

# Expat Bulgaria SOFIX UCITS ETF

Annual Report on the Activity  
Independent Auditor's Report  
Financial Statements  
31.12.2016



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## 2016 ANNUAL REPORT ON THE ACTIVITY OF EXPAT BULGARIA SOFIX UCITS ETF

Expat Bulgaria SOFIX UCITS ETF 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 (ACISOCIVA), the Public Offering of Securities Act (POSA) and the regulations for its implementation, the Markets in financial instruments Act (MFIA), the Law on obligations and contracts (LOC) and the other applicable laws of the Republic of Bulgaria.

The ETF is a designated asset pool for investment in securities and other liquid financial assets in view of achieving the investment objectives specified in Art. 7. The ETF is not a legal entity.

The ETF is a designated asset pool for the purpose of collective investment of funds raised through public offering of shares in transferable securities and other liquid financial assets under Art. 38, para 1 of the ACISOCIVA, carried out by the Management Company on the principle of risk spreading.

The ETF is organised and managed by the management company "Expat Asset Management" EAD (hereinafter referred to as the Management Company, or MC) under ACISOCIVA and the regulations for its implementation, the Law on obligations and contracts and the other applicable laws of the Republic of Bulgaria.

The Management Company is authorised to organise and manage the Fund under para 1 by the Financial Supervision Commission with authorisation No.156-DF dated 23 August 2016.

During the reporting period the Fund started operating and did not witness internal events that might have affected its operations or the performance of the ETF, as well as the one of the Management Company. After the reporting period had ended and as of the composition date of this reporting document, there are neither essential corporate events occurred nor actions on the occasion of research and development activity. Expat Bulgaria SOFIX UCITS ETF has no branches.

Expat Bulgaria SOFIX UCITS ETF is a passively-managed exchange-traded fund which follows the model of full physical replication of the SOFIX index calculated by the Bulgarian Stock Exchange – Sofia. In order to reach the highest possible correlation with the performance of the Reference Index, the Fund will invest mainly in a basket of balance-sheet assets consisting of shares of the companies in the Reference Index. As a Fund for direct replication, Expat Bulgaria SOFIX UCITS ETF may not invest in every company of the Reference Index or with the exact weight of the given company in the Reference Index. Under normal market conditions, the ETF shall invest in every constituent of the Reference Index with weights as close as possible to those in the Index and subject to the regulatory limits and restrictions.

### **Fund Net Asset Value Allocation**

The Fund's net asset value cannot be less than 500 000 BGN. This minimal amount should be reached in a year after acquiring management and operating license from the Financial Supervision Commission.

As of 31.12.2016 Expat Bulgaria SOFIX UCITS ETF's total asset value was estimated at 25 480 979 BGN, decomposed in 81.61% invested in company shares traded on BSE – Sofia and 18.39% as cash equivalents in multiple accounts. The total number of units in issue was 22 630 000.

### **Risk Profile**

The risk profile of the Fund represents the amount and type of risk that the Management Company undertakes by investing the assets of the Fund, while seeking to replicate the Reference Index, which at the date of this report is an index of shares traded on BSE-Sofia. In this respect, investing in units of Expat Bulgaria SOFIX UCITS ETF involves undertaking high risk, given that the Reference Index is composed of equities.

In its activity, Expat Bulgaria SOFIX UCITS ETF is exposed to various types of risks affecting its results. The main risks that investors face when they invest in units of Expat Bulgaria SOFIX UCITS ETF are:

*Market risk*

The possibility of loss occurring due to adverse changes in the securities prices, market interest rates, exchange rates and other. This market risk affects the net asset value of the ETF which will also fluctuate as a result of changes in the market prices of the equities and other securities in which the ETF has invested.

*Extreme market movements*

The market price of the financial instruments in which the Fund invests may fluctuate due to changes in the economic and market environment, the monetary policy of the central banks, the business activity of the issuers, the industry in which the issuer operates and the demand and supply on the stock market. At certain times, the market price of the Fund units on the stock exchange may fluctuate substantially. In the event of significant movements of the Index incl. large daily movements, the performance of the Fund may depart from its investment objectives. The valuation of the Fund will fluctuate as a result of changes in the price of the Fund's assets and the Reference Index.

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

The fund follows a passive investment strategy, i.e. it is not actively managed. As a result, the Management Company will not change the composition of the portfolio, except to follow closely the total return of the Reference Index. The Fund is not trying to outperform the market and does not take defensive positions when the market falls or is considered overvalued. Therefore, a decline in the Reference Index may lead to a decline in the value of the Fund's assets.

*Liquidity risk*

The risk associated with the possibility of losses or missed profits by mandatory or forced sales of assets in adverse market conditions (such as low demand in the presence of oversupply).

*Purchase and redemptions*

If the purchase and redemption orders for Fund units are received late or do not meet the requirements in the Prospectus and the Fund Rules, there will be a delay between the time of placing the order and the actual date on which the purchase or redemption is executed. Such delays may lead to a decrease in the number of units purchased or amounts received from redemptions.

*Trading on a stock exchange*

There can be no guarantees that the Fund will be approved for trading on a regulated market and/or that units of the Fund will continue to be traded or that the criterion for admission to trading will not change. Moreover, trading of the units on a stock exchange may be suspended under the rules of the respective exchange due to market conditions, and investors may not be able to sell their units until trading resumes.

*Regulatory risk*

The Prospectus has been prepared in compliance with the 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 could prevent or significantly limit the Fund's ability to invest in certain instruments. They could also prevent the signing of agreements with certain third parties. This may affect the ability of the Fund to fulfil the respective investment objectives and policies. Applying such new or modified laws, rules and regulations could lead to an increase of all or some of the Fund's costs and may require the restructuring of the Fund, in order to meet the new rules. Such a restructuring may include restructuring costs. When restructuring is not possible, the Fund may proceed to termination. The assets of the Fund and the Reference Index are subject to change in laws or regulations and/or such changes might affect their value and/or liquidity.

*Operational risk*

It is associated with the potential of loss resulting from errors or system failures in the organisation, insufficiently qualified personnel, unfavourable external events that are not financial in nature, incl. legal risk.

*Tracking error risk*

Tracking the Reference Index by investing in all positions in the index can be costly and difficult to implement. The portfolio manager may use optimization techniques such as selection of individual positions in the Index in proportions that differ from those in the Index. The use of such optimization techniques can increase the tracking error and lead to a different performance of the Fund compared to that of the Index. Furthermore, existing restrictions or future changes in laws and regulations of the Fund about, but not limited to, the composition, concentration and method of assets valuation can lead to the inability of the Fund to replicate the Index in full. Also, exchange-traded funds in markets characterized by low liquidity may be exposed to a higher tracking error.

*Reference Index*

If there is an event that affects the Index, the Fund may be required to suspend the issuance and redemption of units. The valuation of the Fund may also be affected. In case of continuing problems with the Index, the Fund will take appropriate actions, which may reduce the net asset value of the Fund.

*Systemic risks*

Systemic risks depend on general fluctuations in the economy and the markets in general. The Fund cannot influence the systemic risks but registers them and takes them into account. Risks arising from the political and economic situation are possible instability or military actions in the region. Disasters and accidents are factors complicating any system of risk management. The consequences are hard to predict, but access to information and the implementation of a system for forecasting and actions in extreme situations are possible ways to mitigate the negative effects.

**Tracking Error Report In Compliance With Article 82e of Ordinance 44, 20<sup>th</sup> October 2011, On the Requirements on the Activity of Collective Investment Schemes, Their Management Companies, National Investment Funds and Managers of Alternative Investment Funds.**

ISIN	ETF's name	Expected Tracing Error	Implemented Tracking Error (on daily basis)	Implemented Tracking Error (on a weekly basis)
BG9000011163	Expat Bulgaria SOFIX UCITS ETF	Up to 10%	4.72%	6.26%

ISIN	ETF's name	ETF Return Since Inception*	Index Return**	Tracking Difference
BG9000011163	Expat Bulgaria SOFIX UCITS ETF	12.6%	24.1%	-11.5%

\*Expat Bulgaria SOFIX UCITS ETF publishes net asset value figures since September 2016.

The ETF's Return Since Inception corresponds to the return for the September to December 2016 period.

\*\*Index Return corresponds to the SOFIX return for the September to December 2016 period.

The tracking difference is due to the short operating period of the Fund since its inception, also its market effect upon launching and the effect on the SOFIX index, respectively.

The realized tracking error for the period was calculated on a daily basis thus statistically delivering more than 30 monitorings, which cannot be observed solely on a weekly basis monitoring.

Our 2017 tracking error expectations are for not more than 10% figure, deriving from the limited ETF trading history on the Bulgarian market, and the one of Expat Bulgaria SOFIX UCITS ETF. The tracking error represents the volatility (measured through the annual standard deviation) difference of the return of the Fund and the one of the SOFIX index for a defined period. A lower tracking error would mean a closer index tracking. However, that is different than the tracking difference, which stands for the difference between the return of the Fund and the Return of the Index for a defined period. The tracking difference measures to what percentage extend did the Fund perform better or worse than the SOFIX index, while the tracking error represents the constant in the difference between the performance of the Fund and the SOFIX Index's one.

Expat Asset Management EAD Management Company's major shareholder is Expat Capital AD.

The Representatives and the Members of the Board of Directors of Expat Asset Management EAD Management Company are

1. Nicola Simeonov Yankov
2. Nikolay Vassilev Vassilev
3. Lachezar Dimitrov Dimov
4. Maria Dimitrova Boychinova
5. Nikola Emilov Veselinov

The following information is required under Article 39 of the Law of Accounting is not applicable for an ETF.

- Future development of the Company
- Information under Article 247 of Companies Act
- Research and development activity
- Information for own shares acquisition
- Planned economic policy for the upcoming year
- Expected investments and personnel development
- The expected return from investments and company development
- Upcoming deals of sustainable importance for the company's activity
- Company's branches
- The Fund is not liable for requirements under Article 41 of the Law of Accounting and is not bound to provide nonfinancial declaration

Lachezar Dimov  
Member of the Board of Directors

Nikola Veselinov  
Member of the Board of Directors

## REMUNERATION POLICY INFORMATION

### In compliance with Article 73 of Regulation 44

Expat Bulgaria SOFIX UCITS ETF did not appoint any employees during the 2016 financial year and does not have an adopted Remuneration Policy.

The present acting Remuneration Policy of Expat Asset Management EAD Management Company is adopted with decision № 178 from 19.12.2016 by the Board of Directors. The current policy for definition and distribution of remunerations at Expat Asset Management EAD is adopted in compliance with the requirements of Law for Amendments and Additions to the Law on the Activities of Collective Investment Schemes and Other Collective Investment Undertakings 2016 for the remuneration requirements section and, in concrete, under the provisions under articles 108 and 108a, and taking into account the provision of EU Directive 2014/91 for amendment of Directive 2009/65/EO.

#### Scope

**Article 2.** The current Remuneration Policy applies to the remunerations of the following employees categories:

- i. The Board of Directors members and the employees of senior management stance;
- ii. Risk embodied during the working process employees;
- iii. Employees executing controlling activities;
- iv. Any other employees whose remuneration is fairly comparable with the ones of the aforementioned employees under i. and ii., and who under their job description definition affect the risk profile of Expat Asset Management EAD as well as its subsidiary collective investment schemes;

Under the scope of article 108, par. 1, point 4 of the Law on the Activities of Collective Investment Schemes and Other Collective Investment Undertakings are quoted individuals of the following professional authorities: portfolio managers and risk managers who have direct impact on the risk profile of the Collective Investment Scheme.

As decided by its Management Team, the Management Company does not have a Remuneration Committee.

#### Section Two Remunerations

##### Remuneration Types

**Article 3.** The employees' remunerations under **Article 2.** may be constant or variable. The variable ones apply for the traditional Easter and Christmas bonuses, the 13<sup>th</sup> and 14<sup>th</sup> monthly salary, and other additional remunerations that are not directly linked to the performance of the Management Company's activity or its subsidiary collective investment schemes; and are defined and determined in accordance with the criterion under the employment contracts practices and the Labour Code.

##### Remuneration Allocation

**Article 4.** The constant and variable remunerations for employees of different professional seniority are determined as following:

- i. For Board of Directors members: a sole capital owner decision applies
- ii. For all the remaining employees under **Article 2.:** an Executive Director's decision applies

**Leading principles whenever determining constant remuneration**

**Article 5.** Whenever determining a constant remuneration the labour market competition principle applies, thus the needs of attracting highly qualified and adequately paid employees are met.

**Leading principles whenever determining variable remuneration**

**Article 6.** The variable remuneration is not paid in installments, also variable remuneration retention does not apply, and that is not embodied under the employment agreement contracts of the Company's employees.

**Maximum variable remuneration amount and constant to variable remuneration correlation**

**Article 7. (1)** The Management Company distributes a total common sum of the variable remuneration for all employees for the corresponding year in such amount that is of no dependence on the net profit of the Company or by other results being achieved.

**(2)** The exact amount of the variable remuneration per employee under the common total amount frame under **par. (1)** is determined individually per employee as it may NOT exceed:

- i. For Board of Directors members and employees of senior management stance: 200% of their constant gross annual salary.
- ii. For risk embodied during the working process employees: 200% of their constant gross annual salary.
- iii. For employees executing controlling activities: 200% of their constant gross annual salary.
- iv. For all other employees whose remuneration is fairly comparable with the ones of the aforementioned employees under i. and ii., and who under their job description definition affect the risk profile of Expat Asset Management EAD as well as its subsidiary collective investment schemes: 200% of their constant gross annual salary.

**Distribution and rescheduling of the variable remuneration**

**Article 8. (1)** The distribution of the variable remuneration is not rescheduled in installments unless that is quoted under an enactment.

**(2)** In case of an embodied variable remuneration rescheduling under an enactment, the rescheduling itself is for the minimal amount required and for the minimal period under the enactment.

**(3)** The distribution pattern of the variable remuneration's rescheduled part during the rescheduling period is determined by the Board of Directors in compliance with the corresponding regulations.

**Compensations Limitations**

**Article 9.** The compensations in relation to early employment contract termination of some of the abovementioned individuals under **Article 2.** represent the individual's achieved results during their work timeline, and are determined in such manner that failure is not rewarded.

**Article 15.** In case of subsequent enactments changes and a following contradiction between them and the Remuneration Policy, the provisions of the Remuneration Policy are automatically cancelled and replaced with the corresponding legal norms.

For the 2016 financial year **Expat Bulgaria SOFIX UCITS ETF** did not pay any constant or variable remunerations due to the lack of employees appointed by the fund.



**REFERENCE WITH ADDITIONAL INFORMATION  
on "Expat Bulgaria SOFIX UCITS ETF"**

**According to the Requirements of Art. 73, para. 1, Section 5 of Regulation 44 as of year  
2016**

**1. General information on the Fund**

"Expat Bulgaria SOFIX UCITS ETF" is organized and managed by Expat Asset Management EAD Management Company as 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 (ACISOCIVA), the Law on obligations and contracts and the other applicable laws of Republic of Bulgaria.

The investment object of the Fund is to track the performance of the SOFIX index ("Reference index", "the Index"), by adhering to the method of full physical replication while mitigating the Index tracking error level ("tracking error").

The reference index is SOFIX, denominated in Bulgarian Lev (BGN) currency. The Reference index is weighted by market capitalization and is adjusted for the level of free float shares. Reference index tracks the performance of 15 of the largest and most liquid shares on the "BSE-Sofia" AD. The reference index is one of the major benchmark indices for "BSE-Sofia" AD and its performance is strongly tied to the performance of the overall market. A full description of the Reference Index, its composition, methodology for selecting the composition and weight of the selected companies in the Index is available on the web site of "BSE-Sofia" AD <http://www.bse-sofia.bg/?page=Indices>.

Address of management and office: City of Sofia, 96A, Georgi S. Rakovski Str.; phone: +359 2 980 1881; fax: +359 2 980 7472; website [www.expat.bg](http://www.expat.bg).

"Expat Bulgaria SOFIX UCITS ETF" calculates net assets value and redemption price of shares each business day and publishes them on [www.baud.bg](http://www.baud.bg), [www.investor.bg](http://www.investor.bg), on the site of Expat Asset Management Company and FSC in accordance with the terms specified in the Prospectus.

**2. Carrying out operations and financial position of the Fund for 2016**

As a fund for full physical replication of an index, "Expat Bulgaria SOFIX UCITS ETF" invests in a manner and in accordance with the Rules of the Exchange Traded Fund. Up to 95% of the fund's assets are in stock and rights of companies, admitted to or traded on a regulated market under Art. 73 of FIMA or traded on another regulated market in Bulgaria that constitutes the Reference index. At any time at least 70% of the Fund's assets are in stock and rights constituting the Reference index.

In order to comply with the legal restrictions and maintain liquidity, and to meet the redemption needs, the Fund will maintain a minimum level of cash and cash equivalents to the amount of 5% of the assets, which will limit the weight of stock to replicate the Reference Index of up to 95% of the Fund's assets;

For the period 12.09.2016 – 31.12.2016	Date	Value (BGN)
Minimum calculated NAV/share	20.09.2016	0.9973
Maximum calculated NAV/share	08.11.2016	1.1267

**Number of outstanding shares and net asset value per share of “Expat Bulgaria SOFIX UCITS ETF” for the period 12 September – 31 December 2016**

As at 12 September 2016 the number of the outstanding shares is **0**, as at December 31, 2016 - **22 630 000** shares.

During the period **230 000** shares have been claimed to the traded fund for redemption and **22 860 000** shares have been issued.

The net asset value per share as at 12 September 2016 was **BGN 1.0000**.

The net asset value per share as at 31 December 2016 was **BGN 1.1260**.

**Volume of investments in “Expat Bulgaria SOFIX UCITS ETF” portfolio**

Type of securities	Value as at 31.12.2016 (BGN)	% of the assets value
Stock	20 797 464	81.53%
Blocked securities		
Stock rights		
Shares in Collective Investment Schemes		
Cash in hand		
Cash in current accounts	4 712 566	18.47%
Deposits		
Debt securities		
Receivables from interest		
Sale of securities in settlement		
Receivables from dividends		
Receivables under forward contracts		
Deferred expenses		
<b>Total value of portfolio</b>	<b>25 510 030</b>	<b>100.00%</b>

The structure of assets and the share in financial instruments are in accordance with the regulations and the Rules of the fund. Cash in hand, in current accounts and bank deposits with maturity of up to three months form the liquidity of the Fund and as at 31.12.2016 represent 18.47% of the total amount of assets.

**Changes in the portfolio structure of “Expat Bulgaria SOFIX UCITS ETF”**

Issuer	ISIN	Value as at 31.12.2016 (BGN)	% of the assets value
<b>1. Stock</b>			
Advance Terrafund REIT	BG1100025052	2 372 144	9.30%
Albena AD	BG11ALBAAT17	1 373 285	5.38%
Industrial Capital Holding	BG1100010989	633 599	2.48%
Industrial Holding Bulgaria AD	BG1100019980	1 284 411	5.03%
M+C Hydraulic AD	BG11MPKAAT18	1 405 947	5.51%
Monbat AD	BG1100075065	1 825 595	7.16%
Neochim AD	BG11NEDIAT11	1 050 390	4.12%
First Investment Bank AD	BG1100106050	1 396 086	5.47%
Sopharma AD	BG11SOSOBT18	2 559 811	10.03%
Stara Planina Holding AD	BG1100005971	1 339 536	5.25%
Trace group Hold АД	BG1100049078	165 800	0.65%
Bulgarian Real Estate Fund REIT	BG1100001053	1 317 900	5.17%
Chimimport AD	BG1100046066	3 000 962	11.76%
Varna Holding AD	BG1100036984	82 564	0.32%
Central Cooperative Bank AD	BG1100014973	989 436	3.88%
<b>2. Government Bonds</b>			
<b>3. Bonds</b>			
<b>4. Shares in Collective Investment Schemes</b>			
<b>5. Rights</b>			
<b>6. Cash in hand and current accounts</b>		4 712 566	18.47%
<b>7. Deposits</b>			
<b>8. Sale of securities in settlement</b>			
<b>9. Receivables, incl. from interest, dividends</b>			
<b>Total value of portfolio</b>		<b>25 510 030</b>	<b>100.00%</b>

\* Item 9 includes receivables from interest on deposits, deferred expenses.

**Changes in assets type – liabilities, income and expenses of “Expat Bulgaria SOFIX UCITS ETF” for the period 12.09.2016 – 31.12.2016**

Current liabilities	As of 31.12.2016 (BGN)
1. Liabilities to Management Company under Management contract	26 565
2. Liabilities to Custodian	789
3. Liabilities to subscription and redemption	0
4. Liabilities to Investment Broker	1 697
5. Liabilities under transactions with securities	0

6. Liabilities under forward contracts	0
7. Other	0
<b>Total:</b>	<b>29 051</b>

<b>Receivables</b>	<b>As of 31.12.2016 (BGN)</b>
1. Receivables from transactions with securities	0
2. Receivables relating to issue	0
3. Receivables from interest accrued on deposits	0
4. Receivables from interest accrued and dividends	0
5. Receivables from interest accrued in foreign currency	0
6. Other	0
<b>Total:</b>	<b>0</b>

<b>Income</b>	<b>As at 31.12.2016 (BGN)</b>
1. Income from interest	895
2. Income from transactions with securities	1 402 940
3. Income from exchange rate differences due to depreciation	0
4. Income from exchange rate differences in foreign currency transactions	299
5. Income from interest in other transactions	0
6. Income from share participation	0
7. Other income	0
<b>Total:</b>	<b>1 404 134</b>

<b>Expenses</b>	<b>As of 31.12.2016 (BGN)</b>
1. Expenses for transactions with investments	831 388
2. Expenses for depreciation	0
3. Expenses for exchange rate differences	21
4. Expenses for outsourcing	42 596
5. Commissions, taxes and other	59 653
6. Other	5 688
<b>Total:</b>	<b>939 346</b>

	<b>As of 31.12.2016 r. (BGN)</b>
1. Liabilities to Management Company	48 273
2. Remuneration to Custodian	2 560
3. Liabilities to Investment Broker	8 807
4. Bank fees	14

**Comparison table for the last three fiscal years**

	<b>31.12.2016</b>
Net asset value	25 481 677.30
Number of shares	22 630 000.0000
Net asset value per share	1.1260

“Expat Bulgaria SOFIX UCITS ETF” holds a license under resolution of the Financial Supervision Commission dated 19.08.2017 and is still with less than three years of history.

Pursuant to Art. 174 of the Law on Corporate Income Tax, collective investment schemes that are admitted for public offering in Republic of Bulgaria are not subject to corporate tax.

“Expat Bulgaria SOFIX UCITS ETF” is not subject to Corporate tax as within the meaning of Art. 4, para 1 of ACISOCIVA it is a collective investment scheme.

**Transactions with derivative instruments**

During the reporting period “Expat Bulgaria SOFIX UCITS ETF” did not perform transactions with derivative financial instruments.

**Tracking Error**

Tracking error is the volatility (measured by annualized standard deviation) of the difference between the returns of the Exchange Traded Fund and those of the Reference index over a given period of time. A lower tracking error means closer tracking of the Index. This is not the same as difference in tracking, which is simply the difference between the returns of the Fund and those of the Reference index over a given period of time. The difference in tracking shows the percentage by which the Fund has performed better or worse than the Index while the tracking error indicates consistency in the difference in performance of the Fund and the Reference Index.

ISIN	Name of Exchange Traded Fund	Tracking error estimate for the period	Realized tracking error (daily observations)	Realized tracking error (weekly observations)
BG9000011163	Expat Bulgaria SOFIX UCITS ETF	Up to 10%	4.72%	6.26%

ISIN	Name of Exchange Traded Fund	Returns of ETF since incorporation*	Returns of Index**	Difference in tracking
BG9000011163	Expat Bulgaria SOFIX UCITS ETF	12.6%	24.1%	-11.5%

\*Expat Bulgaria SOFIX UCITS ETF" publishes net value of its assets since September 2016. Returns since incorporation represent returns for the period September- December 2016.

\*\*Returns of the index represent the returns of SOFIX Index for the period September-December 2016.



The difference in tracking is due to the short period of existence of exchange traded fund and the effect of the launch of the Fund on the market, the tracked index, respectively.

The realized tracking error for the period has been calculated on the basis of daily averages of statistical standpoint to ensure more than 30 observations that weekly data do not provide.



Sofia, Bulgaria, 23 Al. Malinov Blvd., CITY POINT Business Centre, 3rd fl., office 7

To the Shareholders of  
"Expat Bulgaria SOFIX UCITS ETF"

**INDEPENDENT AUDITOR'S REPORT**  
**Referring to the audit of financial statements**

**Opinion**

We have audited the individual financial statements of "Expat Bulgaria SOFIX UCITS ETF" (the **Fund**), which comprise the Balance sheet as of 31 December 2016, Statement of Profit and Loss and other comprehensive income, Statement on changes in equity and Cash flow statement for the year then ended, explanatory notes to the financial statements and a summary disclosure of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of "Expat Bulgaria SOFIX UCITS ETF" as of 31 December 2016 and its financial results and cash flow for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

**Basis for expressing opinion**

We conducted our audit in accordance with the requirements of International Standards on Auditing (ISA). Our responsibilities under these standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Fund in accordance with the international Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), along with the ethical requirements of the Independent Financial Audit Act (IFAA), applicable to our audit of the financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IFAA and the IESBA Code. We believe that the audit evidences we have obtained are sufficient and appropriate to provide a basis for our opinion.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters are addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

See Annex "Current financial instruments to the financial statements".

<b>Key audit matter</b>	<b><i>How this key audit matter was addressed in the audit conducted by us</i></b>
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<p><i>In the course of our work we determined the financial assets of the Fund disclosed in the financial statements amounting to BGN 20 797 thousand as an essential object of the audit.</i></p> <p><i>Due to the dependence of the Fund liquidity of change in stock prices of the financial assets and the intensity of redemption, this is one of the key areas of judgment in our audit.</i></p> <p><i>Material to the financial statements are transactions on issue of shares of the Fund and correct reporting of information provided to the shareholders.</i></p>	<p><i>In this area, our audit procedures included testing of internal control over measurement of financial assets.</i></p> <p><i>We have compared the confirmation by the Custodian of the Fund for adequacy of the analytical information about the financial assets of the Fund.</i></p> <p><i>We have confirmed the value of securities based on stock exchange data to 31 December 2016.</i></p> <p><i>We have investigated changes in the market prices for the period 1 January - 16 March 2017 and established an increase in the securities fair value.</i></p> <p><i>In this area, our procedure included confirmation of data from the accounting registers of the Fund with the information from the Central Depository.</i></p>
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**Information other than financial statements and the auditor's report thereon**

Management is responsible for the other information. The other information comprises report on the activity, including corporate governance statement (optional for the Fund pursuant to BSE Rules), non-financial statement (optional for the Fund pursuant to Art. 41 of the Accounting Act) and report on payments to governments (optional for the Fund pursuant to article 53 par. 3 of the Accounting Act) prepared by management in accordance with Chapter VII of the Accounting Act, but does not include the financial statements and our audit report thereon, which we received prior to the date of our audit report.

Our opinion on the financial statements does not cover other information and we do not express any form of assurance conclusion thereon, unless explicitly stated in our report and to the indicated extent.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, to consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise 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 and those charged with governance for the financial statements**



The Management is responsible for preparing and presenting these financial statements in compliance with the International Financial Reporting Standards applicable in the EU and for implementing such a system of internal control as Management thinks fit so as to ensure that the financial statements are free from material misstatements, whether caused by fraud or error.

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

Those in charge of governance are responsible for supervising the process of the financial reporting of the Fund.

### **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 the Independent Financial Audit Act and ISAs 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 the audit in accordance with ISA, we use professional judgment and maintain professional scepticism 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 to the auditor, and neglecting or overriding the internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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 so that the financial statements give a true and fair view.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the issues communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on Other Legal and Regulatory Requirements**

#### ***Additional matters to be reported pursuant to the Accounting Act and the Public Offering of Securities Act***

In addition to our responsibilities and reporting under ISA described above in "Information other than the financial statements and the auditor's report thereon" section in terms of management report, the corporate governance statement, non-financial statement and report on payments to governments, we have fulfilled also the procedures added to the required procedures under ISA as instructed by the professional organization of Certified Public accountants and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA) issued on 29.11.2016 /approved by its Board on 29.11.2016. These procedures refer to verification of the presence and verification of the form and content of such other information to help us in forming opinions about whether the other information includes disclosures and reports provided for in Chapter Seven of the Accounting Act and the Public Offering of Securities Act (Art. 100n, para. 10 of POSA in connection with art. 100n, para. 8, item 3 and 4 of POSA) applicable in Bulgaria.

#### ***Opinion in connection with Art. 37 para 6 of the Accounting Act***

Based on procedures performed, our opinion is that:

- a) The information included in the activity report for the fiscal year for which the financial statements are prepared is consistent with the financial statements.
- b) The activity report was prepared in accordance with the requirements of Chapter Seven of the Accounting Act and Art. 100 (n), para. 7 of the Public Offering of Securities Act.
- c) In accordance with the BSE Sofia Rules issuers willing to be admitted to trading on the BSE Main market, Premium Equities Segment are obliged to operate in accordance with the National Corporate Governance Code, approved by the Exchange. The good corporate governance rules are disclosed in the Fund's Prospectus.
- d) Non-financial statement for the fiscal year for which financial statements are prepared does not apply to the Fund.

e) The report on payments to governments for the fiscal year for which financial statements are prepared does not apply to the Fund in accordance with the requirements of Chapter Seven of the Accounting Act.

*Opinion in connection with Art. 100 (n), para 10 in conjunction with Art. 100 n, para. 8, item 3 and 4 of the Public Offering of Securities Act*

Based on the procedures performed and the obtained knowledge and understanding of the enterprise and the environment in which it operates, in our opinion, the description of the main features of the internal control and risk management systems of the enterprise in connection with the financial reporting process, which is part of the activity report (as part of the contents of the corporate governance statement) and the information under Art. 10, para 1, letters "c", "d", "e", "h" and "i" of Directive 2004/25 / EC of the European Parliament and the Council dated 21 April 2004 on takeover bids (not applicable) do not contain any material misstatements.

***Additional reporting referring to the audit of the financial statements in connection with Art. 100 (n), para. 4, item 3 of the Public Offering of Securities Act'***

*Statement in connection with Art. 100 (n), para. 4, item 3, letter "b" of the Public Offering of Securities Act*

The information about related party transactions is disclosed in Paragraph Management Company and related parties of disclosure information to the financial statements. Based on the audit procedures performed by us on related party transactions as part of our audit of the financial statements as a whole, no facts, circumstances or other information have come to our attention based on which to conclude that the related party transactions have not been disclosed in the accompanying financial statements for the year ended 31 December 2016 in all material respects, in accordance with the requirements of IAS24 Related Party Disclosures. The results of our audit procedures on related party transactions were addressed by us in the context of forming our opinion on the financial statements as a whole and not for the purpose of expressing a separate opinion on related party transactions.

*Statement in connection with Art. 100(n), paragraph 4, item 3 letter "c" of the Public Offering of Securities Act*

Our responsibilities for the audit of the financial statements as a whole, described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report include an evaluation as to whether the financial statements present the significant transactions and events in a manner that achieves fair presentation. Based on the audit procedures performed by us on the significant transactions underlying the financial statements for the year ended 31 December 2016, no facts, circumstances or other information have come to our attention based on which to conclude that there are material misrepresentations and disclosures in accordance with the relevant requirements of IFRSs as adopted by the European Union. The results of our audit procedures on Fund's transactions and events significant for the financial statements were addressed by us in the context of forming our opinion on the financial statements as a whole and not for the purpose of expressing a separate opinion on those significant transactions.

<sup>1</sup> The proposed additional reporting referring to the audit of the financial statements in connection with Art. 100 (n), para. 4, Item 3 of the Public Offering of Securities Act is subject to discussion with the parties involved.

**Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in conjunction with the requirements of Art. 59 of the Law for the Independent Financial Audit**

In accordance with the Law for the Independent Financial Audit requirements, in conjunction with Art. 10 of Regulation (EU) No 537/2014, we report additionally and the following information.

- CPA Emilia Gyurova was appointed as statutory auditor of the financial statements for the year ended December 31, 2016 of “**Expat Bulgaria SOFIX UCITS ETF**” **Exchange Traded Fund** (“the Fund”) by the Management Company Expat Asset Management AD for a period of one year.
- The audit of the financial statements for the year ended December 31, 2016 of the Fund represents the first in sequence comprehensive continuous commitment to statutory audit of that undertaking conducted by us.
- We confirm that we have expressed an opinion in accordance with the additional report submitted to the Audit Committee of the Fund, in accordance with Art. 60 of the Law for the Independent Financial Audit.
- We confirm that we did not provide the referred to in Art. 64 of the Law for the Independent Financial Audit prohibited services outside the audit.
- We confirm that in conducting the audit we have maintained our independence from the Fund.
- For the period that our statutory audit refers to, except for the audit, we have not provided other services to the Fund [and to controlled by Fund undertakings] which were not mentioned in the activity report or the financial statements of the Fund:

Under the requirements of the Public Offering of Securities Act in connection with Art. 100n, we report additionally the following information.

- The financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets and liabilities, financial position and profit or loss of the issuer.
- The information referring to related party transactions is properly communicated and disclosed in accordance with the applicable accounting standards.
- The information referring to significant transactions of the public company for the given reporting period is properly disclosed in the notes to the financial statements.

Emilia Gyurova,  
17.03.2017

REGISTERED AUDITOR 0590, CPA  
Signature: /illegible/

Sofia

**INDIVIDUAL STATEMENT OF FINANCIAL POSITION**

Name of the Collective Investment Scheme:  
 Expat Bulgaria SOFIX UCITS ETF  
 Fiscal year: 01.01.2016 - 31.12.2016

BULSTAT Unified Identification Code: 177067176

	31.12.2016	31.12.2015
	BGN'000	BGN'000
<b>Non-current assets</b>		
Non-current financial assets	0	
Fixed assets		
<b>Total Non-current assets</b>	<u>0</u>	<u>0</u>
<b>Current assets</b>		
Non-current financial assets	20 797	
Receivables and prepaid expense	0	
Cash and cash equivalents	4 686	
<b>Total Current assets</b>	<u>25 483</u>	<u>0</u>
<b>Off-balance sheet assets</b>	27	
<b>Total assets</b>	<u>25 510</u>	
<b>Equity</b>		
Share capital	22 630	
<b>Reserves</b>	2 386	
Retained earnings	465	
<b>Total capital</b>	<u>25 481</u>	<u>0</u>
<b>Current liabilities</b>		
Payables to third party	2	
Payables related to the issuance of shares		
<b>Total current liabilities</b>	<u>2</u>	<u>0</u>
<b>Total equity and liabilities</b>	<u>25 483</u>	<u>0</u>
<b>Off-balance liabilities</b>	27	
<b>Total liabilities</b>	<u>25 510</u>	
<b>Units in issue as of 31.12.2016</b>	<u>22 630 000</u>	
<b>NAV per share as of 31.12.2016</b>	<u>1.1260</u>	

**INDIVIDUAL STATEMENT OF COMPREHENSIVE INCOME**

Name of the Collective Investment Scheme: Expat Bulgaria  
 SOFIX UCITS ETF  
 Fiscal year: 01.01.2016 - 31.12.2016

BULSTAT Unified Identification  
 Code: 177067176

	Year ended December 31, 2016	Year ended December 31, 2015
	BGN'000	BGN'000
<b>Continuing operations</b>		
Financial income	1 382	
Other revenues from continuing operations		
<b>Total revenues from continuing operations</b>	<b>1 382</b>	<b>0</b>
Materials		
External services	43	
Employees		
Financial expenses	874	
<b>Total expenses by economic elements</b>	<b>917</b>	<b>0</b>
<b>Profit/(Loss) before taxes</b>	<b>465</b>	<b>0</b>
Deferred tax income/expense		
<b>Net profit/(loss) from continuing operations</b>	<b>465</b>	
Other comprehensive income and expenses - share issuance/redemption reserves	2 386	0
<b>Total comprehensive income</b>	<b>2 851</b>	

## INDIVIDUAL STATEMENT OF CASH FLOWS

Name of the Collective Investment Scheme: Expat Bulgaria SOFIX UCITS ETF

BULSTAT Unified  
Identification Code:  
177067176

Fiscal year: 01.01.2016 - 31.12.2016

	Period from 19.08.2016 to 31.12.2016	Year ended December 31, 2015
	BGN'000	BGN'000
Cash and cash equivalents at the beginning of the year	0	0
<hr/>		
<b>Cash flows from operating activities</b>		
Proceeds from share issue/payment for share redemption	-33	
Payment to creditors		
Cash flows from investing activities	4 719	
Paid direct and indirect taxes	0	
<b>Net cash flows from operating activities</b>	<b>4 686</b>	
<hr/>		
<b>Net increase/(net decrease) in cash and cash equivalents</b>	<b>4 686</b>	<b>0</b>
<hr/>		
Cash and cash equivalents at the end of the year	4 686	0
<hr/> <hr/>		

**INDIVIDUAL STATEMENT OF CHANGES IN EQUITY**

Name of the Collective Investment Scheme: Expat Bulgaria  
SOFIX UCITS ETF

Fiscal year: 01.01.2016 - 31.12.2016

BULSTAT Unified Identification  
Code: 177067176

	Share capital	Premium reserve	Total reserve	Profit/(Loss)	Total capital
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<b>Balance as of 01.01.2015</b>					
Total comprehensive income for the period					
Profit for the year					
Issuance/Redemption Increase/Decrease					
<b>Balance as of 31.12.2015</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
Issuance/redemption	22 630				22 630
Profit for the year				465	465
Issuance reserve/Redemption reserve		2 386	0	0	2 386
<b>Balance as of 31.12.2016</b>	22 630	2 386	0	465	25 481



## NOTES TO THE FINANCIAL STATEMENTS AS OF 31.12.2016

**“Expat Bulgaria SOFIX UCITS ETF”**, city of Sofia (“Expat Bulgaria SOFIX UCITS ETF”, or “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 (ACISOCIVA), the Public Offering of Securities Act (POSA) and the regulations for its implementation, the Markets in financial instruments Act (MFIA), the Law on obligations and contracts (LOC) and the other applicable laws of the Republic of Bulgaria. The Fund’s property is divided into shares that are constantly changing depending on the volume of sales and redemption of shares. The Mutual Fund is not a legal entity and is organized and managed by a Management Company that makes all decisions regarding the existence, operation and termination of the Fund.

The Fund is organized by resolution No. 158/ 01.07.2016 of the Board of Directors of MC "Expat Asset Management" EAD and is considered to have been incorporated with its entry in the register of the Financial Supervision Commission ("the Commission") on 23.08.2016 under authorization No. 156. The Fund operates under the permanent supervision of the Commission. The Fund is having the following address: city of Sofia, 96A, G. S. Rakovski Str., phone: (+359 2) 980 1881, fax: (+359 2) 980 7472, e-mail: [office@expat.bg](mailto:office@expat.bg), website: [www.expat.bg](http://www.expat.bg). The Fund is not limited by a validity period.

The Management Company of the Fund is Expat Asset Management EAD, with registered office and address: city of Sofia, 96A, GS Rakovski Str., phone: (+359 2) 980 1881, fax: (+359 2) 980 7472, e-mail: [office@expat.bg](mailto:office@expat.bg), website: [www.expat.bg](http://www.expat.bg). The Management Company is not limited by a validity period.

Custodian of the Fund is “Eurobank Bulgaria” AD, with registered office and address: city of Sofia, 260, Okolovrasten pat Str., phone: (+ 359 2) 816 6215; fax: (+ 359 2) 988 8191; e-mail: [custody@postbank.bg](mailto:custody@postbank.bg), website: [www.postbank.bg](http://www.postbank.bg). The Custodian shall keep the assets of “Expat Bulgaria SOFIX UCITS ETF”, exercise control on its operations and calculate the Fund’s net asset value.

The enclosed Financial statements were approved by the Board of Directors of the MC “Expat Asset Management” EAD for presentation on 28.01.2016

### 1. INVESTMENT INFORMATION

#### Investment Objectives

The investment objective of the Fund is to track the performance of the SOFIX index (“Reference index”, “the Index”), by adhering to the method of full physical replication while mitigating the tracking error level.

There can be no assurance that “Expat Bulgaria SOFIX UCITS ETF” will accomplish its investment objectives.

#### Investment Strategy and Policy



In order to reach the highest possible correlation with the performance of the Reference Index, the Fund will follow the model of full physical replication, which means that it will invest mainly in a basket of balance sheet assets comprised of shares of companies in the Reference Index. As a Fund of direct replication “Expat Bulgaria SOFIX UCITS ETF” may not invest with the exact weight of the given company in the Reference Index.

In addition to shares of companies in the index, “Expat Bulgaria SOFIX UCITS ETF” can also invest in bank deposits and securities, and in money market instruments in compliance with its Rules.

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

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) which comprise financial reporting standards and interpretations of the International Financial Reporting Interpretations Committee of IFRS (IFRIC) as approved by the International Accounting Standards Board (IASB) and the International accounting standards and interpretations of the Standing Interpretations Committee (SIC), approved by the International Accounting Standards Committee (IASC), which are effectively in force as of 1 January 2005 and adopted by the European Union and promulgated for implementation in Bulgaria in Bulgarian language, the commonly spoken language in the country.

The preparation of the financial statements in accordance with IFRS requires the management to make estimates and assumptions that affect the carrying value of assets and liabilities at the balance sheet date and the amount of income and expenses over the reporting period as well as the disclosure of contingent assets and liabilities. Although these estimates are based on the most accurate judgment of the management on current events and the information available at the date of issue of the financial statements, the future actual results may differ from the estimates. No corrective events have occurred since the date of preparation of the financial statements.

### Functional Currency

The functional and reporting currency of the Fund is Bulgarian Lev (BGN). With the introduction of the Euro, BGN is fixed at a rate of BGN 1.95583/ EUR 1.

Cash is available in the bank account as at 31.12.2016.

## **3. DETERMINATION OF FUND'S NET ASSET VALUE**

Net asset value per share is the basis for determining the issue value and the redemption price of the shares. The net asset value of the Fund is calculated by deducting the amount of the liabilities from the total amount of the assets.

The net asset value and net asset value per share are determined each day of the week and published on the day of the revaluation which is the business day following the revaluation date.

## **4. INCOME AND EXPENSES RECOGNITION POLICY**

Income is accrued upon receipt of information from Custodian.

Expenses are reported by economic factors and are accrued on the following basis:

- For financial expenses – upon receipt of information from Custodian.
- For the Management Company's expenses - on a daily basis based on the Fund's assets value.

*Financial income and expenses are included* in the income statement, reported net and consist of: interest income and expenses, fees also for transactions with financial assets.

#### 4.1. Income

Main sources of financial income of the Fund are:

- Income from depreciation of financial assets;
- Profit from sale of financial assets;
- Interest income;
- Dividend income.

### 5. MANAGEMENT COMPANY AND RELATED PARTIES

Expat Capital AD holds the majority of the capital of MC Expat Asset Management EAD. BD members have no special rights to acquire stocks and bonds of the company.

#### **Related parties to the Management Company:**

- Expat Group EOOD – stockholder, owner of 45.02% of the capital of Expat Capital AD;
- Dextra Investments EAD – stockholder, owner of 20.02% of the capital of Expat Capital AD;
- Dar Finance EOOD – stockholder, owner of 34.96% of the capital of Expat Capital AD
- Expat Capital AD – single owner of the capital of Expat Asset Management EAD.

The interest of BD members in commercial companies as unlimited liability partners, the holding of more than 25 per cent of the capital in another company, as well as their participation in the management of other companies or co-operatives, such as procurement holders, managers or Board Members are listed below:

**Nikola Simeonov Yankov** (BD member of MC Expat Asset Management EAD) is related to the following legal entities:

- Grenada OOD – manager and partner;
- Zonata AD – representative and BD member;
- Simol EAD – representative and BD member;
- Expat Capital AD – representative and BD member;
- Dextra Investments EAD – stockholder, representative and BD member;
- Expat Alpha AD – representative and BD member;
- Eminent EOOD – manager and single owner of the capital;
- Sunshine Family Trust AD – BD member and managing director.

**Nikolay Vassilev Vassilev** (Managing director and BD member of MC Expat Asset Management EAD) is related to the following legal entities:

- Expat Group EOOD – single owner of the capital;
- Expat Capital AD – representative and BD member;
- Expat Alpha AD – representative and BD member.

**Marina Plamenova Todorova** (BD member of MC Expat Asset Management EAD) is related to the following legal entities:

- Expat Beta SPV – BD member;
- Expat Alpha AD – BD member.

**Maria Dimitrova Boychinova** (BD member of MC Expat Asset Management EAD) is related to the following legal entities:

- Expat Beta SPV – BD member.

There are no contracts throughout the year concluded with BD members under Art. 240b of the Commercial Act.

There are no transactions closed with related parties throughout the year except for purchase and sale of shares on a regulated stock market.

As of 31.12.2016 the capital of Expat Capital AD - sole owner of the capital of Expat Asset Management EAD, consists of two types of stocks: a) 1 276 800 (one million two hundred seventy-six thousand and eight hundred) ordinary registered voting stocks; and b) 60,000 (sixty thousand) preferred registered non-voting stocks distributed among the stockholders as follows:

Stockholders	Voting stocks		Non-voting stocks	
	number	%	number	%
"Expat Group" EOOD	574 800	45.02	0.00	0.00
"Dar Finance" EOOD	446 400	34.96	0.00	0.00
"Dextra Investments" AD	255 600	20.02	0.00	0.00
"Expat Capital" AD	0.00	0.00	60 000	100.00
Total	1 276 800	100.00	60 000	100.00

## 6. FINANCIAL ASSETS

**Initial recognition** - when the Fund becomes a party to the contractual provisions of the instrument. Upon initial recognition of a financial asset or financial liability, the Fund recognizes them at their fair value. The Fund recognizes the following financial assets:

- financial assets at fair value in profit or loss, showing separately: (i) designated as such at initial recognition; and (ii) classified as held for trading in accordance with IAS 39;
- available-for-sale financial assets.

Standardized (regular way purchases) of financial assets are initially recognized using the settlement date accounting under IAS 39.

For the purposes of measurement of financial assets subsequent to initial recognition, financial assets are classified into the following four categories:

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

Subsequently to initial recognition, the entity shall measure financial assets, including derivatives that are assets, at their fair value through profit or loss, without deducting transaction costs that could incur in sale or other disposal, except for the following types of assets:

- loans and receivables that are measured at amortised cost using the effective interest method;
- held-to-maturity investments that are measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

## 7. RISK PROFILE AND RISK MANAGEMENT

### Risk profile

**Risk profile of investment and risk factors.** Investing in Fund's shares is associated with high risk as "Expat Bulgaria SOFIX UCITS ETF" will mainly invest in stocks which traditionally are associated with a higher risk level. The main risks of investing in shares of "Expat Bulgaria SOFIX UCITS ETF" are:

#### *Market risk*

The possibility of loss occurring due to adverse changes in the securities prices, market interest rates, exchange rates and other. This market risk affects the net asset value of the ETF which will also fluctuate as a result of changes in the market prices of the equities and other securities in which the ETF has invested.

#### *Extreme market movements*

The market price of the financial instruments in which the Fund invests may fluctuate due to changes in the economic and market environment, the monetary policy of the central banks, the business activity of the issuers, the industry in which the issuer operates and the demand and supply on the stock market. At certain times, the market price of the Fund units on the stock exchange may fluctuate substantially. In the event of significant movements of the Index incl. large daily movements, the performance of the Fund may depart from its investment objectives. The

valuation of the Fund will fluctuate as a result of changes in the price of the Fund's assets and the Reference Index.

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

The fund follows a passive investment strategy, i.e. it is not actively managed. As a result, the Management Company will not change the composition of the portfolio, except to follow closely the total return of the Reference Index. The Fund is not trying to outperform the market and does not take defensive positions when the market falls or is considered overvalued. Therefore, a decline in the Reference Index may lead to a decline in the value of the Fund's assets.

#### *Liquidity risk*

The risk associated with the possibility of losses or missed profits by mandatory or forced sales of assets in adverse market conditions (such as low demand in the presence of oversupply).

#### *Purchase and redemptions*

If the purchase and redemption orders for Fund units are received late or do not meet the requirements in the Prospectus and the Fund Rules, there will be a delay between the time of placing the order and the actual date on which the purchase or redemption is executed. Such delays may lead to a decrease in the number of units purchased or amounts received from redemptions.

#### *Trading on a stock exchange*

There can be no guarantees that the Fund will be approved for trading on a regulated market and/or that units of the Fund will continue to be traded or that the criteria for admission to trading will not change. Moreover, trading of the units on a stock exchange may be suspended under the rules of the respective exchange due to market conditions, and investors may not be able to sell their units until trading resumes.

#### *Regulatory risk*

The Prospectus has been prepared in compliance with the 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 could prevent or significantly limit the Fund's ability to invest in certain instruments. They could also prevent the signing of agreements with certain third parties. This may affect the ability of the Fund to fulfil the respective investment objectives and policies. Applying such new or modified laws, rules and regulations could lead to an increase of all or some of the Fund's costs and may require the restructuring of the Fund, in order to meet the new rules. Such a restructuring may include restructuring costs. When restructuring is not possible, the Fund may proceed to termination. The assets of the Fund and the Reference Index are subject to change in laws or regulations and/or such changes might affect their value and/or liquidity.

#### *Operational risk*

It is associated with the potential of loss resulting from errors or system failures in the organization, insufficiently qualified personnel, unfavourable external events that are not financial in nature, incl. legal risk.

#### *Tracking error risk*

Tracking the Reference Index by investing in all positions in the index can be costly and difficult to implement. The portfolio manager may use optimization techniques such as selection of individual positions in the Index in proportions that differ from those in the Index. The use of such optimization techniques can increase the tracking error and lead to a different performance of the Fund compared to that of the Index. Furthermore, existing restrictions or future changes in laws and regulations of the Fund about, but not limited to, the composition, concentration and method of assets valuation can lead to the inability of the Fund to replicate the Index in full. Also, exchange-traded funds in markets characterized by low liquidity may be exposed to a higher tracking error.

#### *Reference Index*

If there is an event that affects the Index, the Fund may be required to suspend the issuance and redemption of units. The valuation of the Fund may also be affected. In case of continuing problems with the Index, the Fund will take appropriate actions, which may reduce the net asset value of the Fund.

#### *Systemic risks*

Systemic risks depend on general fluctuations in the economy and the markets in general. The Fund cannot influence the systemic risks but registers them and takes them into account. Risks arising from the political and economic situation are possible instability or military actions in the region. Disasters and accidents are factors complicating any system of risk management. The consequences are hard to predict, but access to information and the implementation of a system for forecasting and actions in extreme situations are possible ways to mitigate the negative effects.

### **8. RELATIONSHIP WITH THE MANAGEMENT COMPANY**

Payments to the Management Company "Expat Asset Management" EAD are effected pursuant to signed contracts and represent:

- Remuneration under contract for management of the operations of "Expat Bulgaria SOFIX UCITS ETF".
- Expenses on issue and redemption of stocks of "Expat Bulgaria SOFIX UCITS ETF"

### **9. STATEMENTS OF THE MANAGEMENT**

No payments to government have been effected by the Fund during the reporting period that exceed BGN 195 600 as one-off payment or series of related payments.

The management of the Fund declares that, to the best of its knowledge and belief, the financial statements prepared in accordance with the applicable accounting standards fairly reflect the information about the assets and liabilities, the financial position and profit or loss.

**Enclosure 2: Notes to the Financial statements:**

**Expat Bulgaria SOFIX UCITS ETF**

FINANCIAL INSTRUMENTS	NUMBER	31.12.2016 BGN'	Change in fair value per unit
Advance Terrafund REIT	1 134 997	2 372 143.73	0.052
Albena AD	22 348	1 373 284.60	6.290
Industrial Capital Holding	144 922	633 598.98	0.672
Industrial Holding Bulgaria AD	1 259 226	1 284 410.52	0.100
M+C Hydraulic AD	211 516	1 405 946.85	1.347
Monbat AD	188 985	1 825 595.10	1.988
Neochim AD	17 624	1 050 390.40	1.100
First Investment Bank AD	416 742	1 396 085.70	0.935
Sopharma AD	858 997	2 559 811.06	0.025
Stara Planina Holding AD	206 400	1 339 536.00	1.659
Trace group Hold АД	31 521	165 800.46	(0.040)
Bulgarian Real Estate Fund REIT	581 341	1 317 900.05	0.301
Chimimport AD	1 796 983	3 000 961.61	0.318
Varna Holding AD	2 502	82 563.50	4.899
Central Cooperative Bank AD	646 690	989 435.70	0.470
		20 797 464.26	

**CASH**

	31.12.2015 BGN	31.12.2016 BGN'
Cash in bank accounts, BGN	0	4 686 000
Cash in deposits	0	0
	0	4 686 000

Note: Fund's cash is presented net of the funds of the Management company available as at 31.12.2016 and amounting to BGN 26 656.

**RECEIVABLES**

	31.12.2015 BGN	31.12.2016 BGN'
Receivables from interest		
Receivables from transactions with securities		
Receivables from dividends		
	0	0

**EQUITY**

	31.12.2015 BGN	31.12.2016 BGN'
Shares par value		22 630 000
Premiums on issue of shares		2 386 192
Profit for the period		464 788



		25 480 980
<b>CURRENT LIABILITIES</b>		
	31.12.2015 BGN	31.12.2016 BGN'
To the Management company		0
To Custodian		789
To Financial broker		1 697
		2 486

<b>FINANCIAL INCOME</b>		
	31.12.2015 BGN	31.12.2016 BGN'
Dividend income		0
Income from transactions with financial assets, including:		1 402 940
Interest income		895
Income related to currency transactions		299
	0	1 404 134

<b>FINANCIAL EXPENSES</b>		
	31.12.2015 BGN	31.12.2016 BGN'
Loss from transactions with financial assets, including:		831 388
Expenses related to currency transactions		21
Other		65 341
	0	896 750

<b>OTHER EXPENSES</b>		
	31.12.2015 BGN	31.12.2016 BGN'
Expenses for outsourcing	0	42 596

No payments to government have been effected by the Fund during the reporting period that exceed BGN 195 600 as one-off payment or series of related payments.

The management of the Fund declares that, to the best of its knowledge and belief, the financial statements prepared in accordance with the applicable accounting standards fairly reflect the information about the assets and liabilities, the financial position and profit or loss.

