

**Exchange-traded fund**  
**Expat Hungary BUX UCITS ETF, ISIN BGHUBUX01189**  
**Interim condensed financial statements**  
**for the six-month period ended 30 June 2020**

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**Interim Management report of  
exchange-traded fund  
Expat Hungary BUX UCITS ETF  
for the six-month period ended 30 June 2020**

Expat Hungary BUX 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 (CISOUCIA), 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 CISOUCIA 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 changes in the management and the members of the Board of Directors of the MC Expat Asset Management EAD. Nikola Veselinov was dismissed from the Board of Directors in January 2020, followed by Maria Boychinova in March 2020. No new members of the Board have been selected. As of 30.06.2020 the Board of Directors is composed of Nikolay Vassilev, Nikola Yankov, and Daniel Donchev.

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

*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 Hungary BUX 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 (CISOUCIA), 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 Hungary BUX UCITS ETF  
for the six-month period ended 30 June 2020  
(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 2020</b>	<b>Tracking error as of 30 June 2020</b>
BGHUBUX01189	Expat Hungary BUX UCITS ETF	Up to 10%	13.36%*

<b>ISIN</b>	<b>Name of the exchange-traded fund</b>	<b>ETF return for the first half of 2019</b>	<b>Index return for the first half of 2019 including dividends</b>	<b>Tracking difference for the first half of 2019</b>
BGHUBUX01189	Expat Hungary BUX UCITS ETF	(18.97)%	(28.06)%	9.09%

\*The realized tracking error has been calculated on the basis of weekly values for the 52 weeks preceding 30 June 2020. Due to high volatility of the financial markets caused by the COVID-19 pandemic, the tracking error is over 10%.

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 July 2020

Approved by: Nikolay Vassilev  
Chief Executive Officer

Approved by: Daniel Donchev  
Member of the Board of Directors

# Report on Review of Interim Financial Information

## To the unit holders

### In Exchange-traded fund

### Expat Hungary BUX UCITS ETF

#### **Introduction**

We have reviewed the accompanying condensed statement of financial position of Exchange-traded Fund Expat Hungary BUX UCITS ETF ("The Fund") as of June 30<sup>th</sup>, 2020 and the related condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended.

#### **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 Accounting Standard 34 "Interim Financial Reporting".

#### **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 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Audit Firm Ernst & Young Audit OOD:



Nikolay Garnev

Legal Representative and  
Registered Auditor

Sofia, Bulgaria

30 July 2020

## Condensed Statement of Comprehensive Income

For the period ended 30 June

<i>In thousands of BGN</i>	Notes	1 January 2020 – 30 June 2020	1 January 2019 – 30 June 2019
Income	3	8	4
Net loss on financial assets at fair value through profit or loss	6	(148)	(1)
Net foreign exchange loss		(52)	(1)
Operating expenses	4	(9)	(4)
<b>Operating loss for the period</b>		<b>(201)</b>	<b>(2)</b>
Tax expenses	9	-	-
<b>Loss for the period</b>		<b>(201)</b>	<b>(2)</b>
Other comprehensive income		-	-
<b>Total comprehensive income/(loss) for the period</b>		<b>(201)</b>	<b>(2)</b>
<b>Basic earnings per share</b>			
Basic losses per share (in BGN)	8	(0.322)	(0.018)

Date: 30 July 2020

Approved by: Nikolay Vassilev  
Chief Executive Officer



Prepared by: Tatiana Lazarova  
Head of Accounting



Approved by: Daniel Donchev  
Member of the Board of Directors



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

## Condensed Statement of Financial Position

<i>In thousands of BGN</i>	<b>Notes</b>	<b>At 30 June 2020</b>	<b>At 31 December 2019</b>
<b>Assets</b>			
Cash and cash equivalents	5	488	553
Financial assets at fair value through profit or loss	6	849	154
Other receivables		-	-
<b>Total assets</b>		<b>1 337</b>	<b>707</b>
<b>Equity</b>			
Share capital		1780	763
Share premium		(236)	(50)
Accumulated losses		(208)	(7)
<b>Total equity</b>	7	<b>1 336</b>	<b>706</b>
<b>Liabilities</b>			
Trade and other payables		1	1
<b>Total liabilities</b>		<b>1</b>	<b>1</b>
<b>Total equity and liabilities</b>		<b>1 337</b>	<b>707</b>

Date: 30 July 2020

Approved by: Nikolay Vassilev  
Chief Executive Officer



Prepared by: Tatiana Lazarova  
Head of Accounting



Approved by: Daniel Donchev  
Member of the Board of Directors



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



## Condensed Statement of Changes in Equity

<i>In thousands of BGN</i>	Notes	Share capital	Share premium	Accumulated losses	Total capital
<b>Balance at 1 January 2019</b>		<b>235</b>	<b>(19)</b>	<b>(14)</b>	<b>202</b>
<b>Comprehensive income</b>					
Loss for the period		-	-	(2)	(2)
<b>Total comprehensive income</b>		-	-	<b>(2)</b>	<b>(2)</b>
<b>Issue and redemption of own shares by equity holders</b>					
Issue of shares		-	-	-	-
<b>Issue and redemption of own shares by equity holders</b>		-	-	-	-
<b>Balance at 30 June 2019</b>	7	<b>235</b>	<b>(19)</b>	<b>(16)</b>	<b>200</b>
<b>Balance at 1 January 2020</b>		<b>763</b>	<b>(50)</b>	<b>(7)</b>	<b>706</b>
<b>Comprehensive income</b>					
Loss for the period		-	-	(201)	(201)
<b>Total comprehensive income</b>		-	-	<b>(201)</b>	<b>(201)</b>
<b>Income from issue and redemption of own shares by equity holders</b>					
Issue of shares		1134	(216)	-	918
Redemption of own shares		(117)	30	-	(87)
<b>Total income from issue and redemption of own shares by equity holders</b>		<b>1017</b>	<b>(186)</b>	-	<b>831</b>
<b>Balance at 30 June 2020</b>	7	<b>1780</b>	<b>(236)</b>	<b>(208)</b>	<b>1336</b>

Date: 30 July 2020

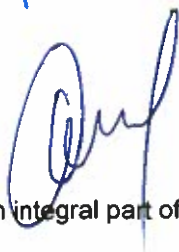
Approved by: Nikolay Vassilev  
Chief Executive Officer



Prepared by: Tatiana Lazarova  
Head of Accounting



Approved by: Daniel Donchev  
Member of the Board of Directors



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

## Condensed Statement of Cash Flows

For the period ended 30 June

In thousands of BGN

	Notes	1 January 2020 – 30 June 2020	1 January 2019 – 30 June 2019
<b>Cash flows from operating activities</b>			
Received dividends		8	1
Payments related to financial assets at fair value through profit or loss		(890)	-
Payments to suppliers for operating activities		(7)	(4)
Other cash flows from operating activities		(6)	
<b>Net cash flows used in operating activities</b>		<b>(895)</b>	<b>(3)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		918	-
Payment to suppliers for financing activities		(87)	-
Other payments for financing activities		(1)	
<b>Net cash flows from financing activities</b>		<b>830</b>	<b>-</b>
<b>Net change in cash and cash equivalents</b>		<b>(65)</b>	<b>(3)</b>
Cash and cash equivalents at 1 January		553	73
<b>Cash and cash equivalents at 30 June</b>	5	<b>488</b>	<b>70</b>

Date: 30 July 2020

Approved by: Nikolay Vassilev  
Chief Executive Officer



Prepared by: Tatiana Lazarova  
Head of Accounting



Approved by: Daniel Donchev  
Member of the Board of Directors

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

## Notes to the Interim condensed financial statements

### 1. Corporate information

Expat Hungary BUX 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 177241246. The address of the management of the Fund and the Management Company is Sofia, zip code 1000, 96A Georgi S. Rakovski Str.

Expat Hungary BUX UCITS ETF is a passively managed exchange-traded fund which follows the model of full physical replication of the 'BUX' index. The Fund is listed on the Bulgarian Stock Exchange – Sofia as well as on the Frankfurt Stock Exchange (XETRA) with the ticker HUBE. 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.

Fund's units can be redeemed by investors at demand. Since the Fund has no own management body, the Board of Directors of the management company are entitled with the management of the Fund.

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

#### (a) Statement of compliance

These interim condensed financial statements for the six-month period ended 30 June 2020 are prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting. The interim financial statements do not include all information and disclosures required for the preparation of the annual financial statements and should be considered along with the Fund's annual financial statements at 31 December 2019.

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.

#### (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.

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

### (d) Use of judgements and estimates (continued)

#### **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 7 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.

#### **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.
- 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 11 Financial Instruments.

### 3. Income

In thousands of BGN

	1 January 2020 – 30 June 2020	1 January 2019 – 30 June 2019
Dividends income	8	4
	<u>8</u>	<u>4</u>

### 4. Operating expenses

In thousands of BGN

	1 January 2020 – 30 June 2020	1 January 2019 – 30 June 2019
Fees for stock registration and stockbrokers	1	2
Fees and commissions to the custodian bank	3	1
Fees and commissions to the management company	5	1
	<u>9</u>	<u>4</u>

The management company incurred expenses for set-up and administration of the fund in the amount of BGN 21 thousand, which are not included in the net asset value as of 30.06.2020. These expenses are subject to reimbursement to the management company and will be included in the NAV on a future date, only if and when the NAV exceeds EUR 1 million. The Management Company has followed such a policy that it minimizes the total expenses of the Fund during the initial period of its development when the Fund size is relatively small.

### 5. Cash and cash equivalents

In thousands of BGN

	30 June 2020	31 December 2019
Cash at bank accounts	488	553
<b>Cash and cash equivalents</b>	<u>488</u>	<u>553</u>
<b>Cash and cash equivalents in the Statement of Cash Flows</b>	<u>488</u>	<u>553</u>

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

#### **Changes in liabilities, arising from financial activities**

The Fund doesn't have long-term liabilities at amortized cost, in which it reports accrued interest at an effective interest rate that differs from the agreed interest rates. Therefore, it does not present such changes in the "Cash Flows from Financing Activity" in the Cash Flow Statement for the year ended on 31 June 2020 and 31 December 2019.

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

In thousands of BGN

30.06.2019

31.12.2019

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

Quoted shares	849	154
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### Financial assets held at fair value at other comprehensive period

Unquoted shares	-	-
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Quoted debt instruments	-	-
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<b>Total financial assets at fair value</b>	<b>849</b>	<b>154</b>
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Financial assets at fair value through profit or loss in Expat Hungary BUX UCITS ETF include non-controlling interests in public companies operating in Hungary.

Expat Hungary BUX UCITS ETF is a passively managed fund and adheres to the full physical replication method of the BUX index. The reference index BUX composes of shares denominated and traded in Hungarian forint.

Fair value of these shares in equity is defined by a note to published price quotes on an active market.

When measuring the fair value of an asset or liability, the Fund uses observable data as far as possible. Fair values are categorised in Level 1 (Quoted Market Prices in Active Markets) in the fair value hierarchy based on inputs in measurement techniques. 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 Budapest 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 2020 and 31 December 2019 is, as follows:

## 6. Financial assets at fair value through profit or loss (continued)

At 30 June 2020

In BGN

Type of financial instrument	Shares		
Regulated market on which shares are traded	Budapest Stock Exchange		
Issuer	Number	Value at the end of the reporting period	Percentage of the total financial assets
Magyar Telekom Telecommunications	28 100	58 877	4.41%
Richter Gedeon Rt.	6 820	243 897	18.25%
MOL Hungarian Oil & Gas PLC	24 304	247 684	18.53%
OTP Bank	3 989	241 113	18.04%
4IG	3 500	12 382	0.93%
Budapest Real Estate PLC	7 600	12 631	0.95%
Opus Global Nyilvanosan	16 300	23 245	1.74%
Graphisoft Park	460	8 679	0.65%
	<b>91 073</b>	<b>848 508</b>	<b>63.50%</b>

At 31 December 2019

In BGN

Type of financial instrument	Shares		
Regulated market on which shares are traded	Budapest Stock Exchange		
Issuer	Number	Value at the end of the reporting period	Percentage of the total financial assets
Magyar Telekom Telecommunications	6 100	16 098	2.28%
OTP Bank	545	49 760	7.04%
MOL Hungarian Oil & Gas PLC	2 070	36 011	5.10%
Richter Gedeon Rt.	1 255	47 639	6.74%
Opus Global Nyilvanosan MU	2 300	4 633	0.66%
	<b>12 270</b>	<b>154 141</b>	<b>21.82%</b>

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

In thousands of BGN

	30 June 2020	30 June 2019
Loss from valuation of financial assets at fair value through profit and loss	(148)	(1)
<b>Net loss on financial assets at fair value through profit or loss</b>	<b>(148)</b>	<b>(1)</b>

## 7. 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	Number of shares	Value
<i>In thousands of BGN</i>		30 June 2020		30 June 2019
<b>At 1 January 2020</b>	390 000	706	120 000	202
Issue of new shares	580 000	918	-	-
Redemption of shares	(60 000)	(87)		
Loss for the period	-	(201)	-	(2)
<b>At 30 June 2019</b>	<u>910 000</u>	<u>1336</u>	<u>120 000</u>	<u>200</u>
<i>In BGN</i>		<b>30 June 2020</b>	<b>30 June 2019</b>	
Net asset value per unit (in BGN)		<u>1.4673</u>	<u>1.662</u>	

### 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 100,000 pursuant to Art. 82a (1) Ordinance 44 of 20.10.2011 on the requirements to the activity of collective investment schemes, their management companies, national investment funds and managers of alternative investment funds. The Fund has reached the minimum size of equity.

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.



## **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.

## **8. Basic earnings per share**

	<b>01 January 2020 – 30 June 2020</b>	<b>01 January 2019 – 30 June 2019</b>
Net loss per share for the period (in BGN)	<u>(0.322)</u>	<u>(0.018)</u>

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 626 129.032 (30.06.2019 – 71 448). The weighted average number is calculated by taking the arithmetic mean of the issued shares for each day of the period.

## **9. Income taxes**

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

## **10. 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 2020, 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 Hungary BUX UCITS ETF"

The following table provides information on the investment of Expat Mutual Funds in Expat Hungary BUX UCITS ETF:

## 10. Related parties (continued)

At 30 June 2020

Mutual Fund	Investment in	Number of shares	Value at the end of the reporting period
Expat Developed Markets Equities	Expat Hungary BUX UCITS ETF	2 540	3 767
Expat Emerging Markets Equities	Expat Hungary BUX UCITS ETF	241	357

At 31 December 2019

Mutual Fund	Investment in	Number of shares	Value at the end of the reporting period
Expat Global Bonds	Expat Hungary BUX UCITS ETF	4 333	7 856
Expat Developed Markets Equities	Expat Hungary BUX UCITS ETF	540	979
Expat Emerging Markets Equities	Expat Hungary BUX UCITS ETF	5 130	9 301

## 11. 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:

- 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.

The following tables analyse the quantitative disclosures of the fair value hierarchy of financial instruments carried at fair value at the levels in which they fall:

## 11. Financial instruments (continued)

### At 30.06.2020

<i>In thousands of BGN</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Magyar Telekom Telecommunications	58 877	-	-	58 877
Richter Gedeon Rt.	243 897	-	-	243 897
MOL Hungarian Oil & Gas PLC	247 684	-	-	247 684
OTP Bank	241 113	-	-	241 113
4IG	12 382	-	-	12 382
Budapest Real Estate PLC	12 631	-	-	12 631
Opus Global Nyilvanosan	23 245	-	-	23 245
Graphisoft Park	8 679	-	-	8 679
<b>TOTAL</b>	<b>848 508</b>	<b>-</b>	<b>-</b>	<b>848 508</b>

### At 31.12.2019

<i>In thousands of BGN</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Magyar Telekom Telecommunications	16 098	-	-	16 098
OTP Bank	49 760	-	-	49 760
MOL Hungarian Oil & Gas PLC	36 011	-	-	36 011
Richter Gedeon Rt.	47 639	-	-	47 639
Opus Global Nyilvanosan MU	4 633	-	-	4 633
<b>TOTAL</b>	<b>154 141</b>	<b>-</b>	<b>-</b>	<b>154 141</b>

## 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 an index of shares traded on the Budapest Stock Exchange. In that context, investing in units of "Expat Hungary BUX UCITS ETF" is associated with taking high risk, given that the Reference Index is composed of shares.

As regards its operations, "Expat Hungary BUX 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 unitholders in the fund.

The main risks that investors will incur when investing in units of "Expat Hungary BUX UCITS ETF" are:

**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.

**11. Financial instruments (continued)**

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

**The COVID-19 pandemic**

The COVID-19 pandemic has both a direct and indirect impact on the financial markets, thus affecting the returns of Expat's passive ETFs and Mutual Funds. The indirect effect has been the significant decrease in economic activity in the first half of the year, which will not be compensated by a drastic increase in the second half. This has impacted revenues and profits across multiple sectors, worsening business forecasts and increase in credit risk. Capital markets reacted in line with expectations with a sharp decline in February and March. Statistics on the infected cases were often taken as a direct indicator of the future economic outlook, correlating strongly with major stock indices. This phenomenon constituted the direct effect of the pandemic on the financial markets – each positive news about the decreasing rate of infection and mortality, along with news about breakthroughs in vaccine development, led to price increases in the stock markets. This is the main reason for the almost complete recovery of the US stock market by the second half of July 2020. For the second half of 2020, the effects of COVID-19 on the capital markets will continue at least until a vaccine is launched on the market. This means, ceteris paribus, that market volatility will be higher than in a non-pandemic year. So by definition, higher volatility means higher risk. These effects will not be limited to a specific asset class, sector or jurisdiction, and will therefore affect the performance of Expat ETFs, which follow the main stock indices of the countries of the Central and Eastern European region, as well as Expat's mutual funds.

**Currency risk**

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

From 1 January 1999 the exchange rate of the Bulgarian lev (BGN) is pegged to the euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0.

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 net value of the Fund's assets, based on the Fund's portfolio:

	At 30 June 2020 (Effect in thousands of BGN)	At 31 December 2019 (Effect in thousands of BGN)
5% appreciation of the Hungarian forint against the euro	67	35
5% depreciation of the Hungarian forint against the euro	(67)	(35)

## 11. Financial instruments (continued)

### Risk profile and risk management (continued)

#### 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 net value of the Fund's assets, based on the Fund's portfolio:

	At 30 June 2020 (Effect in thousands of BGN)	At 31 December 2019 (Effect in thousands of BGN)
5% increase in market prices	67	35
5% decrease in market prices	(67)	(35)

#### 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.

#### 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.

## **11. Financial instruments (continued)**

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

#### ***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***

The operational risk 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. The Management Company designates short-term and long-term strategy when managing operational risks which occur during the management and operation of the Fund's portfolio, described in the Fund's Rules for assessment and management of risk.

#### ***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.

## 12. 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.

## 13. Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the Interim financial statements are in accordance with those applied to the preparation of the Fund's annual financial statements for the year that ended on 31 December 2019 with the exception of the acceptance of new standards which entered into force on 1 January 2020. The Fund has not previously adopted other standards, interpretations or corrections, which have been published, but are not yet in effect.

### ***IFRS 3: Business Combinations (Amendments)***

The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. The amendments also remove the assessment of whether market participants are able to change missing elements, provide guidance to assist funds in assessing whether the acquired process is essential and introduce an optional test for concentration of fair value. These amendments have not yet been adopted by the EU. The Fund will analyze and evaluate the effects of the changes on the financial condition or the results of the activity.

### ***IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material'***

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied providing practical guidance that has so far been included in other IFRSs. The amendments also clarify that materiality depends on the nature or significance of the information. The fund will analyze and evaluate the effects of the changes on the financial condition, or the results of the activity.

### ***Conceptual Framework in IFRS standards***

The International Accounting Standards Board published the revised Conceptual Framework for Financial Reporting on 29 March 2020, applicable for annual periods starting on 1 Jan 2020 or later. The conceptual framework presents the concepts of financial reporting and standard development, offering guidelines on the preparation of consecutive accounting policies and understanding and interpretation of such standards. The main changes that were implemented in the revised Conceptual Framework for Financial Reporting connect to the concept of assessment, including the factors to be taken into consideration when selecting a base for assessment and the concept for presentation and announcement, including which revenues and expenses are to be classified in another type of comprehensive income. In addition, the Conceptual Framework provides updated definitions for asset and liability along with criteria for their implementation in financial reports. The fund is going to analyze and assess the effects from the amendments on the financial condition or result of the activity.

### 13. Changes in accounting policies and disclosures (continued)

#### ***Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)***

The amendments are effective for annual periods, beginning on or after 1 January 2020, and must be applied retrospectively. Earlier application is also allowed. In September 2019, The International Accounting Standards Board (IASB) assumed amendments to IFRS 9, IAS 39, and IFRS 7, concluding phase 1 of its

work in response to the effects on financial reporting of the interbank interest rate reform. Phase 2 will focus on problems that may arise when interest rates are replaced by risk-free interest rates. The published amendments address problems that arise during the replacement of existing interest rates with alternative interest rates. The effects on specific cases of hedge accounting under IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis, are addressed. The amendments provide for temporary relief applicable to hedging requirements, in compliance with these requirements is directly affected by the benchmark reform. These changes allow hedge accounting to continue in the period of uncertainty until the replacement of the existing reference interest rates with alternative risk-free interest rates. Amendments have also been made to IFRS 7 Financial Instruments: Disclosures, which require the submission of additional information on hedge uncertainty as a result of the reform. The fund will analyze and evaluate the effects of the changes on the financial condition or the results of the activity.

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

Listed below are the published standards that are not yet effective or have not been adopted earlier by the Fund at the date of these financial statements. It is disclosed how, to a reasonable extent, the disclosures, financial position and operating results are expected to be influenced when the Fund adopts these standards for the first time. This is expected to happen when they come into effect.

#### ***IFRS 17: Insurance Contracts***

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the Board decided to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This

information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU. The standard is not applicable to the Fund.

#### ***Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is



#### 14. Standards issued but not yet effective and not early adopted (continued)

recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The amendments are not applicable to the activities of the Fund.

##### ***IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)***

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The IASB has issued an exposure draft to defer the effective date to 1 January 2023. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The amendments are not applicable to the activities of the Fund.

##### ***IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements (Amendments)***

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.

Annual Improvements make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples

##### ***IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements (Amendments (continued))***

accompanying IFRS 16 Leases. The amendments have not yet been endorsed by the EU. Management has assessed the amendments on the basis of contingent liabilities of the Fund.

#### **14. Standards issued but not yet effective and not early adopted (continued)**

##### ***IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)***

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under

IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

The amendment has not yet been endorsed by the EU. The amendments are not applicable to the activities of the Fund.

#### **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.

The Fund discloses contingent liabilities in connection with expenses incurred for organization and administration of the fund by the Management Company (Note 4).