

**Exchange-traded fund**

**Expat Serbia BELEX15 UCITS ETF, ISIN BGSRBBE05183**

**Interim financial statements**

**for the six-month period ended 30 June 2018**

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**Interim Management report of  
exchange-traded fund  
Expat Serbia BELEX15 UCITS ETF  
for the six-month period 30 June 2018**

Expat Serbia BELEX15 UCITS ETF (“the Fund”) is a collective open-ended investment scheme for investing in securities and other liquid financial assets established and operating in accordance with the Collective Investment Schemes and Other Undertakings for Collective Investment Act (CISOU CIA), the Public Offering of Securities Act (POSA) and the regulations for its implementation, the Markets in Financial Instruments Act (MFIA), the Obligations and Contracts Act (OCA) and the other applicable laws of the Republic of Bulgaria.

The Fund is organized and managed by the management company “Expat Asset Management” EAD (hereinafter referred to as the Management Company, or MC) under CISOU CIA and the regulations for its implementation, the Obligations and Contracts Act and the other applicable laws of the Republic of Bulgaria.

The Management Company is authorized to organize and manage the Fund by the Financial Supervision Commission as of 4 January 2018. The Fund is fully compliant with the European directives for UCITS.

The sole shareholder of the MC Expat Asset Management EAD is Expat Capital AD. During the reporting period there have been no changes in the representatives or the members of the Board of Directors of the MC Expat Asset Management EAD.

There are no internal events that might have affected the operations or performance of the ETF or of the Management Company during the reporting period.

There are no significant events between the end of the reporting period and the date that the financial statements are authorized for issue which require disclosure.

Expat Serbia BELEX15 UCITS ETF is a passively-managed exchange-traded fund which follows the model of full physical replication of the BELEX15 index calculated by the Belgrade Stock Exchange. The Fund is listed on the Bulgarian Stock Exchange – Sofia as well as on the Frankfurt Stock Exchange (XETRA) with the ticker ESNB.

*Risk Profile and Risk Management*

The risk profile of the fund could be amended only following an authorization from the Financial Supervision Commission as disclosed in the Prospectus and the Rules of the Fund. During the reporting period the risk profile of the Fund has not been subject to changes. The main risks of investing in shares of “Expat Serbia BELEX15 UCITS ETF” have been outlined in detail in the Fund’s Prospectus and can be found on the website of the MC Expat Asset Management EAD. The management of the Fund does not foresee further risks or sources of uncertainties, other than those disclosed in the Prospectus of the Fund, that could affect the performance of the Fund during the rest of the financial year.

In compliance with the requirements of the Collective Investment Schemes and Other Undertakings for Collective Investments Act (CISOU CIA), as a collective investment scheme the Fund may not enter into transactions with related parties.

During the reporting period the Fund has not executed any repo transactions.

**Interim report on activity of  
exchange-traded fund  
Expat Serbia BELEX15 UCITS ETF  
for the six-month period 30 June 2018  
(continued)**

*Tracking error report in compliance with Article 82e of Ordinance 44, 20th October 2011, on the Requirements on the Activity of Collective Investment Schemes, Their Management Companies, National Investment Funds and Managers of Alternative Investment Funds.*

<b>ISIN</b>	<b>Name of the exchange-traded fund</b>	<b>Expected tracking error for 2018</b>
BGSRBBE05183	Expat Serbia BELEX15 UCITS ETF	up to 10%

The standard world practice is to calculate the realized tracking error on the basis of weekly values for the previous 52 weeks to be statistically and economically meaningful. Furthermore, the statistically required minimum of 30 observations are not available. In this case, the Fund started to accumulate capital as of February 2018, and in this initial phase, the subscriptions, redemptions and costs have had a greater effect on the net asset value of the Fund due to the comparatively lower base.

The tracking error represents the volatility (measured through the annual standard deviation) of the return of the Fund and the one of the corresponding index for a defined period. A lower tracking error would mean a closer index tracking. The tracking error differentiates from the tracking difference which measures to what percentage extent the Fund performed better or worse than the corresponding index, while the tracking error represents the consistency in the different performance of the Fund and the corresponding Index.

Date: 30.07.2018

  
Lachezar Dimov  
Member of the Board of Directors

  
Nikola Veselinov  
Member of the Board of Directors

# Report on Review of Interim Financial Information

## To the unit holders

### In Exchange-traded Fund

### Expat Serbia BELEX15 UCITS ETF

#### **Introduction**

We have reviewed the accompanying statement of financial position of Exchange-traded Fund Expat Serbia BELEX15 UCITS ETF ("The Fund") as of June 30<sup>th</sup>, 2018 and the related statements of comprehensive income, changes in equity and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes.

#### **Responsibility of Management for the interim financial information**

Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

#### **Auditor's responsibility**

Our responsibility is to express a conclusion on this interim financial information based on our review.

#### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the Fund as at 30 June 2018, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

Audit Firm Ernst & Young Audit OOD:



Nikolay Garnev

Legal Representative and  
Registered Auditor

Sofia, Bulgaria

30 July 2018

## Statement of Comprehensive Income

For the six-month period ended 30 June 2018

*In thousands of BGN*

	Notes	30 June 2018
Net gain/(loss) on financial assets at fair value through profit or loss	5	(2)
Net foreign exchange loss		(1)
Operating expenses	3	<u>(14)</u>
<b>Operating loss for the period</b>		<u>(17)</u>
Tax expenses	8	<u>-</u>
<b>Loss for the period</b>		<u>(17)</u>
Other comprehensive income		<u>-</u>
<b>Total comprehensive income for the period</b>		<u>(17)</u>
<b>Basic earnings/(losses) per share</b>		
Basic loss per share (in BGN)	7	<u>(0.245)</u>

Date: 30.07.2018

Approved by:   
Member of the Board of Directors

Prepared by:   
Vanya Nikova, Finance Manager

Approved by:   
Member of the Board of Directors

The notes on pages 7 to 22 are an integral part of the interim financial statements.

## Statement of Financial Position

<i>In thousands of BGN</i>	<i>Notes</i>	<b>30 June 2018</b>
<b>Assets</b>		
Cash and cash equivalents	4	56
Financial assets at fair value through profit or loss	5	83
<b>Total assets</b>		<u>139</u>
<b>Equity</b>		
Share capital		156
Accumulated losses		(17)
<b>Total equity</b>	6	<u>139</u>
<b>Total equity and liabilities</b>		<u>139</u>

Date: 30.07.2018

Approved by:  
Member of the Board of Directors

Prepared by: *Becky*  
Vanya Nikova, Finance Manager

Approved by:  
Member of the Board of Directors

The notes on pages 7 to 22 are an integral part of the interim financial statements.



## Statement of Changes in Equity

<i>In thousands of BGN</i>	Notes	Share capital	Accumulated losses	Total capital
<b>Balance at 4 January 2018</b>		-	-	-
<b>Comprehensive income</b>				
Loss for the period		-	(17)	(17)
<b>Total comprehensive income</b>		-	(17)	(17)
<b>Issue and redemption of own shares by equity holders</b>				
Issue of shares		156	-	156
<b>Issue and redemption of own shares by equity holders</b>		156	-	156
<b>Balance at 30 June 2018</b>	6	156	(17)	139

Date: 30.07.2018

Approved by:   
Member of the Board of Directors

Prepared by:   
Vanya Nikova, Finance Manager

Approved by:   
Member of the Board of Directors

The notes on pages 7 to 22 are an integral part of the interim financial statements.

## Statement of Cash Flows

For the six-months period ended 30 June 2018

In thousands of BGN

	Notes	4 Jan – 30 June 2018
<b>Cash flows from operating activities</b>		
Payments related to financial assets at fair value through profit or loss		(85)
Payment to suppliers		(14)
Other cash flows from operating activities		(1)
<b>Net cash flows used in operating activities</b>		<u>(100)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares		157
Payment to suppliers for financing activities		(1)
<b>Net cash flows from financing activities</b>		<u>156</u>
<b>Net change in cash and cash equivalents</b>		<u>56</u>
Cash and cash equivalents at 4 January 2018		-
Cash and cash equivalents at 30 June 2018	4	<u>56</u>

Date: 30.07.2018

Approved by:   
Member of the Board of Directors

Prepared by:   
Vanya Nikova, Finance Manager

Approved by:   
Member of the Board of Directors

The notes on page 7 to page 22 are an integral part of the interim financial statements.

## Notes to the Interim financial statements

### 1. Corporate information

Expat Serbia BELEX15 UCITS ETF (the Fund) is an exchange-traded fund organized and managed by the Management Company "Expat Asset Management" EAD (hereinafter referred to as the Management Company, or MC). The Fund is registered on 4 January 2018 in the Bulstat Register with code 177241354.

The address of the management of the Fund and the Management Company is Sofia, zip code 1000, 96A Georgi S. Rakovski Str.

Expat Serbia BELEX15 UCITS ETF is a passively-managed exchange-traded fund which follows the model of full physical replication of the 'BELEX15 index. The Fund is listed on the Bulgarian Stock Exchange as well as on the Frankfurt Stock Exchange (XETRA) with the ticker ESNB. The Fund's activities include issue and sale of shares which provide the same rights to their holders. The number of shares of the Fund changes depending on the volume of sales and redemptions of shares.

### 2. Basis of preparation of the financial statements

#### (a) Statement of compliance

These interim financial statements for the six-month period ended 30 June 2018 are prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting. The interim financial statements include all information and disclosures required for the preparation of the annual financial statements as the fund was created during 2018 and it does not have an annual financial statements for 2017. The current interim financial statement was the first to be prepared in accordance with the International standards for financial reporting, approved by the EU ('IFRS,' accepted by the EU)

Expat Serbia BELEX15 UCITS ETF was registered on 4 January 2018, therefore the Interim financial statements do not contain comparative information for a previous six-months period for the statement of comprehensive income, statement of cash flows and the statement of changes in equity.

The line items in the statement of financial position are presented in order of their liquidity.

#### (b) Measurement base

The financial statements have been prepared on a historical-cost basis except for the financial assets held at fair value through profit or loss (FVPL) that have been measured at fair value.

#### (c) Functional currency and presentation currency

The shares of the Fund are issued in EUR, the net asset value per share and the redemption price is calculated in euro, therefore the functional currency of the Fund is the euro.

These financial statements presented in Bulgarian levs (BGN), which is the presentation currency of the Fund. All financial information in BGN is rounded to the nearest thousand unless otherwise stated.

From 1 January 1999 the exchange rate of the Bulgarian lev (BGN) is pegged to the euro (EUR). For this reason, there are no currency translation differences arising from the use of the BGN as a presentation currency in these financial statements. The exchange rate is BGN 1.95583 / EUR 1.0.

## 2. Basis of preparation of the financial statements (continued)

### (d) Use of judgements and estimates

The preparation of financial statements under IFRS requires the Management Company to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The actual result may be different from these estimates.

The review of the accounting estimates is recognized in the period in which the review has been made, when it affects that period and in future periods if the review has an effect on future periods.

### **Judgements**

Information about significant judgements made in applying the accounting policies which have the most significant effect on the amounts presented in the financial statements is presented in the following notes:

- Note 6 Equity - classification of the Fund's units as an equity instrument

### ***The Fund as an investment entity within the meaning of IFRS 10***

Companies that meet the definition of an IFRS 10 Investment Entity are required to report investments in subsidiaries at fair value rather than consolidate them. The criteria that define an Investment Entity are:

- A company that buys funds from one or more investors for the purpose of providing relevant investment services;
- A company that has a business purpose only to increase its capital value, investment income, or both;
- A company that accounts for and evaluates a significant portion of its investments at fair value.

The Fund invests primarily in shares and investors are not related parties, which is an additional characteristic of an investment entity.

The Management Company has determined that the Fund meets the criteria and characteristics above and falls within the definition of an investment entity. The judgment is reviewed regularly on a change in circumstances.

The Management Company has assessed that the Fund does not exercise control over its investments in shares and therefore does not consolidate them.

## 2. Basis of preparation of the financial statements (continued)

### ***Fair Value Measurement***

Some of the accounting policies and disclosures of the Fund require fair values to be estimated for financial and non-financial assets and liabilities.

When assessing the fair value of an asset or liability, the Fund uses observable data as far as possible. Fair values are categorized at different levels in the fair value hierarchy based on incoming data in valuation techniques, as follows:

- Level 1: quoted prices (uncorrected) in active markets for similar assets or liabilities.
- Level 2: Inputs other than quoted prices included in Level 1 that are directly available (i.e. as prices) or indirectly (i.e. derived from prices) for observation of the asset or liability.

## Notes to the Interim financial statements

- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable incoming data).

If the input data used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy then the fair value measurement is categorized in its entirety at that level from the fair value hierarchy whose input is relevant for the overall assessment.

Information on significant positions that are affected by estimates and assumptions in applying the accounting policies that have the most significant effect on the amounts recognized in these financial statements is described in Note 10 Financial Instruments.

### 3. Operating expenses

<i>In thousands of BGN</i>	04.01.2018-30.06.2018
Fees for stock registration	7
Fees for stock brokers	5
Fees and commissions to the custodian bank	1
Fees and commissions to the management company	1
	<u>14</u>

### 4. Cash and cash equivalents

<i>In thousands of BGN</i>	30.06.2018
Cash at bank accounts	56
<b>Cash and cash equivalents</b>	<u>56</u>
<b>Cash and cash equivalents in the Statement of Cash Flows</b>	<u>56</u>

The cash of the Fund is kept in the depository bank "Eurobank EFG Bulgaria" AD.

Notes to the Interim financial statements

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

Expat Serbia BELEX15 UCITS ETF is a passively-managed fund and adheres to the full physical replication method of the BELEX15 index. The reference index BELEX15 composes of shares denominated and traded in Serbian dinar.

The value of the financial assets in the statement of financial position at the date of the reporting period is determined as the close price quote of the respective asset on the Belgrade Stock Exchange on the last business day of the relevant reporting period.

The structure of the Fund's financial assets measured at fair value through profit and loss as of 30 June 2018 is, as follows:

Type of financial instrument Regulated market on which shares are traded	Shares Belgrade Stock Exchange		
Issuer	Number	Value at the end of the reporting period	Percentage of the total financial assets
<i>In BGN</i>			
Nis AD Novi Sad	2 300	26 137	31.44%
Aerodrom Nikola Tesla AD Beo	950	26 265	31.59%
Galenika Fitofarmacija AD	340	15 826	19.04%
Metalac AD Gornji Milanovac	450	14 909	17.93%
	<u>4 040</u>	<u>83 137</u>	<u>100.00%</u>

**Net profit / (loss) on financial assets at fair value through profit or loss**

*In thousands of BGN*

04.01.2018-  
30.06.2018

Loss from revaluation of financial assets at fair value through  
profit and loss

(2)

**Net loss on financial assets at fair value through profit or  
loss**

(2)

## Notes to the Interim financial statements

**6. Equity**

The Fund's equity is equal to the net asset value (NAV). The movement in units and in the NAV of the Fund at the beginning and at the end of the reporting period is, as follows:

	Number of shares	Value <i>(in thousands of levs)</i>
<b>At 4 January 2018</b>	-	-
Issue of shares	80 000	156
Loss for the period	-	(17)
<b>At 30 June 2018</b>	<u>80 000</u>	<u>139</u>

Net asset value per unit as of 30 June 2018 (in BGN)	<u>1.7378</u>
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*Equity*

The Fund classifies the shares it issues as an equity instrument based on the following criteria:

- The shares entitle the holder to a proportionate share of the Fund's net assets at any time and in the event of the Fund's liquidation;
- The units issued by the Fund are in the class of instruments that is subordinate to all other classes of instruments in the event of the Fund liquidation;
- Apart from the contractual obligation of the Fund for redemption, the share issued by the Fund do not incur any other contractual obligation to the Fund to provide cash or other financial assets or to exchange financial assets or financial liabilities;
- The total expected cash flows attributable to the shares issued by the Fund over the life of the instrument are based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund;
- The Fund does not issue financial instruments other than shares.

*Premium reserve*

The Fund's equity is divided into shares. The nominal value of the shares is 1 (one) euro. The shares of the Fund are acquired at issue value. The number of shares of the Fund changes because of their sale or redemption. The difference between the issue and the nominal value of the shares on sale or redemption is recorded as a premium reserve.

*Capital management*

The Fund's equity is equal to the net asset value of the assets (NAV), which may not be less than BGN 500,000, or their equivalence. This minimum threshold must be reached within two years from the date of receipt of the authorization from the Financial Supervision Commission for the organization and management of the Fund.

For the Fund's admission to trading on a regulated market, the minimum net asset value may not be less than BGN 100,000 or the euro equivalent.

## Notes to the Interim financial statements

**7. Equity (continued)***Dividend policy*

The policy of the Fund is not to pay dividends. The dividends received from the shares in which the Fund has invested, as well as the capital gains realized on trading of the shares are reinvested.

**7. Basic earnings per share***In thousands of BGN*04.01.2018 -  
30.06.2018

Net loss per share for the period 04.01.2018 - 30.06.2018 (in BGN)

(0.245)

The basic earnings per share is calculated by dividing the profit or loss for the period to be distributed among the equity holders (numerator) to the weighted average number of shares issued for the period (denominator).

The weighted average number of issued shares for the reporting period is 70 069. The weighted average number is calculated by taking the arithmetic mean of the issued shares for each day of the period.

**8. Income taxes**

The profit of the Fund is not subject to corporate tax.

**9. Related parties**

The Fund is a separate entity without management body and its management is carried out by the Management Company "Expat Asset Management" EAD. The sole shareholder of MC is "Expat Capital" AD. As of 30 June 2018, related parties of the Fund are the MC Expat Asset Management EAD and Expat Capital AD. Related party transactions are performed on contractual terms and no guarantees are provided or received.

The expenses accrued to the MC "Expat Asset Management" EAD (note 4) incurred during the reporting period under contracts include:

- Remuneration under a management contract for "Expat Serbia BELEX15 UCITS ETF";
- Expenditures for issue and redemption of shares of "Expat Serbia BELEX15 UCITS ETF";

**10. Financial instruments****Fair value measurements**

The fair value of the Fund's financial instruments is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used in measuring the fair value:



Notes to the Interim financial statements

**10. Financial instruments (continued)**

**Fair value measurements (continued)**

- Quoted shares use the close market price on the date of the reporting period
- Cash and short-term deposits, trade receivables, trade payables and other current financial assets and liabilities – due to the short-term maturity of these financial instruments, their fair value approximates to the respective carrying amount.

**Risk profile and risk management**

***Risk profile***

The Fund's risk profile represents the amount and type of risk the Management Company undertakes by investing the Fund's assets with the aim of replicating the Reference Index, which at the date of this Prospectus is the "BELEX15" index of shares traded on the Belgrade Stock Exchange. In that context, investing in units of "Expat Serbia BELEX15 UCITS ETF" is associated with taking high risk, given that the Reference Index is composed of shares.

As regards its operations, "Expat Serbia BELEX15 UCITS ETF" is exposed to various types of risks affecting its performance.

***Credit risk***

The Fund owns cash and quoted shares, and the level of exposure to credit risk is mainly related to cash held in current accounts with banks. The credit risk associated with the quoted shares is part of the total investment risk of unit-holders in the fund.

The main risks that investors will incur when investing in units of "Expat Serbia BELEX15 UCITS ETF" are presented below.

***Market risk***

Possibility of losses due to unfavorable changes in securities prices, market interest rates, exchange rates, etc. This market risk affects the net asset value of the Fund, which will also fluctuate as a result of changes in the market prices of the shares and other securities in which the Fund has invested.

The Fund is not exposed to the risk of a change in market interest rates as financial assets represent quoted shares.

Notes to the Interim financial statements

**10. Financial instruments (continued)**

**Risk profile and risk management (continued)**

**Currency risk**

The Fund has been set up and traded in EUR, but the reference index BELEX15 is composed of shares denominated and traded in Serbian dinar and therefore the value of the Fund's financial assets depends on the exchange rate of the Serbian dinar against the euro and the lev respectively.

The policy of the Fund is not to hedge currency risk. The currency risk of the Fund is part of the overall investment risk.

A change of 5% in the exchange rate of the euro against the Hungarian forint would have the following effect on the Fund's profit / (loss), based on the Fund's portfolio as of 30.06.2018:

	<b>Effect on the profit / (loss)</b> <i>(In thousands of BGN)</i>
5% appreciation of the Serbian dinar against the euro	<u>4</u>
5% depreciation of the Serbian dinar against the euro	<u>(4)</u>

**Extreme market movements**

The market price of the financial instruments in which the Fund has invested may vary due to changes in the economic and market environment, central bank monetary policy, business activity of issuers, the sector in which the issuer operates and the demand and supply of the securities market. At certain times, stock market prices (stock market) may vary considerably. In case of large movements of the Index, including large daily movements, the Fund's performance may deviate from its investment objectives. The revaluation of the Fund will vary as a result of a change in the value of the Fund's assets and the Reference Index.

A change of 5% in market prices of assets would have the following effect on the Fund's profit / (loss), based on the Fund's portfolio as of 30.06.2018:

	<b>Effect on the profit / (loss)</b> <i>(In thousands of BGN)</i>
5% increase in market prices	<u>4</u>
5% decrease in market prices	<u>(4)</u>

**Inability of the Management Company to adapt to market changes**

The Fund follows a passive strategy, i.e. is not actively managed. Accordingly, the Management Company shall not change the composition of the portfolio except to follow closely the overall profitability of the Reference Index. The fund does not try to "beat" the market and does not take defensive positions when the market falls or is considered overvalued. Therefore, a decline in the Reference Index may result in a fall in the value of the Fund's assets.

Notes to the Interim financial statements

**10. Financial instruments (continued)**

**Risk profile and risk management (continued)**

***Liquidity risk***

Risk related to the possibility of losses or lost profits from urgent or forced sales of assets under unfavorable market conditions (such as low demand in the presence of oversupply). Liquidity risk exists also when the Fund may need to redeem the shares of the investors. The Fund invests in quoted shares which, under normal market conditions, are quickly and easily sellable, which substantially reduces the exposure to this risk.

***Purchase and redemptions***

If orders for the purchase and redemption of units are received late or do not comply with the requirements of the Prospectus and the Fund Rules, there will be a delay between the time of the order submission and the actual date of purchase or redemption. Such postponements or delays may result in a reduction in the number of units or the amount of redemptions.

***Trading on regulated market***

There is no certainty that the Fund will receive approval for trading on a regulated market and/or that the Fund's units will be traded or that the conditions for admission to trading will not change. Furthermore, trading units on a stock exchange may be suspended according to the rules of the relevant stock market due to market conditions and investors may not be able to sell their units until the trade is restored

***Regulatory risk***

The prospectus has been prepared in accordance with applicable laws and regulations. The Management Company and/or the Fund and its investment objectives and policies may be affected by future changes in laws and regulations. New or modified laws, rules and regulations in Bulgaria or the European Union may prevent or significantly limit the ability of the Fund to invest in certain instruments. They may also impede the conclusion of Agreements with certain third parties. This may impair the ability of the Fund to comply with the relevant investment objectives and policies. The implementation of such new or amended laws, rules and regulations may result in an increase in all or some of the Fund's costs and may require a restructuring of the Fund in order to comply with the new rules. Such possible restructuring may involve restructuring costs. Where restructuring is not possible, the Fund may be terminated. Fund assets and the Reference Index are subject to change in laws or regulations and/or such a change may affect their value and/or their liquidity.

***Operational risk***

It is related to the possibility of incurring losses due to errors or inadequacies in the system of organization, insufficiently qualified personnel, unfavourable external events of a non-financial nature, including legal risk.

## 10. Financial instruments (continued)

### Risk profile and risk management (continued)

#### *Risk of tracking the Reference Index error*

Tracking the Reference Index by investing in all index positions may be costly and difficult to implement. The Portfolio Manager may use optimization techniques such as selecting individual items in the Index in proportions that are different from those in the Index. The use of such optimization techniques may increase the tracking error and lead to a different performance of the Fund compared to that of the Index. Also, existing restrictions or future amendments to the law and Fund's regulations regarding but not limited, the composition, concentration, and way of asset valuation may lead to the Fund's inability to replicate the index entirely. Moreover, exchange traded funds in markets with low liquidity are at greater risk of tracking error.

#### *Reference Index*

In the event of an event that affects the Index, the Fund may have to discontinue the purchase and redemption of shares. The revaluation of the Fund may also be affected. In case of ongoing problems with the Index, the Fund will take appropriate actions that may reduce the net asset value of the Fund.

#### *Systemic risks*

Systemic risks depend on general fluctuations in the economy and the markets. The Fund may not influence systemic risks but takes them into account and comply therewith. The risks posed by the political and economic conjuncture are the possible instability or military action in the region. Disasters and accidents are factors that complicate any risk management system. Consequences are difficult to predict, but access to information and the implementation of a forecasting and action system in extreme situations are possible ways to minimize the negative effect.

## 11. Events after the reporting date

There are no events after the reporting date that require adjustments or disclosures in the Interim financial statements of the Fund that occurred in the period from the reporting date to the date when these financial statements are authorized for issue by the Board of Directors of the Management Company.

Notes to the Interim financial statements

## 12. Accounting policies and disclosures

The Fund has consistently applied the accounting policies presented below for the period presented in these interim financial statements.

The same accounting policies, approved in the preparation of the interim financial statement, are in accordance with IFRS, endorsed by the EU. The Fund has not previously adopted other standards, interpretations or amendments that have been published but are not yet in force.

The Fund applies IFRS 9 Financial Instruments, which entered into force on 1 January 2018.

IFRS 15 Revenue from contracts with customers and several other amendments and interpretations that also entered into force on 2018 have no impact on the Fund's interim financial statements.

### 12.1 Financial Instruments

The Fund recognizes a financial asset or financial liability in its statement of financial position only when it becomes a party to the contractual terms of that instrument. Contracts for the purchase or sale of financial assets that require settlement of transactions within the normal timescales established by the market rules or agreement are recognized in the statement of financial position at the settlement date.

#### Classification and evaluation

In order to determine the classification and measurement category under IFRS 9, all financial assets, except for equity instruments and derivatives, should be valued on the basis of a combination of the asset management business model and the contractual cash flow characteristics of the instruments. The valuation categories of financial assets IAS 39 (fair value through profit or loss, available-for-sale, held-to-maturity and amortized cost) are replaced by:

- Debt instruments at amortized cost;
- Debt instruments at fair value through other comprehensive income, where the gain or loss is recycled to profit or loss on disposal;
- Equity instruments at fair value through other comprehensive income, without recycling profits or losses on disposal or loss;
- Financial assets at fair value through profit or loss.

#### Business model assessment

The Fund defines the following business models for management of financial assets:

- Business model that aims at collecting the contractual cash flows. It includes assets which are held with the aim to collect the contractual payments during the whole term of the instrument.
- Business model which aims at realizing cash flows through the sale of the asset. This model includes the assets for which the Fund intends to monitor their fair value and their fair value is the base for decisions regarding sale or purchase; there is evidence of active sale and purchase activities with these assets, the contractual cash flows from the asset do not comprise solely of payments of principal or interest; the collection of contractual cash flows from the asset are only in addition to the main purpose – realization of the cash flows from sale.

## 12. Accounting policies and disclosures (continued)

### 12.1 Financial instruments (continued)

#### *Categories of financial assets and liabilities valuation*

The Fund classifies and evaluates its portfolio at fair value through profit or loss as it is held in a business model within which a fair value is measured through profit or loss and the Fund manages the financial assets for the purpose of realizing cash flows through the sale of assets.

The Fund classifies its receivables at amortized cost because they are held within a business model whose purpose is to hold assets in order to collect the contractual cash flows.

The Fund classifies its financial liabilities as trade payables measured at amortized cost.

#### **Financial assets and liabilities**

##### *Trade receivables and payables (amortized cost)*

Before 1 January 2018 trade receivables and payables include non-derivative financial assets with fixed or determinable payments that were not quoted in an active market other than those:

- which the Fund intends to sell immediately or in the near future;
- which the Fund, at initial recognition, has determined at fair value through profit or loss or available for sale;
- for which the Fund cannot substantially recover all of its initial investment due to a different reason than that of the exposure deterioration that is designated as available for sale.

##### *Financial assets and financial liabilities at fair value through profit or loss*

The classification and measurement of financial assets and financial liabilities at fair value through profit or loss does not change with the entry into force of IFRS 9.

Financial assets and financial liabilities in this category are those that are not held for trading or that are required to be measured at fair value under IFRS 9. Upon initial recognition, the asset management company determines a fair value instrument through profit or loss when one of the following criteria is satisfied. This designation is based on an instrument:

- Determination eliminates or significantly reduces inconsistent treatment that would otherwise arise from measuring assets or liabilities, or from recognizing gains or losses on a different basis, or
- Liabilities (and assets until 1 January 2018, in accordance with IAS 39) are part of a group of financial liabilities (or financial assets or both under IAS 39) that are managed and the results are measured on a fair value basis in accordance with documented risk management or investment strategy, or
- Liabilities (and assets until 1 January 2018, in accordance with IAS 39), containing one or more embedded derivatives, unless they significantly change the cash flows which would otherwise be required by the contract or it is clear, in little or no analysis, when a similar instrument is considered first that the division of the embedded derivative (s) is prohibited.

## 12. Accounting policies and disclosures (continued)

### 12.1 Financial instruments (continued)

#### **Financial assets and financial liabilities at fair value through profit or loss (continued)**

Financial assets and financial liabilities at fair value through profit or loss are reported in the statement of financial position at fair value. Changes in fair value are recognized in profit or loss.

Revenue from dividends from equity instruments measured at fair value through profit or loss is recognized in profit or loss as other operating income when the entitlement to payment is established.

#### **Impairment of financial assets**

The calculation of impairment of financial assets at fair value through profit or loss does not change with the entry into force of IFRS 9.

IFRS 9 requires the Fund to record a fair value adjustment for expected credit losses for all financial assets that are not held at fair value through profit or loss. The adjustment is based on the expected losses related to the probability of default over the next twelve months, unless there has been a significant increase in the credit risk after its occurrence.

The Management Company performs periodic review of indications of impairment of the carrying amount of the Fund's assets as follows:

- receivables - at the end of each month when preparing the monthly financial statements to the management;

The Fund applies a simplified impairment approach for trade receivables where the credit losses adjustment is determined on the basis of the expected credit losses over the entire life of the instrument. The choice of the Simplified Approach is a consequence of the specificities of these financial assets and the matrix for determining the expected credit losses for these financial assets is mainly based on period overdue in terms of loss at default.

Financial assets are classified in three phases according to changes in counterparty / instrument credit quality:

- Phase 1 ("regular") - financial assets without an indication of credit risk increase compared to the initial recognition.

- Phase 2 ("impaired service") - financial assets with a significant increase in credit risk but without objective indicators of impairment / incurred losses ("default");

- Phase 3 ("default") - financial assets with a significant increase in credit risk and objective evidence of impairment (assets for which there is a default).

In case of impairment indicators, the recoverable amount of the asset is calculated. Impairment losses are determined as the difference between the carrying amount of the financial asset and its estimated recoverable amount and are recognized in profit or loss. When subsequent events result in a reduction in impairment losses already recognized, the adjustment is recognized through profit or loss.

#### **Derivatives measured at fair value through profit or loss**

The Fund does not enter into derivative transactions.

## 12. Accounting policies and disclosures (continued)

### 12.1 Financial instruments (continued)

#### Financial assets or financial liabilities held for trading

The Fund does not recognize financial assets or financial liabilities as held for trading.

#### Date of recognition

Financial assets and liabilities, except for loans and advances, are initially recognized at the date of the transaction, i.e. on the date the Fund becomes a party to the contractual provisions of the instrument. Contracts for the purchase or sale of financial assets that require settlement of transactions within the normal timeframe, established by the market rules or agreement, are recognized in the statement of financial position at the settlement date.

#### Initial recognition of financial instruments

Upon initial recognition, the Fund assesses a financial asset or financial liability at its fair value, plus or minus, in the case of a financial asset or financial liability not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Upon initial recognition, the Fund assesses receivables that do not have a significant component of financing at the appropriate transaction price.

#### Write off of financial assets and liabilities

A financial asset is written off on the value date after the Fund has no more control over the contractual rights and has transferred substantially the risks of ownership of the asset. This occurs when the rights are realized, their validity expires, or they are redeemed. A financial liability is derecognized when it is written off or canceled.

#### Compensation of financial assets and liabilities

Financial assets and liabilities are netted, and the net amount is reported in the statement of financial position when the Fund has a legally enforceable right to net the recognized amounts and the transactions are intended to be settled on a net basis.

### 12.2 Transactions in foreign currency

Transactions executed in foreign currencies are converted into BGN at BNB official exchange rates for the day of the transaction. All assets and liabilities denominated in foreign currencies are revalued on a daily basis.

### 12.3 Expenses

Expenses are recognized in profit or loss for the period in which they arise, regardless of cash payments. All expenses related to the Fund's activities, including the remuneration of the Management Company and the Custodian Bank, are recognized in profit and loss on accrual basis.

The direct costs of unit-holders related to the purchase and redemption of units from the Fund are stated in the Fund's Prospectus.

#### Fees and commissions

Fee and commission expenses are recognized in profit or loss with the execution of the related services.



Notes to the Interim financial statements

## 12. Accounting policies and disclosures (continued)

### 12.4 Taxes

As a type of collective investment scheme admitted to public offering in the Republic of Bulgaria, the Fund enjoys preferential tax treatment and its profits are not subject to corporate tax.

### 12.5 Rules to evaluate net value of the Fund's assets

The net asset value is the total value of all portfolio assets less all liabilities. The Fund applies rules for determining the net asset value, and the developed methodology for determining the net asset value is based on:

- the relevant provisions of the Fund's rules and prospectus;
- the relevant legal provisions and the statutory instruments for their implementation;
- the relevant accounting legislation;
- the application of generally accepted valuation methods.

The net asset value per unit is the basis for determining the issue value and redemption price per unit of the Fund. Issued units are reported at face value.

The Fund's net asset value per unit is calculated as the net asset value divided by the number of units issued.

### 12.6 Share capital. Issuing and redemption of units

The share capital is represented by the nominal value of the Fund's issued and paid units.

The Fund issues units at issue value each business day. The issue value per unit is formed from the net asset value per unit without issuing costs. The difference between the net asset value per unit and the nominal value per unit is recorded as premium reserves. Depending on whether the Fund issues its units below or above nominal, the difference to the nominal value is indicated respectively as a discount or a positive unit issue premium. The Fund has the obligation to redeem its units from its holders.

### 12.7 Cash and cash equivalents

Cash and short-term deposits in the statement of financial position include cash in bank accounts, cash and short-term deposits with an initial maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents include cash and cash equivalents as defined above.

## 12. Accounting policies and disclosures (continued)

### 12.8 Standards and interpretations effective from 1 January 2018

The following standards and interpretations effective from 1 January 2018 have no impact on the Fund's interim financial report.

- IFRS 15 Revenue from contracts with customers
- IFRS 15: Revenue from contracts with customers (clarifications)
- IFRS 2: Classification and measurement of share-based payment transactions (amendments)
- IAS 40: Transfer to Investment Property (Amendments)
- IFRIC INTERPRETATIONS 22: Foreign currency transactions and Advance considerations
- The IASB has issued Annual Improvements to IFRS - Cycle 2014-2016, which represent a set of amendments to IFRSs.
  - *IFRS 1 First-time Adoption of International Financial Reporting Standards:*
  - *IAS 28 Investments in Associates and Joint Ventures:*

### 14 Standards issued but not yet effective and not early adopted

The following standards, new interpretations and changes to existing standards are not expected to have an impact on the Fund's financial statements upon their entry into force.

- IFRS 16: Leases
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or contribution of assets to parties to the transaction, the investor and its associate or joint venture
- IFRS 9: Prepayment features with negative compensation (Amendment)
- IAS 28: Long-term Investments in Associates or Joint Ventures (Amendments)
- IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments
- IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)
- Conceptual framework in IFRS

The IASB has issued Annual Improvements to IFRS - Cycle 2015-2017, which represent a set of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019, allowing for earlier application. These annual improvements have not yet been endorsed by the EU.

- *IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:*
- *IAS 12 Income Taxes*
- *IAS 23 Borrowing Costs*

## 15. Contingent Liabilities and Assets

The Fund does not recognize contingent liabilities and contingent assets in its financial statements due to the fact that there are no potential liabilities for which it has not yet been ascertained whether the Fund has them as current liabilities or their possible recognition may lead to recognition of income that may never be realized.