRLEDORA0003	-	-	2	0.03
Yasynivka Cokery Plant	UA0500491008	-	-	1	0.02
OJSC Stakhanovsky Vagonobudivelny Plant	UA1200661007	-	-	-	-
Adris Grupa D.D.	HRADRSPA0009	-	-	128	2.18
Migraos Ticaret A.S	TREMGTI00012	-	-	118	2.01
Energoprojekt Holding A.D.	RSHOLDE58279	-	-	117	1.99
Turkiye Halk Bankasi A.S	TRETHAL00019	-	-	81	1.37
Nis A.D. Novi Sad	RSNISHE79420	-	-	68	1.15
Akron JSC	RU0009028674	-	-	65	1.11
Podravka Prehrambena Industrija D.D.	HRPODRRA0004	-	-	64	1.08
Klimasan Klima Sanayi VE TIC	TRAKLMSN91H5	-	-	63	1.06
Astarta Holding NV	NL0000686509	-	-	55	0.92
ОБЩО		**4,133**	**82.35%**	**4,712**	**79.73%**

All equity instruments as at 31.12.2018 are priced using directly observable quotes from public markets of securities, except for LEDO DIONICKO DRUSTVO ZA PROIZVODNJU I PROMET SLAD (HRLEDORA0003), OJSC MOTOR SICH (UA4000143135), YASYNIVKA COKERY PLANT (UA0500491008) и OJSC STAKHANOVSKY VAGONOBUDIVELNY PLANT (UA4000108724), priced as follows:

ISSUER	ISIN	Fair value per share in original currency
LEDO dionicko drustvo za proizvodnju i promet slad	HRLEDORA0003	-
Motor Sich JSC	UA4000143135	UAH 3 073.18
Yasynivka Cokery plant	UA0500491008	-
OJSC Stakhanovsky vagonobudivelny plant	UA4000108724	-

Sector distribution of investments:

	As at 31.12.2018	% of total assets	As at 31.12.2017	% of total assets
Energy	1,094	21.82	1,064	17.98
Raw materials	768	15.29	759	12.85
Heavy industry	739	14.73	1,130	19.11
Financial services	621	12.37	876	14.83
Essential commodities	369	7.35	447	7.57
Consumer goods and services	336	6.69	204	3.45
Real estate	240	4.78	341	5.77
IT services	202	4.02	219	3.71
Holdings	142	2.83	171	2.91
Utilities	85	1.68	164	2.77
Healthcare	61	1.22	198	3.35
TOTAL	**4,657**	**92.78**	**5,573**	**94.30**

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

Investments by country:

Country	As at 31.12.2018	% of total assets	As at 31.12.2017	% of total assets
Russia	1,906	37.99	1,724	29.15
Turkey	628	12.51	900	15.21
Bulgaria	524	10.43	861	14.57
Romania	713	14.20	803	13.58
Serbia	134	2.68	336	5.69
Croatia	117	2.33	334	5.65
USA	169	3.37	320	5.43
Ukraine	107	2.12	152	2.58
Poland	89	1.77	143	2.43
Greece	270	5.38	-	-
TOTAL	**4,657**	**92.78**	**5,573**	**94.30**

6. Current receivables

	As at 31.12.2018	As at 31.12.2017
Dividend receivables	19	16
TOTAL	**19**	**16**

As at 31.12.2018 the Fund has receivables from declared dividends from the following issuers: SNTGN TRANSGAZ S.A. (ROTGNTACNOR8), ROMGAZ S.A. (ROSNGNACNOR3), GAZPROM NEFT OAO-CLS (RU0009062467) и Lukoil (common) (RU0009024277).

As at 31.12.2018 the Management Company's directors after review and analysis of the collectability of certain receivables from dividends, declared by KOMERCIJALNA BANKA AD BEOGRAD (RSKOBBE16946) and CENTRENERGO (UA4000079081), at the total amount of BGN 5 thousand, have decided to write-off them due to uncollectability. The loss from write-off is presented in „Other financial expesnes" on the statement of profit or loss for the period.

7. Cash and cash equivalents

	As at 31.12.2018	As at 31.12.2017
Cash on hand and in bank, BGN	87	10
Cash on hand and in bank, foreign currency	254	311
TOTAL	**341**	**321**

The Fund has no blocked cash and cash equivalents.

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.

8. Current payables

	As at 31.12.2018	As at 31.12.2017
Payables due to the custodian bank	2	2
Payables related to purchase of financial assets	-	1
TOTAL	**2**	**3**

9. Net assets, belonging to unitholders

9.1. Units issued

Number and total value of units issued

	Number of units	Nominal value	Share capital BGN '000
As at 1 January 2017	**3,955,047.0426**	**1 EUR/unit**	**7,735**
Units issued 2017	843,218.4929	1 EUR/unit	1,649
Units redeemed 2017	(898,337.0408)	1 EUR/unit	(1,756)
	3,899,928.4947	**1 EUR/unit**	**7,628**
As at 31 December 2017			
Units issued 2018	30,736.8850	1 EUR/unit	60
Units redeemed 2018	(154,540.8846)	1 EUR/unit	(303)
As at 31 December 2018	**3,776,124.4951**	**1 EUR/unit**	**7,385**

9.2. Premium reserve

	2018 BGN' 000	2017 BGN' 000
Share premium as at 1 January	5,540	5,519
Change due to unit issue	85	(341)
Change due to unit redemption	(13)	362
Share premium as at 31 December	**5,612**	**5,540**

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

9.3. Net asset value per unit

Net asset value per unit is the basis for determining the issue price and the repurchase price of units of MF Advance Invest and is calculated every work day. Net asset value of the Fund is presented in Bulgarian Lev. For the purpose of these financial statements and the principles of IFRS the net asset value per unit, issue price and redemption price are calculated and presented as of 31 December 2018 and 2017.

All amounts are presented in EUR	31.12.2018	31.12.2017
Net asset value	2,561,228.07	3,014,620.51
Number of units in circulation	3,776,124.4951	3,899,928.4947
Nominal value	1.0000	1.0000
Net asset value per unit	0.6783	0.7730
Issue price		
orders below EUR 50 000 after "issue fee" of 1.5% of the net asset value	0.6885	0.7846
orders from EUR 50 000.01 to EUR 250 000 after "issue fee" of 1.0% of net asset value	0.6851	0.7807
orders from 250 000.01 to EUR 500 000.00 after "issue fee" of 0.5% of the net asset value	0.6817	0.7769
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	0.6783	0.7730
Redemption price	0.6783	0.7730

10. Revaluation reserve, effective until 31.12.2017

Changes in the revaluation reserve could be summarized as follows:

	As at 31.12.2018	As at 31.12.2017
Revaluation reserve from subsequent measurement of available-for-sale financial assets in the beginning of the period	**944**	**766**
Reclassification to retained earnings due to change in accounting policy as a result of the adoption of IFRS 9	(944)	-
Gain from subsequent measurement of available-for-sale financial assets, presented in 'Other comprehensive income'	-	555
Loss from subsequent measurement of available-for-sale financial assets, presented in 'Other comprehensive income'	-	(279)
Gain from available-for-sale financial assets, reclassified from equity to profit/(loss) for the period	-	127
Loss from available-for-sale financial assets, reclassified from equity to profit/(loss) for the period	-	(225)
TOTAL	**-**	**944**

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

11. Revenue

11.1. Dividend income

	For the year ended 31.12.2018	For the year ended 31.12.2017
Dividend income from Russian issuers	133	114
Dividend income from Romanian issuers	87	84
Dividend income from Turkish issuers	30	20
Dividend income from Ukrainian issuers	17	1
Dividend income from Bulgarian issuers	10	39
Dividend income from Croatian issuers	6	10
Dividend income from Serbian issuers	5	5
TOTAL	**288**	**273**

11.2. Gain from operatiions with available-for-sale financial assets (until 31.12.2017), net

	For the year ended 31.12.2018	For the year ended 31.12.2017
Gain from available-for-sale financial assets reclassification from equity to profit or loss for the period of at	-	225
Loss from available-for-sale financial assets reclassification from equity to profit or loss for the period of at	-	(127)
Gain from sale of available-for-sale financial assets	-	18
Loss from sale of available-for-sale financial assets	-	(9)
TOTAL	**-**	**107**

11.3. Loss from operations with financial assets at fair value through profit or loss (as of 1 January 2018), net

	For the year ended 31.12.2018	For the year ended 31.12.2017
Gain from operations with financial assets at fair value through profit or loss	3	-
Loss from operations with financial assets at fair value through profit or loss	(27)	-
Gain from revaluation of financial assets at fair value through profit or loss	8,140	-
Loss from revaluation of financial assets at fair value through profit or loss	(8,472)	-
TOTAL	**(356)**	**-**

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

11.4. Loss 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	2,664	2,143
Loss on foreign currency revaluation of financial assets at fair value	(3,130)	(2,502)
Gain from foreign exchange transactions	4	2
Loss from foreign exchange transactions	(46)	(42)
TOTAL	**(508)**	**(399)**

12. Hired services expenses

	For the year ended 31.12.2018	For the year ended 31.12.2017
Remuneration of the Management Company	(94)	(157)
Remuneration of the custodian bank	(26)	(23)
Advertisement	(7)	(11)
Audit	(6)	(6)
Annual fees	(1)	(1)
Other	(1)	(1)
TOTAL	**(135)**	**(199)**

Costs related to the Fund's activity represent 2.41% (2017: 3.17%) of the average annual net asset value, according to the statement of financial position of the Fund.

13. Related parties

The Fund's related parties 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.

13.1. Transactions for 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 12)	(94)	(157)
Transactions related to units issued	-	(1)

The Management Company receives remuneration for its management activities. By resolution of the Board of Directors from 2 February 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 February 2018 on.

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.

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

13.2. Related party balances as at year end

	As at 31.12.2018	As at 31.12.2017
Payables to the Management Company	6	11

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.

14. 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.

15. Contingent assets and liabilities

The Fund has no commitments or contingent assets as at 31 December 2018.

16. Categories of financial assets and financial 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**
Debt instruments at amortized cost:			
Current receivables	6	19	16
Cash and cash equivalents	7	340	321
		359	**337**
Financial assets at fair value through profit or loss			
Equity instruments	5	4,657	-

Financial assets (до 31.12.2017)	**Note**	**As at 31.12.2018**	**As at 31.12.2017**
Available-for-sale financial assets:			
Shares	5	-	5,573
Loans and receivables:			
Current receivables	6	-	16
Cash and cash equivalents	7	-	321
			5,910

Financial liabilities	**Note**	**As at 31.12.2018**	**As at 31.12.2017**
Current liabilities:			
Current payables	8	2	3
Related party payables	13.2	6	11
		8	**14**

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 17.

17. 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.

	Due in 1 month
As at 31 December 2018	
Total financial liabilities	8
	Due in 1 month
As at 31 December 2017	
Total financial liabilities	14

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

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.

Market risk is concentrated in the following positions:

	As at 31.12.2018		As at 31.12.2017	
	Fair value	**% of net assets**	**Fair value**	**% of net assets**
Financial assets at fair value through profit or loss	4,657	92.96	-	-
Available for sale financial assets	-	-	5,573	94.30
Dividend receivable	19	0.38	16	0.27
Total market risk exposure	**4,676**	**93.34**	**5,589**	**94.57**

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 concerning the interest rate risk, implemented by the Management Company in 2018, was based on the opinion that the volatility level of the Turkish lira is too high to be acceptable, and that justified the hedging of currency risk exposures. In order to do this, several one-month EUR/TRY forward deals have been entered into, to neutralize TRY's serious depreciation.
The Management Company believes that in long-term the price of hedging rarely compensates the actual currency risk. This conclusion is based on the historic correlation of the main currencies in the Fund's portfolio, assuming that in long-run the exchange rates of different currencies are not correlated and offset each other to a large extent. In the short term, however, in the event of a sharp depreciation of a given currency and in anticipation of continuing pressure on its value, short-term measures to protect against adverse fluctuations might be taken.

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

The table below provides historical information on all concluded forward deals in 2018:

Opening date	Closing date	Opening price	Deal	Amount	CCY	Closing price	Value TRY	Value BGN
12/07/2018	08/08/2018	5.7786	Sale	1,155,720	TRY	-	1,155,720	369,817
			Buy	200,000	EUR	6.1122	1,222,440	391,166
			Result/Net exposure					21,349
Opening date	Closing date	Opening price	Deal	Amount	CCY	Closing price	Value TRY	Value BGN
09/08/2018	05/09/2018	6.411	Sale	1,282,200	TRY		1,282,200	323,528
			Buy	200,000	EUR	7.75131	1,550,262	391,166
			Result/Net exposure					67,638
Opening date	Closing date	Opening price	Deal	Amount	CCY	Closing price	Value TRY	Value BGN
13/09/2018	10/10/2018	7.658248	Sale	1,148,737	TRY		1,148,737	319,462
			Buy	150,000	EUR	7.03267	1,054,901	293,367
			Result/Net exposure					(26,096)

During the reporting period, a liability at the amount of BGN 26 thousand as a result of EUR/TRY forward has been incurred and settled.

During the reporting period, the Fund has not entered into transactions with derivatives, other than currency forwards.
Concentration of assets and liabilities in foreign currency, different from euro, and recalculated in BGN as at year end:

	Short term currency risk exposure							
	RON	**RUB**	**RSD**	**HRK**	**UAH**	**TRY**	**PLN**	**USD**
31 December 2018								
Financial assets	713	1,791	134	117	106	628	89	285
Total currency risk exposure	**713**	**1,791**	**134**	**117**	**106**	**628**	**89**	**285**
31 December 2017								
Financial assets	803	1,724	336	334	152	899	144	320
Total currency risk exposure	**803**	**1,724**	**336**	**334**	**152**	**899**	**144**	**320**

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

- RON (+/- 0.07%)
- RUB (+/- 0.10%)
- RSD (+/- 0.002%)
- HRK (+/- 0.07%)
- UAH (+/- 0.2%)
- TRY (+/- 5.15%)
- PLN (+/- 0.62%)
- USD (+/- 4.98%)

All other parameters are assumed to be constant.

This percentage is 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	Increase in the exchange rate of the Bulgarian lev		Decrease in the exchange rate of the Bulgarian lev	
	Net financial result BGN '000	Net assets BGN '000	Net financial result BGN '000	Net assets BGN '000
Romanian lea (+/- 0.07%)	-	-	-	-
Russian rubble (+/- 0.1%)	(2)	(2)	2	2
Serbian dinar (+/- 0.002%)	-	-	-	-
Croatian kuna (+/- 0.07%)	-	-	-	-
Ukrainian hryvnia (+/- 0.21%)	-	-	-	-
Turkish lira (+/- 5.15%)	(29)	(29)	29	29
Polish zloty (+/- 0.6%)	(1)	(1)	1	1
US dollar (+/- 4.98%)	(13)	(13)	13	13

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 presented in BGN'000, unless otherwise stated

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

2018

NAME	CURRENCY	AVERAGE RETURN (annual)	STANDARD DEVIATION
MF Advance Eastern Europe	BGN	-11.92%	10.16%

2017

NAME	CURRENCY	AVERAGE RETURN (annual)	STANDARD DEVIATION
MF Advance Eastern Europe	BGN	-0.71%	6.73%

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:

	As at 31.12.2018	**As at 31.12.2017**
Classes of financial assets – carrying amounts:		
Debt instruments at amortized cost	359	-
Financial assets at fair value through profit or loss	4,657	-
Available-for-sale financial assets	-	5,573
Held-to-maturity financial assets	-	373
Carrying amount	**5,016**	**5,946**

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 Company as most of the transactions are concluded under DVP terms of settlement.

During the period, the Fund did not invest in debt instruments and therefore is not exposed to investment credit risk.

18. Fair value measurement of financial instruments

Financial assets presented at fair value in the statement of financial position are grouped in three levels of the fair value hierarchy. This hierarchy is defined according to the degree of observation of the data used for the measurement as follows:

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

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.
The following table provides information on financial instruments at fair value as at 31 December 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	4,657
As at 31.12.2017	**Level 1**
Available for sale financial assets	
- Shares	5,573

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

The objectives of the Management Company regarding capital management are:

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

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

	2018 BGN'000	2017 BGN'000
Net assets, belonging to unitholders	5,009	5,896
Debt	8	14
- Cash and cash equivalents	(341)	(321)
Net debt	**(333)**	**(307)**
Net assets to net debt ratio	**1:(0.07)**	**1:(0.05)**

20. Post-reporting events

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

21. Authorization of the financial statements

The financial statements for the year ended 31 December 2018 (including comparative information) were approved by the Board of directors of the Management Company "Karoll Capital Management" EAD, on behalf of MF Advance Eastern Europe, on 12 February 2019.

КАРОЛ КАПИТАЛ МЕНИДЖМЪНТ ЕАД * СОФИЯ

Daniel Ganev: ______________
Executive Director
Karoll Capital Management EAD

Stoyka Koritarova: ______________
Chief Accountant
Karoll Capital Management EAD