Expat Czech PX UCITS ETF

Annual Report on the Activity
Independent Auditor's Report
Financial Statements
31.12.2017

expatcapital

Contents

2017 ANNUAL REPORT ON THE ACTIVITY OF EXPAT CZECH PX UCITS ETF

Expat Czech PX 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.

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.165-DF dated 11 December 2017.

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 Czech PX UCITS ETF has no branches.

Expat Czech PX UCITS ETF is a passively-managed exchange-traded fund which follows the model of full physical replication of the PX index calculated by the Prague Stock Exchange. 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 Czech PX 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, and to market characteristics, including the liquidity of the companies in the Reference Index,

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 two years after acquiring management and operating license from the Financial Supervision Commission.
As of 31.12.2017 Expat Czech PX UCITS ETF's total asset value was estimated at 118 809 BGN, decomposed in cash equivalents in multiple accounts. The total number of units in issue was 60 150.

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 the PX share index on the Prague Stock Exchange. In this respect, investing in units of Expat Czech PX UCITS ETF involves undertaking high risk, given that the Reference Index is composed of equities.
In its activity, Expat Czech PX 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 Czech PX 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, 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.

In view of the inception of the fund in the end of December 2017 the data is insufficient – the requirement of 30 observations is not fulfilled from a statistical point of view neither on a daily, nor on a weekly basis of tracking error calculation. Due to these reasons, as well as to the initial raising of funds and the time required for investing of the funds, the tracking error is not informative.
Our 2018 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 Czech PX 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 PX 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 PX index, while the tracking error represents the constant in the difference between the performance of the Fund and the PX Index's one.

The investment policy of the Fund for the next year is to track the PX index on the Prague Stock Exchange with the full replication method.

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
- 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.

The Fund made no payments to the government in excess of BGN 195 600 in one instalment or a succession of instalments.

REMUNERATION POLICY INFORMATION
In compliance with Article 73 of Regulation 44

Expat Czech PX UCITS ETF did not appoint any employees during the 2017 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 13th and 14th 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 10. 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 2017 financial year **Expat Czech PX 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 Czech PX UCITS ETF"
According to the Requirements of Art. 73, para. 1, Section 5 of Regulation 44 as of year 2017

1. General information on the Fund

"Expat Czech PX 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 PX 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 PX, denominated in Czech Koruna 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 12 of the largest and most liquid shares on the Prague Stock Exchange. The reference index is one of the major benchmark indices for the Prague Stock Exchange 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 the Prague Stock Exchange www.pse.cz .

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.

"Expat Czech PX UCITS ETF" calculates net assets value and redemption price of shares each business day and publishes them on www.baud.bg, 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 2017

As a fund for full physical replication of an index, "Expat Czech PX UCITS ETF" invests in a manner and in accordance with the Rules of the Exchange Traded Fund. Up to 100% 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.

For the period 21.12.2017 – 31.12.2017	Date	Value (BGN)
Minimum calculated NAV/share	29.12.2017	1.9543
Maximum calculated NAV/share	21.12.2017	1.9556

Number of outstanding shares and net asset value per share of "Expat Czech PX UCITS ETF" for the period 21 December 2017– 31 December 2017

As at 21 December 2017 the number of the outstanding shares is **60 150**, as at December 31, 2017 – **60 150** shares.
No shares have been issued or redeemed during the period.
The net asset value per share as at 21 December 2017 was **BGN 1.9556.**
The net asset value per share as at 31 December 2017 was **BGN 1.9541.**

Volume of investments in "Expat Czech PX UCITS ETF" portfolio

Type of securities	Value as at 31.12.2017 (BGN)	% of the assets value
Stock		
Blocked securities		
Stock rights		
Shares in Collective Investment Schemes		
Cash in hand		
Cash in current accounts	118 774.35	99.97%
Deposits		
Debt securities		
Receivables from interest	35.20	0.03%
Sale of securities in settlement		
Receivables from dividends		
Receivables under forward contracts		
Deferred expenses		
Total value of portfolio	**118 809.55**	**100.00%**

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 31.12.2017 represent 99.97% of the total amount of assets.

Changes in the portfolio structure of "Expat Czech PX UCITS ETF"

Issuer	Value as at 31.12.2017 (BGN)	% of the assets value
1.Stock		
2. Government Bonds		
3. Bonds		
4. Shares in Collective Investment Schemes		
5. Rights		
6. Cash in hand and current accounts	118 774.35	99.97%
7. Deposits		
8. Sale of securities in settlement		

9.Receivables, incl. from interest, dividends	35.20	0.03%
Total value of portfolio	**118 809.55**	**100.00%**

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

Changes in assets type – liabilities, income and expenses of "Expat Czech PX UCITS ETF" for the period 21.12.2017 – 31.12.2017

Current liabilities	As of 31.12.2017 (BGN)
1. Liabilities to the MC under the Management contract	32.20
2. Liabilities to Custodian	60.02
3. Liabilities to subscription and redemption	1 176.43
4. Liabilities to Investment Broker	0
5. Liabilities under transactions with securities	0
6. Liabilities under forward contracts	0
7. Other	0
Total:	**1 268.65**

Receivables	As of 31.12.2017 (BGN)
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	35.20
Total:	**35.20**

Income	As at 31.12.2017 (BGN)
1. Income from interest	0
2. Income from transactions with securities	0
3. Income from exchange rate differences due to depreciation	0
4. Income from exchange rate differences in foreign currency transactions	0
5. Income from interest in other transactions	0
6. Income from share participation	0
7. Other income	0
Total:	**0**

Expenses	As of 31.12.2017 (BGN)
1. Expenses for transactions with investments	0
2. Expenses for depreciation	0
3. Expenses for exchange rate differences	10
4. Expenses for outsourcing	0
5. Commissions, taxes and other	92

6. Other	1 176
Total:	**1 279**

	As of 31.12.2017 г. (BGN)
1. Liabilities to Management Company	1 209
2. Remuneration to Custodian	60
3. Liabilities to Investment Broker	0
4. Bank fees	0

Comparison table for the last three fiscal years

	31.12.2017
Net asset value	117 540.90
Number of shares	60 150
Net asset value per share	1.9541

“Expat Czech PX UCITS ETF” holds a license under resolution of the Financial Supervision Commission dated 1.12.2017 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 Czech PX 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 Czech PX 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.

The short period of existence of the fund does not allow for the calculation of meaningful errors of follow-up and profitability.

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

Opinion

We have audited the individual financial statements of **"Expat Czech PX UCITS ETF" (the Fund),** which comprise the Balance sheet as of 31 December 2017, 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 Czech PX UCITS ETF" as of 31 December 2017 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).

Call to attention

We call attention the fact that the included financial statement is first for the Fund. The liabilities to the Management Company arising from the inception of the Fund are not reported in the balance sheet of the fund (paragraph "Current Liabilities" from the Notes to the information presented in the Annual Financial Statement).

Our opinion has not been modified in regard to this matter.

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".

Key audit matter	***How this key audit matter was addressed in the audit conducted by us***
In the course of our work we determined the financial assets of the Fund disclosed in the financial statements amounting to BGN 118 thousand as an essential object of the audit.	*In this area, our audit procedures included testing of the existence and valuation of assets and their presentation in the financial statement. The value of the assets has been*

	verified by the Custodian.
Material to the financial statements is the provision of accurate and specific information about the issued units owned by investors.	*In this area, our procedure included confirmation of data from the accounting registers of the Fund with the information from the Central Depository.*
Material to the financial statements is the provision of accurate and specific information about the net asset value per unit.	*In this area, our procedure included confirmation of data from the accounting registers of the Fund with the information from the Custodian.*

Other matters
The report herein is the first one for the Fund and refers to the period 01.12 - 31.12.2017.

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.

Additional matters to be reported pursuant to the Accounting 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. 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 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 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.

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.

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 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[1]

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 2017 in all material respects, in accordance with the requirements of IAS 24 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 2017, 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.

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, 2017 of **"Expat Czech PX UCITS ETF" Exchange Traded Fund** ("the Fund") by the Management Company Expat Asset Management AD for a period of one year on January 19, 2018.
- The audit of the financial statements for the year ended December 31, 2017 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 which were not mentioned in the activity report or the financial statements of the Fund:

Emilia Gyurova,	*REGISTERED AUDITOR 0590, CPA*	Sofia
28.03.2018	Signature: */illegible/*	

INDIVIDUAL STATEMENT OF FINANCIAL POSITION

Name of the Collective Investment Scheme:
Expat Czech PX UCITS ETF
Fiscal year: 01.12.2017 - 31.12.2017

BULSTAT Unified Identification Code: 177233947

	31.12.2017 BGN'000	31.12.2016 BGN'000
Non-current assets		
Non-current financial assets	0	
Fixed assets		
Total Non-current assets	0	
Current assets		
Non-current financial assets		
Receivables and prepaid expense		
Cash and cash equivalents	119	
Total Current assets	119	
Off-balance sheet assets		
Total assets	119	
Equity		
Share capital	118	
Total capital	118	
Current liabilities		
Payables to third party	1	
Total current liabilities	1	
Total equity and liabilities	119	
Off-balance liabilities		
Total liabilities	119	
Units in issue as of 31.12.2017	60 150	
NAV per share as of 31.12.2017	1.955831	

INDIVIDUAL STATEMENT OF COMPREHENSIVE INCOME

Name of the Collective Investment Scheme: Expat Czech PX UCITS ETF
BULSTAT Unified Identification Code: 177233947
Fiscal year: 01.12.2017 - 31.12.2017

	Year ended December 31, 2017	Year ended December 31, 2016
	BGN'000	**BGN'000**
Continuing operations		
Financial income	0	
Other revenues from continuing operations		
Total revenues from continuing operations	0	
External services	0	
Financial expenses	0	
Total expenses by economic elements	0	
Profit/(Loss) before taxes	**0**	
Deferred tax income/expense		
Other comprehensive income and expense	0	
Share issuance premium	0	
Redemption reserve	0	
Total comprehensive income	**0**	

INDIVIDUAL STATEMENT OF CASH FLOWS

Name of the Collective Investment Scheme: Expat Czech PX UCITS ETF

BULSTAT Unified Identification Code: 177233947

Fiscal year: 01.12.2017 - 31.12.2017

	Period from 01.12.2017 to 31.12.2017	Period from 1.01.2016 to 31.12.2016
	BGN'000	**BGN'000**
Cash and cash equivalents at the beginning of the year		
Cash flows from operating activities		
Proceeds from share issue/payment for share redemption	119	
Net cash flows from operating activities	**119**	
Net increase/(net decrease) in cash and cash equivalents	**119**	
Cash and cash equivalents at the end of the year	**119**	

INDIVIDUAL STATEMENT OF CHANGES IN EQUITY

Name of the Collective Investment Scheme: Expat Czech PX UCITS ETF

Fiscal year: 01.12.2017 - 31.12.2017

BULSTAT Unified Identification Code: 177233947

	Share capital	Premium reserve	Total reserve	Profit/(Loss)	Total capital
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance as of 01.12.2017	**0**	**0**	**0**	**0**	**0**
Issuance/Redemption	118	0	0	0	118
Balance as of 31.12.2017	**118**		**0**	**0**	**118**

Audited by Emilia Gyurova, 28.03.2018

NOTES TO THE FINANCIAL STATEMENTS AS OF 31.12.2017

"Expat Czech PX UCITS ETF", city of Sofia ("Expat Czech PX 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 is a designated asset pool for the purpose of collective investment of funds raised through public offering of units in transferable securities and other liquid financial assets under Art. 38, para. 1 of the ACISOCIVA carried out by a management company on the principle of risk spreading.

The Fund is organized by resolution No. 185/ 23.02.2017 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 11.12.2017 under authorization No. 165. 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, website: 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, website: www.expat.bg. The MC has received authorisation to launch and manage Expat Czech PX UCITS ETF with an entry in the register of the Financial Supervision Commission ("the Commission") - No. 165-DF/11.12.2017. 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, website: www.postbank.bg. The Custodian shall keep the assets of "Expat Czech PX 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 29.01.2018

1. INVESTMENT INFORMATION

Investment Objectives

The investment objective of the Fund is to track the performance of the PX index ("Reference index", "the Index"), by adhering to the method of full physical replication while mitigating the tracking error level. Reference index tracks shares denominated in Czech koruna and the performance of the 12 largest and most liquid companies on the Prague Stock Exchange.
There can be no assurance that "Expat Czech PX 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.

1. Up to 100% of the Fund’s assets in shares and rights of companies that compose the Reference Index. In order to comply with legal limits and maintaining liquidity in order to meet redemption requirements, the Fund will maintain a minimum level of cash and cash equivalents that limits the weight of shares that replicate the Reference Index.

   The Fund invests only in shares that are part of the Reference Index. In circumstances beyond the Management Company (change of an issuer from the Reference Index), the Fund has the obligation for up to 6 months to rebalance its portfolio and sell/buy the shares subject to a change in the Reference Index. During the fund raising period of the Fund, there may be disproportionately large cash flows outside the control of the Management Company.
2. Bank deposits repayable on demand or with the right to be withdrawn at any time and up to maturity of no more than 60 days, provided that the bank has its registered office in the Republic of Bulgaria or in another Member State; and if with a seat in a third country, provided that it is subject to regulations which the Financial Supervision Commission with the proposition of the Deputy Chairperson considers equivalent to those under European Union law – up to 20% of the Fund’s assets.
3. Without restriction total of up to 100% of the Fund's assets in securities and money market instruments issued by an EU Member State or a third country included in a list approved by the Financial Supervision Commission with the proposition of the Deputy Chairperson only in the following or similar exceptional cases:
   - Disproportionately large subscription of new units of the Fund against money in the primary market;
   - In case of low market liquidity – in case it is impossible to rebalance the Fund against all positions of the Reference Index and this would lead to a price movement of individual positions of over 10%, which is not conditioned by a change in the foundation of the particular companies;
   - High market, political or systemic risk that may impede the management of the Fund in normal market conditions;
   - The Fund may temporarily invest the free cash in securities under this subparagraph if the Management Company considers that any of the above risks is present but is obliged to rebalance the Fund's portfolio for up to 6 months in order to maximize the proximity to replication of the Reference index.

Investment restrictions

Below are the restrictions applicable to the Fund's investments under the Law and the Fund's Rules.

1. “Expat Czech PX UCITS ETF" aims to reproduce the composition of the PX index, for which the following conditions apply:

- The composition of the index is sufficiently diversified;
- The index is an adequate benchmark for the market to which it refers, and
- Is published in appropriate way.

As a fund for passive index tracking complying with the above conditions, “Expat Czech PX UCITS ETF has no other restrictions, except for investing up to 20% in shares of one issuer, part of the Reference Index, according to Art. 46, para. 1 of CISOUCIA .

The Fund is committed to follow the Reference Index, making it possible for the Fund’s portfolio structure to deviate from the Reference Index at times of exceptional market conditions, a change in the structure of the Reference Index, subscription or redemption order in the Fund, low market liquidity and low exchange trade volume, and more. The Management Company shall perform any rebalancing of the Fund's portfolio, driven primarily by the interest of investors and by the Fund's mandate to follow the Reference Index. In order to comply with legal limits and maintaining liquidity in order to meet redemption requirements, the Fund will maintain a minimum level of cash and cash equivalents that limits the weight of shares that are to replicate the Reference Index.

2. The Management Company may not invest more than 20% of the Fund's assets in deposits in a single bank;
3. The Fund’s risk exposure to the counterparty in a transaction arising from effective portfolio management techniques may not exceed 10% of the assets when the counterparty is a bank under Art. 38, para. 1, item 6 of CISOUCIA, and in other cases 5% of the assets.
4. The total value of the investments referred to in Items 2 and 3 in securities or money market instruments issued by one person and the deposits with that person and the exposure arising from techniques for effective portfolio management shall not exceeds 20% of the value of the Fund's assets;
5. The Management Company may invest up to 30% of the Fund’ assets in securities and money market instruments issued by one issuer if they are issued or guaranteed by a Member State, their local authorities, third country, or a public an international organization in which at least one Member State is a member;
6. Individuals belonging to a group for the purpose of preparation of consolidated financial statements in accordance with recognized accounting standards shall be treated as one entity subject to the application of the restrictions under subparagraphs 2 to 4.
7. Furthermore, the Fund may not acquire more than:

    7.1. ten per cent of the non-voting shares issued by one person;

    7.2. ten percent of the bonds or other debt securities issued by one person;

    7.3. ten per cent of the money market instruments issued by one person.
8. The above limitations shall not apply when subscription rights deriving from securities and money market instruments that are part of the Fund's assets are exercised.

In case of violation of the investment restrictions for reasons outside the control of the Management Company, it shall within 7 days from the establishment of the infringement notify the Commission by proposing a program of measures for bringing the assets in compliance with the requirements of the law within 6 months from the commitment of the infringement.

Requirements for the securities, money-market instruments and other assets under Art. 38 of ACISOCIVA and for the structure of the assets and liabilities, and liquidity of the Exchange-traded Fund

The Fund may, in accordance with the law, purchase or sell securities with the agreement to sell them or alternatively buy them back from the seller/buyer under the requirements of Art. 27 and 28 of ACISOCIVA and the Financial Collateral Arrangements Act (these transactions are generally known as repurchase or repo transactions). These contracts may be executed under different conditions with respect to their term, the redemption price and collateral, depending on the situation and the agreement reached with the specific counterparty. Such contracts could optimize the profitability and liquidity of the ETF, and their counterparties must meet the pre-defined by the MC creditworthiness requirements.

The Management Company shall follow the guidelines in Section X of the Guidelines on Exchange-Traded Funds (ETFs) and other UCITS issues (ESMA/2014/937). The Management Company shall not use derivative instruments in the management and structure of the ETF and therefore all guidelines related to these instruments are not relevant. Expat Czech PX UCITS ETF may use techniques and instruments related to securities and money-market instruments under the conditions and restrictions set out in this Prospectus and the Fund Rules, but in any case, these techniques shall not lead to a deviation from the investment objectives of the Fund or impose additional risks to the original policy risks as described in this Prospectus and the Fund Rules. When and if such actions are to be undertaken, Expat Czech PX UCITS ETF will ensure that it is able at any time to take back the securities lent or terminate any agreement entered for the lending of securities. Term repo and reverse repo agreements, the duration of which does not exceed seven days, shall be considered transactions whose conditions enable the ETF to take back the securities at any time. The annual financial statements of Expat Czech PX UCITS ETF shall also include details on:

A. the risk exposure due to efficient techniques for portfolio management;
B. the identity of the counterparty/counterparties of these efficient techniques for portfolio management;
C. type and amount of collateral received by the UCITS to reduce the exposure to the counterparty; and
D. revenues as a result of efficient techniques for portfolio management for the whole reporting period along with direct and indirect operating costs and fees incurred.

The Management Company shall conduct regular stress-tests annually – until the 15th day each first month of the year, or when the Management Company decides, if the market circumstances require it. These stress-tests facilitate the assessment of the liquidity risk of the Fund in exceptional market conditions. Within 30 days after the completion of the stress-tests, the Management Company shall notify the Deputy-Chairman of the FSC about the results and the actions taken to modify the existing rules, if necessary.

The Fund must always have minimum liquidity funds as follows:

- Cash (including deposits in credit institutions under Article 38, paragraph 1, item 6 of CISOUCIA), securities, money market instruments under Art. 38, para 1, item 1-3 of CISOUCIA, money market instruments under Art. 38, para. 1, item 9 of CISOUCIA and short-term receivables – not less than 100% of the weighted current liabilities;

- Cash (including deposits in credit institutions under Article 38, paragraph 1, item 6 of CISOUCIA), securities and money market instruments issued by a Member State and money market instruments under Art. 38, para. 1, item 9 (a) of CISOUCIA – not less than 70% of the weighted current liabilities, except for the obligations related to participation in the capital increase of public companies.

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.

Since the afore-mentioned standards and/or interpretations came into effect for fiscal periods starting 1st January 2017, there have been no amendments in the accounting policy with the exception of new and more extensive already established disclosure without these leading to further changes – in classification or evaluation of accounting objects and operations.
The new and/or amended standards and interpretations affecting the Fund's accounting policy include:

IAS 7 (changed) Cash flow statements-related to the initiative for disclosure (coming to effect for annual periods from the 1st January 2017- not accepted by the EC). This change is an important clarification of the standard itself regarding the information given to the users of the financial statements who will become more acquainted with the liquidity and the financial operations of the company. The change requires additional disclosure and clarifications to be made concerning the changes in liabilities of the company related to: (a) changes in the financial activity as a result of operations leading to changes in the cash flows; or (b) changes as a result of non-cash transactions, such as acquisitions and exemptions, loading interest charges, effects from exchange rate differences, changes of the fair values, and the like. Changes in the financial assets should be included in that disclosure if cash flows stemming from this are disclosed in the financial activity (for example, hedge operations). The addition of changes in other objects as a part of the disclosure is allowed and they should be listed separately.

IFRS 7(changed) Financial instruments: Disclosures - related to the relief for re-calculation of comparative periods and the disclosures of the application of IFRS 9 (coming to effect for annual periods from the 1st January 2018 - not accepted by the EC) related to them. This change is connected to the establishment of the relief concerning the necessity of re-calculation of the comparative financial statements and to the opportunity of introducing modified disclosures in the transition from IAS 39 to IFRS 9 (when this happens) depending on the date of the application of the standard by the company and whether it chooses the option to re-calculate its previous periods.

IFRS 9 Financial instruments (coming to effect for annual periods from the 1st January 2018 - accepted by the EC). This standard is a new standard for financial instruments. Its final intended application is to entirely replace the IAS 39. The project for the replacement with the new standard has gone through three phases: phase 1 Classification and valuation of financial assets and liabilities; phase 2 Hedge accounting; phase 3 Methodology for determining impairment. Currently, IFRS 9 has been issued four times, in November 2009, in October 2010, in November 2013 and finally in July 2014. Phase 1 Classification and valuation of the financial assets and liabilities-with the first issue, it changes these parts of the IAS 39 which are related to the classification and the valuation of financial instruments. It establishes new principles, rules and criteria for classification, valuation and disposal of financial assets and liabilities, including hybrid contracts. IAS 9 requires the classification of financial assets to be based on the business model of the entity's management and the characteristics of the contracted cash flows of the selected assets. It defines two major categories of estimates – at an amortized cost and at a fair value. The new rules will lead to changes in accounting of the financial assets such as debt instruments and financial liabilities acquired at fair value through profit or loss (for credit risk). A specification in the classification of the valuation model for financial assets at fair value is the additional category – fair value through the other comprehensive income (for some debt and capital instruments). Phase 2 Hedge accounting – for this purpose a new chapter to IFRS 9 is accepted, with which a new hedge accounting model has been adopted allowing consistent and comprehensive coverage of all financial and non-financial risk exposures subject to hedging operations and in addition a better presentation of risk management activities in the financial statements, specifically their relationship with the hedging transactions and the scope and type of documentation used. The requirements for the structure, the content and presentation approach to hedge disclosure have been approved. Furthermore, an option to account for changes in fair value of personal debt, measured at a fair value through profit or loss, but in the portion resulted from changes in the quality of debt availability of the company itself. Entities applying IAS 39 will be able to accept these options as a policy, as well they will be able to continue applying the requirements for the fair value hedge accounting on interest rate exposure by the rules stated of IAS 39, even after IFRS 9 comes into effect. Phase 3 Methodology for determining impairment – the change offers to apply "expected loss" model. According to this model, all expected losses on one depreciable financial instrument (asset) are accrued on three levels, depending on the change in its credit quality and not only at the time of event occurring, as it is in the current IAS 39 model. The three phases are: upon initial recognition of the financial asset – impairment over 12 months period or over the asset's lifetime; and accordingly – upon the occurrence of factual impairment. Moreover, they define how to measure losses in the case of impairment and respectively applying the effective interest rate.

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 31.12.2017.

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. 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 49.00% of the capital of Expat Capital AD;
- Dextra Investments EAD – stockholder, owner of 33.00% of the capital of Expat Capital AD;
- Kamen Kirov – stockholder, owner of 9.00% of the capital of Expat Capital AD
- Gergana Sarbova – stockholder, owner of 9.00% 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.

Lachezar Dimitrov Dimov (BD member of MC Expat Asset Management EAD) is not related to legal entities.

Maria Dimitrova Boychinova (BD member of MC Expat Asset Management EAD) is not related to legal entities.

Nikola Emilov Veselinov (BD member of MC Expat Asset Management EAD) is related to the following legal entities:

- NLN Services OOD – manager and representative

There are no contracts under Article 240b of the Law of Accounting concluded with the members of the Board of Directors or related parties to the Board of Directors.
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 31.12.2017 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	625 632	49.00	0.00	0.00
“Dextra Investments” AD	421 344	33.00	0.00	0.00
Kamen Kirov	114 912	9.00	0.00	0.00
Gergana Sarbova	114 912	9.00	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

5. FINANCIAL ASSETS

All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs.

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 that are measured through fair value in comprehensible income.

6.INCOME AND EXPENSES RECOGNITION POLICY

Income is accrued upon receipt of information from Custodian.

Expenses stemming from the activity of the Fund are reported in the Statement of Comprehensive Income following the accrual basis principle.

Expenses in a period stemming from the activity of the Fund (Operating expenses) which are paid indirectly by Fund’s unitholders, i.e. management fee and custody fees are charged daily in compliance with the contracts between the Management Company and the Custodian.

Management fee – daily on the basis of the Fund’s assets.

Not incluced in the Statement of Comprehensive Income:

Expenses stemming from investments in Fund units which are paid directly by the particular investor/unitholder at subscription and redemption of units (“Transaction costs”) are charged as a liability on the account of the client and the Management Company.
Note on expenses for unitholders:
When at redemption of units of a collective investment scheme managed by the Management Company the net redemption amount is invested in one or more of the other collective investment schemes managed by the Management Company no redemption and subscription fees are charged. In this case subscription and redemption orders are executed at net asset value per share.

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 Czech PX 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 Czech PX UCITS ETF” are:

Market risk

Possibility of losses due to unfavourable 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. Various factors affecting the market price of certain shares (e.g., financial statements showing a reduction in the profits of the company that issued the shares, loss of main client, high value lawsuit brought against the company, change of the regulations in a certain industry). Not all such factors may be predicted.

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.

Inability of the Management Company to adapt to the 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.

Interest rate risk

Interest rate risk is the possibility of reduction of the value of a security as a result of a rise in interest rates. In general, the rise in interest rates adversely affects stock prices.

Currency risk

The risk of a decrease in the value of an investment in a security or deposit denominated in a currency other than BGN and EUR due to a change in the exchange rate between that currency and the BGN or EUR.

Price risk

Risk related to investments in equities or other equity securities – the risk of lowering the value of an investment in a security in the event of unfavourable changes in market price levels.

Liquidity risk

Risk related to the possibility of losses or lost profits from urgent or forced sales of assets under unfavourable market conditions (such as low demand in the presence of oversupply).

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 Art. 20, para. 5 of 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 a regulated market

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

Regulatory risk

The prospectus is 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.

Credit risk

Valuations of rating agencies such as Standard & Poor's, Moody's and Fitch are an internationally recognized barometer on credit risk for securities. But these ratings are also not perfect: they are based on past events and do not reflect all possible future circumstances. Credit risk also exists in the dealings with the counterparty on stock and over-the-counter transactions when it occurs in two varieties – counterparty and settlement risk. In the first, there is a probability of non-fulfilment of over-the-counter transactions counterparty obligations. This risk is minimized in the performance of the Fund in view of the fact that it invests primarily in financial instruments traded on regulated markets. Settlement risk is the probability that on the settlement date the Fund does not receive counterparty cash or financial instruments after it has fulfilled its obligations under the transaction to that counterparty.

Risk of concentration

The risk of concentration is the possibility of loss due to the diversification of exposures to issuers, groups of related issuers, issuers of the same economic sector or geographical area, or arising from the same activity that may cause significant losses, as well as the risk associated with large indirect credit exposures.

Operational risk

It is related to the possibility of incurring losses due to errors or inadequacies in the system of organization, insufficiently qualified personnel, unfavourable external events of a non-financial nature, including legal risk. The Management Company shall determine a short-term and long-term strategy in managing the operational risks that arise in the management of the Fund's activity and portfolio described in Art. 19 of the Risk Assessment and Management Rules of the Fund.

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. Also, 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. Such events may be, but are not limited to, the following:

- The index is considered inaccurate and does not reflect actual market developments;
- The index is stopped by the body that organizes it;
- This body may not determine the value of the Index;
- This body makes changes to the formula for calculating the Index, which does not allow the Fund to follow it at a reasonable cost;
- Component of the Index is illiquid because it is no longer traded on a regulated market;
- Components of the Index are exposed to higher transaction costs or higher settlement fees, or specific tax restrictions not reflected in the performance of the Index.

Systemic risks

Systemic risks depend on general fluctuations in the economy and the markets as a whole. 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.

Political risk

Emerging markets may be subject to higher than normal risks associated with political change, state regulation, and social instability and diplomatic developments (including conflicts) that may negatively affect the economies of these countries and the value of investment therein.

Other risks

Investments in the Fund are at risk of a closure of the stock exchange, political risk, volatility, lack of liquidity on the stock exchange.

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 Czech PX UCITS ETF”.
- Expenses on issue and redemption of stocks of “Expat Czech PX 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 Czech PX UCITS ETF

CASH

	31.12.2016 BGN'	31.12.2017 BGN'
Cash in bank accounts, BGN		118 774
Cash in deposits		0
		118 774

RECEIVABLES

	31.12.2016 BGN	31.12.2017 BGN'
Other		35
		35

EQUITY

	31.12.2016 BGN'	31.12.2017 BGN'
Shares par value		117 643
Profit for the period		(102)
		117 541

CURRENT LIABILITIES

	31.12.2016 BGN'	31.12.2017 BGN'
To the Management company		1 209
To Custodian		60
		1 269

Subscription fees are calculated with 1% based on contracts with clients.

Based on a decision of the Board of Directors of the Management Company dated January 8, 2018, expenses of BGN 1 050 related to the launch of the Fund are on the account of the Management Company till the moment of actual start of the Fund's activities.

FINANCIAL EXPENSES

	31.12.2016 BGN'	31.12.2017 BGN'
Expenses related to currency transactions		10
Other		92
		102

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.

Gergana Andonova **Head of Accounting**

Lachezar Dimov **Member of the Board of Directors**

Nikola Veselinov **Member of the Board of Directors**