# Annual Activity Report
# Independent Auditor's Report
# Financial Statements

## EF PRINCIPAL
## Mutual Fund

31 December 2020

ef ASSET management

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# INDEPENDENT AUDITOR'S REPORT

**To**
**The Shareholders**
**Of MUTUAL FUND "EF PRINCIPAL"**

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of **MUTUAL FUND "EF PRINCIPAL" (the Fund)**, which comprise the Statement of financial position as of 31 December 2020 and the Statement of profit or loss and other comprehensive income, Statement of changes in net assets belonging to shareholders and Statement of cash flows for the year then ended, and the explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of 31 December 2020 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are independent of the Fund in accordance with the International Code of Ethics for Professional Accountants (including the International Independence Standards) issued by International Ethics Standards Board for Accountants (IESBA Code), together with the ethical requirements of the Independent Financial Audit Act (IFAA), applicable to our audit of the financial statements in Bulgaria. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Paragraph Emphasis of Matter

We draw attention to Note 2. to the financial statements which describes that at the reporting date, the Management of the Management Company is not able to assess the overall impact of the COVID-19 pandemic situation on the future financial standing and results of the Fund, but considers that the effect will continue to lead to higher volatility and an increase of market and price risk related to the Fund's financial assets. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT – continued

**Information Other than the Financial Statements and Auditor's Report Thereon**

Management is responsible for other information. The other information comprises activity report, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the financial statements and our audit report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so consider whether the other information is materially inconsistent with the financial statements or 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.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements the management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern assumption and using the going concern assumption basis of accounting, unless the management either intends to liquidate the Fund or to cease its operations, or have 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 misstatements, whether due to fraud or error and to issue an audit report which includes our audit opinion. Reasonable assurance is a high level of assurance, but does not 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 ISAs, we use professional judgment and maintain professional skepticism throughout the audit. We also:

INDEPENDENT AUDITOR'S REPORT – continued

- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures in response 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 secret collusion, forgery, intentional omissions, misrepresentations, aiming to deceive the auditor as well as neglect or circumvention of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the management's use of the going concern assumption basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 disclosures in the financial statements related to this uncertainty 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 Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and the 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Report on Other Legal and Regulatory Requirements**

***Additional Matters to be Reported under the Accountancy Act***

In addition to our responsibilities and reporting in accordance with ISAs, described in paragraph Information Other than the Financial Statements and Auditor's Report Thereon in relation to the management report, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines for new and extended audit reports and auditor communication" of the professional organisation of registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an

INDEPENDENT AUDITOR'S REPORT – continued

opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria.

*Opinion in conjunction with Art. 37, para. 6 of the Accountancy Act*
Based on the procedures performed, we are of the opinion that:

a. The information included in the activity report for the financial year, for which the financial statements have been prepared, is in line with the financial statements.
b. The activity report was prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

**BRAIN STORM CONSULT - OD LTD**
*Audit Company*
Kameliya Terziyska – Manager
Republic of Bulgaria, Sofia, March 25, 2021

Kameliya Terziyska
*Registered Auditor*

# Annual Management Report

## I. EF Principal

The Mutual Fund 'EF Principal' ('the Fund') is organised and managed by the management company 'EF Asset Management' AD, Sofia, 43 Christopher Columbus Blvd., floor 5, on the grounds of a decision of the Board of Directors and the General Meeting of the shareholders of the management company held on 16 June 2005. The Fund has a licence issued by the Financial Supervision Commission under No. 526-DF dated 17 August 2005, the scope of activities under the licence being as follows: 'Collective investment in transferable securities and other liquid financial assets under Art. 38, para. 1 of the Law on the Activity of Collective Investment Schemes and Other Undertakings for Collective Investments (LACISOUCI) of pecuniary resources raised by way of public offering of shares, which is performed following the principle of distribution of risk'.

MF 'EF Principal' is not a separate legal entity and has neither legal personality, nor governing bodies. The Fund represents property intended for collective investment in securities of the pecuniary resources that have been raised. All the assets acquired for the Fund are under the common ownership of the persons that have invested therein. The profits/losses of the Fund shall be received/covered by the investors in proportion to their part in the property of the Fund.

MF 'EF Principal' issues shares which give rights over the respective part of the property of the Fund, including the event of liquidation, and the right to repurchase as well as other rights provided for in the Law on the Activity of Collective Investment Schemes and Other Undertakings for Collective Investments and in the Rules of the Fund.

The Mutual Fund does not have any registered initial capital.

The profile of the Fund is a moderate to a high risk one. The Fund invests predominantly in Bulgarian and foreign stocks and shares in collective investment schemes (CIS), corporate bonds and mortgage bonds, which are traded on regulated markets. The objective of the Fund consists in the realisation of capital profits from securities, revenues from dividends/income from share securities as well as current income from debt securities and other financial instruments. For achieving the investment objectives, a strategy of active management of the portfolio of securities, financial assets and pecuniary resources is implemented.

With a view to achieving its investment objectives, the Fund shall adhere to a policy of investing predominantly in shares. The Fund shall invest in debt securities with a potential for price growth as well as in fixed income instruments, mainly for the purpose of maintaining liquidity, including those times in which market upheaval is observed.

### ACTIVITY DEVELOPMENT AND STATE OF THE FUND

The 'EF Principal' Mutual Fund starts the public offering of its shares on 12 September 2005. In the course of the year the investment policy of the Mutual Fund was aimed at achieving the objectives that have been set and the compliance with the investment restrictions.

The objective of the Fund consists in the realisation of capital profits from securities, revenues from dividends/income from share securities as well as current income from debt securities and other financial instruments. For achieving the investment objectives, a strategy of active management of the portfolio of securities, financial assets and pecuniary resources is implemented. The 'EF Principal' Mutual Fund invests in companies' shares, tradable rights and other securities, equivalent to companies' shares, admitted to trading or traded on a regulated market under Art. 152, para 1 and 2

of the Law on Financial Instruments Markets (LFIM) or traded on another regulated market in Bulgaria or another Member State, as well as in those admitted for trading on an official market or a stock exchange, or traded on another regulated market in a third country. The investment of the shareholders shall not enjoy the guarantee of a bank deposit.

As a result of its activity carried out during the reporting period, the Fund has realised a positive financial result in the amount of BGN 140 824.

The total amount of the expenses of the Fund for the year 2020 is BGN 12 483 788, and the said expenses are disclosed in detail in the explanatory notes to the Annual Financial Statements of the Fund.

The revenues resulting from the management of the general portfolio of the Fund are in the amount of BGN 12 624 611. The distribution of the said revenues is shown in the explanatory notes enclosed to the Annual Financial Statements for the year 2020 of the Fund.

The result of the financial activity of the Fund calculated on the basis of all the revenues and all the expenses is a profit in the amount of BGN 140 824.

The assets of the Fund as at 31 Dec. 2020 are in the amount of BGN 25 669 thousand, including BGN 22 588 thousand of financial assets at fair value through profit or loss. As at 31 Dec. 2019 the assets of the Fund amount to BGN 18 719 thousand including BGN 16 091 thousand of financial assets at fair value through profit or loss.

Due to the specifics of its activity, the Fund has not reported revenues or expenses resulting from unusual or sporadic events or transactions, and there have not been any considerable economic changes that might have had an impact on the amount of the revenues from the activity of the Fund.

At the beginning of 2020, due to the spread of the new coronavirus COVID - 19 worldwide, difficulties appeared in the business and economic activity of a number of enterprises and entire economic sectors. In the capital markets have been observed sharp increases in the levels of market volatility, caused mainly by the sale of assets and rebalancing of portfolios of large institutional investors, which led to a significant decline in the profitability of major stock indexes.

At the reporting date, the Management of the Management Company is not able to assess the overall impact of the COVID-19 pandemic situation on the future financial standing and results of the Fund, but considers that the effect will continue to lead to higher volatility and an increase of market and price risk related to the Fund's financial assets.

## ANALYSIS OF MAIN FINANCIAL AND NON-FINANCIAL INDICATORS

### Financial indicators

Analysis of key financial indicators relevant to the activity of the Fund. It is presented detailed structure of revenues and expenses by type, as well as their percentage change compared to the last year.

Structure of revenue by type and their percentage change compared to the last year

| Investment revenues | 31.12.2020 Value BGN | 31.12.2019 | Percentage change |
|---|---|---|---|
| Positive differences from transactions in financial assets | 12 466 329 | 7 037 760 | 77% |
| Interest revenues | 148 861 | 147 514 | 1% |
| Dividents revenues | 9 421 | 29 280 | -68% |

| | | | |
|---|---|---|---|
| Revenue from impairment losses recovered | 0 | 19 741 | -100% |
| **Total** | **12 624 611** | **7 234 295** | **75%** |

Structure of expenses by type and their percentage change compared to the last year

| Expenses | 31.12.2020 | 31.12.2019 | Percentage change |
|---|---|---|---|
| | Value BGN | | |
| **Investment expenses** | **11 915 850** | **6 722 692** | **77%** |
| Negative differences from transactions in financial assets | 11 907 845 | 6 714 470 | 77% |
| Expenses of foreign exchange differences | 613 | 370 | 66% |
| Other expenses | 7 392 | 7 852 | -6% |
| **Management expenses** | **567 938** | **483 472** | **17%** |
| Management company remuneration | 534 452 | 454 205 | 18% |
| Investment intermediary commission | 10 108 | 7 650 | 32% |
| Depository bank remuneration | 19 433 | 17 573 | 11% |
| Remuneration of independent financial audit; fee, paid to FSC and to Central Depository AD and other | 3 945 | 4 044 | -2% |
| **Total amount of all the expenses** | **12 483 788** | **7 206 164** | **73%** |

The performance indicators are the quantitative characteristics of the ratio of the Fund's revenues and expenses. The results of the calculation of the cost-effectiveness ratios allow us to determine how much revenue the activity receives from the use of a unit of expenditure for the same activity. The revenue ratios are reciprocal of the previous ones. They show how much cost was incurred per unit of revenue.

| Indicators | 31.12.2020 | 31.12.2019 | Percentage change |
|---|---|---|---|
| | | | |
| Revenues | 12 624 611 | 7 234 295 | 75% |
| Expenses | 12 483 788 | 7 206 164 | 73% |
| | | | |
| Coefficient | | | |
| | | | |
| Expenses effectiveness | 1.01 | 1.00 | 1% |
| Revenues effectiveness | 0.99 | 1.00 | -1% |
| | | | |

The financial result characterizes the efficiency of the activity of the Fund. It can be a profit or loss depending on the ratio of revenue to expenses. The amount of the financial result is shown in the Income Statement and the Financial Statement.

Financial result change

| Financial result as of 31.12.2020 | Financial result as of 31.12.2019 | Percentage change |
|---|---|---|
| 140 824 | 28 130 | 401% |

The liquidity indicators express the ability of the Fund to pay off its current liabilities with its current assets. The liquidity indicators are defined as ratios against which assets and liabilities are compared. The total liquidity ratio is calculated by dividing current assets by current liabilities.

| Liquidity indicators | 31.12.2020 | Total liquidity ratio | 31.12.2019 | Total liquidity ratio | Percentage change |
|---|---|---|---|---|---|
| Current assets | 25 669 095 | | 18 719 054 | | |
| Current liabilities | 250 811 | **10234%** | 1 595 | **1173608%** | **-99.13%** |

The debt indicators show how much of the Fund's debt is and its current financial position. With a high degree of indebtedness of the Fund, it will have difficulty in conducting its activity.

| Debt indicators | 31.12.2020 | Coefficient debt to registered capital | 31.12.2019 | Coefficient debt to registered capital | Percentage change |
|---|---|---|---|---|---|
| Total liabilities | 250 811 | | 1 595 | | |
| Registered capital | 25 418 283 | **0.99%** | 18 717 459 | **0.01%** | **11479%** |

Changes in the assets

| Changes in the assets | 31.12.2020 | 31.12.2019 | Percentage change |
|---|---|---|---|
| | 25 669 095 | 18 719 054 | 37% |

## EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

No adjusting events or considerable non-adjusting events occurred between the date of the Statement of Financial Position and the date of the Board of Directors' approval of the said Statement.

## RISK MANAGEMENT

The investment in shares of the Mutual Fund is connected with the influence of risks of various types and degree of impact. In general, these risks can be divided in two groups:

- Risks related to the content and structure of the portfolio of the Fund;
- Risks related directly to the activity, the management and the organisation of the Fund.

These risks may have an implication on the value of the net assets of the Fund, which has its direct reflection on the value of each share. Therefore, in view of the effect of such risks, the

value of the shares held might decrease during the period in which they are held by the investor. The management company shall not guarantee that it will be successful in achieving the investment objectives that have been set. Unlike the standard bank deposits, the investments in shares in mutual funds are not guaranteed by the state, therefore, there is no guarantee that the investors will be able to receive back the value of the initial investment made in the shares of the Fund.

'EF Principal' Mutual Fund plans to invest up to 90% of its assets into companies' shares, tradable rights and other securities equivalent to companies' shares. The main risks in this type of investments are associated with market risk – the possibility that the market value of each security will increase or decrease, sometimes too quickly and unforeseeably.

The specific risk associated with the investment portfolio of the Fund consists of the risks of the separate assets included in the portfolio. The said risk is subject to management through its diversification while striving for a comparatively high yield of the portfolio.

**Interest risk**

Interest risk ensues from a change in the value of securities resulting from a change in the interest rates. The impact of interest risk mainly concerns debt securities. In general, if interest rates increase, the price of the respective instruments decreases and vice versa. The bonds of longer maturity, as well as those of lower percentage of coupon payment are more sensitive to fluctuations in the interest rates.
The increase in the average interest rates may also influence the increase in the interest expenses of companies in which the Fund has made investments. The increase in interest expenses may lower the rate of return for the said companies, and this may have its implication on the stock quotes of their shares. With a view to lowering this risk, a constant analysis of market conditions shall be conducted for preventing against any unfavourable fluctuations in the prices of those securities in which the Fund has made investments.

**Credit risk**

This is the danger of the issuer of a security being declared bankrupt or insolvent. As for the holders of debt securities, the said risk is expressed in the possibility of the issuer being unable to perform his obligations to pay the interest on the principal.
As far as the management of credit risk is concerned, the investment managers carry out a detailed credit and financial analysis of each issuer and security, on the basis of which a decision is made regarding the investment. In addition, the active policy of management and diversification of the portfolio contributes to minimising the credit risk, as the exposure of the Fund to a particular issuer is limited.

**Currency risk**

The currency risk associated with the shares of the company is mainly connected with the currency risk associated with the investment instruments within its portfolio. The investment policy and strategy of the company is based on the fact that the so-called 'monetary board' ('currency board') system exists in our country and the BGN/EUR currency exchange rate is a fixed one, which practically eliminates the risk of a change in the exchange rate of the two currencies. In the cases of investment in securities, shares and debt securities denominated in currencies other than BGN and EUR, it is the standard techniques of insurance (hedging) of currency risk that shall apply: purchase of currency options, forward transactions, purchase or sale of currency through spot transactions, and purchase or sale of futures contracts.

**Market risk**

It is connected with the possibility that the market value of each security might increase or decrease, sometimes very quickly and unforeseeably. These 'fluctuations in prices' might bring about a situation in which the price of a security at a given point in time is much lower compared to the price at a preceding moment. This dynamics of prices is especially typical of the market of ordinary shares, the stock prices of which can be subject to abrupt fluctuations as a reaction to publicly announced information regarding the financial results of the company, the changes in the legislation or other important events.

**Price risk**

Price risk is the risk of an unfavourable change in the prices of shares of the Mutual Fund, which results from a change in the measurement of net assets. The management company shall restate the value of the assets twice a week under the supervision of the depository bank. The price may change either in the direction of an increase or in the direction of a decrease. There is no guarantee that the investors will realise positive income from the shares held in the Fund, or will preserve the value of the investment initially made. The value of the assets of the Fund is dependable on the decisions of portfolio managers of the management company, the said decisions being taken after preliminary analysis and examination of those factors which have their implications on the value of the investments made. This is the risk of a change in the price of shares resulting from changes in the prices of the assets within the investment portfolio of the Fund. This type of risk is also associated with an unfavourable change in the financial position of the Fund. A change in the price may take place either in the direction of a decrease, or in the direction of an increase.
The price risk of the Fund's shares which is caused by a change in the financial position of the Fund is considerably limited because of the statutory requirements for the structure of its investment portfolio, the additional restrictions laid down in its rules and the limitation on expenses by virtue of law. In addition to the control on the part of the management company, the Financial Supervision Commission and the depository bank exercise constant control both over the activity of the Fund and over the activity of the company which manages it.

**Risk associated with using derivatives**

Along with market, credit and liquidity risks, the derivatives also pose certain additional risks that are specific thereto. Derivatives are highly specialised instruments the use of which requires good understanding of both the underlying asset and the mechanism of operation of the derivative itself. The complexity of derivatives requires adequate means of monitoring the transactions involving them, an analysis of the specific risks and an ability to forecast prices. Any unfavourable change in the price of the underlying asset, or the rate of exchange or an index may bring about a loss of an amount greater than the one invested in the derivative. Certain derivatives have the potential for bringing about an unlimited loss. There is also a risk of erroneous assessment of the derivative. The measurement of a derivative is often a subjective one. As a consequence, the Fund may undergo losses when purchasing overestimated derivatives.

**Liquidity risk**

Here the risk is that, in certain conditions, it might turn out to be difficult or even impossible for the management company to sell at an advantageous price securities owned by the Fund. In particular, this risk is the highest with regard to those securities which have not been admitted for trading on a regulated market. The liquidity of the shares may also be limited in those cases where the management company has temporarily suspended the repurchase of the shares of the

Fund in accordance with the procedure and on the terms and conditions laid down in the Rules of the Mutual Fund and in this Prospectus.

**Operational risk**

Operational risk is mainly associated with the management of the assets of the Fund and the process of taking investment decisions. The possibility of leakage of information about the operations of the Fund to external parties and the possibility of abuse of the said information constitutes an important part of operational risk. The latter is controlled by way of adopting and complying with the internal rules on the rights and obligations of the employees, along with restricting the access to the systems related to the process of payment. The process of internal flow of documents shall provide the opportunity for exercising preliminary, current and subsequent control over the operations of the Fund. Operational risk is related to the normal operation of the Mutual Fund in the course of investing and managing the assets, this being aimed at implementation of the investment policy while abiding by the constraints that have been imposed. This is a risk which is also associated with the organisation and management of 'EF ASSET MANAGEMENT' AD, inasmuch as the management company shall be held responsible for the organisation and the management of the Mutual Fund. For this purpose, the management company shall hire a professional team, and the appropriate informational and technical equipment, so that the company can effectively manage the investments of the Fund. In addition, the management company has entered into a contract with a depository bank, which shall supervise the calculation of the net value of the assets of the Fund. An employee from the 'Compliance officer' Department, who is in charge of the activity of the management company, shall monitor the impeccability of the transactions that have been contracted and the process of autonomous management of the portfolio of the Fund, and the avoidance of any possible conflicts of interests.

With a view to achieving the investment objectives, the management company shall be entitled to implement a strategy of more intensive trading in the assets and increasing the turnover of the assets held. The higher turnover of the securities within the portfolio of the Fund is connected with payment of higher fees and commission for brokerage operations on the part of those investment intermediaries with whom the management company has signed contracts for brokerage services.

**Company's risk**

This risk relates to the nature of the activity of the Fund and concerns the probability of realisation of different levels of efficiency of the said activity. It is extremely important for each company to have a rate of return on the invested financial means and resources which corresponds to the risk related to the respective investment. The probability of the said rate of return can be measured by the dispersion and the standard deviation. They show the spread of all the possible values of the rate of return with respect to the calculated average weighted value and provide a specific assessment of the quantitative aspects of risk.

For the calculation of the total risk exposure, the Fund uses the Commitment method recommended in the CESR Risk Measurement Guidelines and the calculation of the total risk exposure and counterparty risk at collective investment schemes (CESR / 10-788.).

**LIQUIDITY**

Liquidity denotes the possibility of timely sale of an asset at any time without sustaining price losses from the sale with respect to the market levels. In the year 2020 MF 'EF Principal' maintains a structure

of the assets and liabilities which allows the Fund to carry out its activity with no obstacles, discharging its liabilities in due time, without hasty sale of income generating assets being necessary. For this purpose, the Mutual Fund has always had at its disposal the minimum liquid assets that are required under the statutory framework. There are neither circumstances nor risks that can be regarded as bringing about a considerable decrease in the liquidity of the Fund because the liquid assets that are maintained have always been above 5% of the total value of the assets.

MF 'EF Principal' maintains a minimum of 5% of its assets in cash amounts in order to be able to service the orders for repurchase of shares.

The liquidity of the company may get lower in the event of an increase in the orders for repurchase on the part of the investors.

**FLUCTUATIONS IN NET ASSETS**

The net assets of MF 'EF Principal' as at 31 Dec. 2020 amounts to BGN 25 418 thousand. The table shows the detailed distribution of the items forming the net assets of the Fund.

| | Units in circulation | Premiums/ issue discount/ repurchase | Accumulated profit/loss | Total |
|---|---|---|---|---|
| **Balance as at 31 Dec. 2019** | 18 058 | 1 083 | (424) | 18 717 |
| Par value of units issued | 6 456 | 104 | - | 6 560 |
| Profit for the period | - | | 141 | 141 |
| **Balance as at 31 Dec. 2020** | 24 514 | 1 187 | (283) | 25 418 |

MF 'EF Principal' does not have any registered initial capital. The Fund issues shares at issue price, thus forming its capital.

As at 31 Dec. 2020, MF 'EF Principal' has 24 513 688 units in circulation Their total value is in the amount of BGN 24 513 688 (each share has a par value of BGN 1), which is the amount of the units in circulation under the balance sheet of the Fund.

The financial result of MF 'EF Principal' as at 31 Dec. 2020 is a loss in the amount of BGN 282 826.

**MANAGEMENT OF MF 'EF PRINCIPAL'**

Being a mutual fund, MF 'EF Principal' is not a legal entity and has no governing bodies of its own. The Fund is organised and managed by the management company 'EF ASSET MANAGEMENT' AD by virtue of an authorisation issued by the Financial Supervision Commission (FSC). The basic matters regarding the existence, operation and winding up of the Mutual Fund, the property of the Fund and the rights of the shareholders are regulated by the Rules of the Fund, which are adopted and amended by the Board of Directors of the management company.

According to the Rules of the Fund, the management company manages the Mutual Fund by way of taking the necessary decisions related to its organisation, operation and winding up. The said decisions are taken by the Board of Directors of the management company. The decisions related to investing the assets of the Mutual Fund are taken by the investment consultant, who is an employee of the management company, in accordance with the investment objectives, the strategy and the restrictions of the Fund. Those decisions which are related to the current operative management of

the Fund are taken by the Executive Member of the Board of Directors (Executive Director) of the management company.

The Mutual Fund is represented before third parties by the person representing the management company (the Executive Director and the Procurator), acting on behalf of and at the expense of the Fund.

'EF ASSET MANAGEMENT' AD having its seat and headquarters address in Sofia 1592, Iskar district, 43 Christopher Columbus Blvd., floor 5, office 1, Tel.: + 359 2 9021 944 is the management company of the Mutual Fund.

'EF ASSET MANAGEMENT' AD was established by virtue of a decision of the Constituent Assembly held on 28 January 2005; it has a licence for carrying out activity as a management company issued under Decision No. 172 – YD of the FSC dated 8 March 2006 and Decision No. 861 – YD of the FSC dated 19 November 2020 which expands the issued license ; it is entered in the Commercial Register of Sofia City Court (SCC) under company file No. 5568/2005; and reregistered in the Commercial Register and register of NPLE of the Registry Agency under BULSTAT 131422901.

The management company has a one-tier system of governance. The governing bodies of the management company are the General Meeting of the shareholders and the Board of Directors. The Board of Directors has its functions and powers, which are explicitly specified in the Statutes of the company. The following persons have been elected members of the Board of Directors:

- IVAN KONSTANTINOV OVCHAROV – Executive Director
- EVELINA PETROVA VASILEVA – President of the Board of Directors
- DORA TENEVA IRIKOVA – Member of the Board of Directors

IVAN KONSTANTINOV OVCHAROV is Manager of TIA ENERGY OOD and President of the Board of Directors of INNOVO STATUS AD, Skopje, Macedonia and Director of Hanson Asset Management, UK.

EVELINA PETROVA VASILEVA does not take part in the management of other companies and does not own any capital therein.

DORA TENEVA IRIKOVA does not take part in the management of other companies and does not own any capital therein.

The Management Company is represented jointly by its Executive Director and the Procurator.

IVELINA IVAYLOVA IVANOVA is a Procurator ot the The Management Company and does not take part in the management of other companies and does not own any capital therein.

No special rights are provided for the members of the Board to acquire shares of the Fund, and the general regime is applied thereto.

## CHANGES IN THE PRICE OF SHARES DURING THE YEAR

The issue price and the repurchase price of a share in the Fund are calculated and published on a daily basis. The increase or decrease in the price of the shares offered reflects the changes in the net value of the assets of the Fund.

The value of the assets of the Fund is revalued in accordance with the conditions and procedure laid down in the operative legislation, the Prospectus and the Rules on the measurement of the assets and determination of the net value of the assets of the Fund.

The issue price of a share in the Fund is formed by way of dividing the net value of the assets of the Fund by the number of the outstanding shares.

The repurchase price of a share in the Fund is equal to the net value of the assets of the Fund divided by the number of the outstanding shares.

The issued shares of MF 'EF Principal' are accounted for at their nominal value. The difference between the net value of the assets per share and the nominal value of a share is accounted for as issue premium. In those cases where the Mutual Fund issues its shares either below or above their nominal value, the difference between the issue price and the nominal value is reported as premiums or issue discount.

The nominal value of a share in the Fund is in the amount of BGN 1 /one/.

At the beginning of the public offering (year 2005) the issue price of a share calculated by the management company is BGN 1.

The table below shows information on the shares of the Fund for the year.

| | Value in BGN as at 31 Dec. 2020 |
|---|---|
| Minimum issue price | 0.9656 |
| Maximum issue price | 1.0371 |
| Average weighted issue price | 1.0125 |
| Minimum repurchase price | 0.9656 |
| Maximum repurchase price | 1.0371 |
| Average weighted repurchase price | 1.0125 |
| Number of outstanding shares as at the beginning of the period | 18 057 772.5459 |
| Number of outstanding shares as at the end of the period | 24 513 688.2870 |

## EXPECTED DEVELOPMENT OF THE MUTUAL FUND

In the year 2021 the activity of MF 'EF Principal' shall continue being carried out in accordance with the main objective of the Fund, namely, an increase in the value of the investments of the shareholders by way of realisation of the maximum possible income while assuming a moderate to a high risk and ensuring the liquidity of the investments of the shareholders. With a view to achieving the main objective of the investment activity, the assets of the Fund shall be managed abiding by an active strategy, which is grounded on thorough market analyses.

The Fund shall pursue a moderately aggressive investment policy and shall be destined for those investors who are ready to assume a moderate to a high investment risk for the purpose of realisation of higher income. The Fund shall pursue a policy of active management of the investment portfolio.

In order to achieve the investment and financial objectives of the Fund, the management company shall implement an active investment strategy in the course of managing the portfolio of securities and

pecuniary resources, and the structure of the portfolio shall undergo changes depending on the current market situation and the attractiveness of the various classes of financial instruments, in compliance with the Rules of the Fund and the Prospectus.

The identification and the analysis of those factors which have the greatest influence on the presentation of the various classes of assets are of considerable importance for each successful active strategy.

As for the investments in fixed-yield securities, the said factors are the expectations regarding the changes in the interest rate levels, their volatility and the spreads among the interest rate levels by various types of fixed-yield securities – state securities, municipal securities, corporate securities, etc.

As for the investments in shares of public companies, the factors which influence the presentation of the assets are the macroeconomic situation in both global and regional aspect, the current market situation, the belonging to a specific sector of the market, the particular structure and other fundamental and technical factors that are specific to a given company.

The instruments in which the Fund invests shall be elected in a way ensuring that the investment portfolio can be diversified to the maximum extent and protected against unfavourable fluctuations in the prices on the financial markets, and against considerable exposure to an individual market sector/ company/ issue. With a view to achieving maximum diversification and optimum ratio between risk and yield, the investment decisions shall be based both on the expected yield on a certain financial instrument, and on the correlation between the daily yield on the financial instrument and the daily yield on the assets of the Fund.

In order to achieve the investment objectives of the Fund, the management company shall invest the raised financial resources of the Fund predominantly in companies' shares, tradable rights and other securities, equivalent to companies' shares, as well as in bonds and debt securities. In particular, the assets of the Fund shall be invested in the following groups of securities and instruments:

1. securities issued or guaranteed by the Bulgarian state;
2. mortgage bonds issued by Bulgarian banks;
3. corporate bonds issued by Bulgarian issuers;
4. debt securities issued by local municipalities;
5. foreign debt securities traded on internationally recognised regulated markets;
6. shares admitted to trading on a regulated market within the country and on internationally recognised regulated markets, as well as stocks or shares issued by other investment companies or funds;
7. securities other than those under subparas 1, 2 and 4 which are not traded on a regulated market, including those newly issued securities regarding which there exists an obligation – imposed either by law or by the terms and conditions of the issue – to be registered for trading on a regulated market of securities not later than one year following the issue thereof;
8. bank deposits which are either demand ones or have a term of up to 12 months.

There are two major factors that have their implication on the activity of the Fund: the dynamics of the prices of the assets on the Bulgarian capital market and, particularly, the prices of the securities within the Fund's portfolio, and the interest shown in its shares on the part of the investors.

## INFORMATION REGARDING THE RULES ON GOOD CORPORATE MANAGEMENT

The Rules of MF 'EF Principal' regarding the implementation of the internationally recognised standards on good corporate management shall be applied jointly with the management company 'EF ASSET MANAGEMENT'. The Rules pursue the following main objectives:

• establishment of a mechanism which ensures the effective compliance with the laws and the respective regulations;
• protection of the fundamental rights of the shareholders;
• equal treatment of the investors in the Fund;
• efficient control over the management and development of procedures that ensure the timely and accurate disclosure of information on any matters related to the Fund, including the financial position, the results of the activity, the ownership and the management of the Fund.

In the course of its activity in the year 2020, the managers' team of the management company 'EF ASSET MANAGEMENT' strictly adheres to the principles laid down in the Rules. The management company submits in due time and full volume all the statements and reports required by virtue of Law on the Activity of Collective Investment Schemes and Other Undertakings for Collective Investments (LACISOUCI) and Ordinance No. 44 on the requirements for the activity of collective investment schemes, management companies, national investment funds and the persons managing alternative investment funds.

The Rules of MF 'EF Principal' regarding the implementation of the internationally recognised standards on good corporate management give the opportunity for effective application of the principles laid down therein and provide a mechanism for the achievement of good results from the management of the Fund. At the present stage it is not necessary to make any changes in these Rules, therefore their content is preserved.

**Executive Director:**_____
**(IVAN OVCHAROV)**

**Procurator:**_____
**(IVELINA IVANOVA)**

**22 March 2021**
**Sofia**

# Statement of Financial Position

| Assets | Note | 2020 BGN '000 | 2019 BGN '000 |
|---|---|---|---|
| **Current assets** | | | |
| Financial assets at fair value through profit or loss | 5 | 22 588 | 16 091 |
| Receivables under repo transactions | 7 | 842 | 892 |
| Other receivables | 8 | 358 | 30 |
| Cash and cash equivalents | 9 | 1 881 | 1 706 |
| **Current assets** | | **25 669** | **18 719** |
| **Net assets belonging to unitholders** | 10 | | |
| Share capital | | 24 514 | 18 058 |
| Premium reserve | | 1 187 | 1 083 |
| Undistributed profit/(loss) | | (283) | (424) |
| **Total net assets belonging to unitholders** | | **25 418** | **18 717** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Liabilities to related parties | 15.2 | 49 | - |
| Liabilities to custodian bank | 11 | 2 | 2 |
| Other liabilities | | 200 | - |
| **Current liabilities** | 11 | **251** | **2** |
| **Net assets belonging to unitholders and liabilities** | | **25 669** | **18 719** |

**Prepared by:** _____
**(Ivelina Ivanova)**

**Executive Director:** _____
**(Ivan Ovcharov)**

**Procurator:** _____
**(Ivelina Ivanova)**

**Date: 22 March 2021**

**Audited, according to auditor's report, dated 25 March 2021**

**Kameliya Terziyska**
**Manager**
**BRAIN STORM CONSULT - OD OOD**
**Audit company**
**25 March 2021**

**Kameliya Terziyska**
**Registered auditor, responsible for the audit**

ОДИТОРСКО ДРУЖЕ... София Рег. № 148 БРЕЙН СТОРМ КОНСУЛТ - ОД ООД

The explanatory notes from page 18 to page 47 form an integral part of the Financial Statements.

# Statement of Profit or Loss and Other Comprehensive Income for the year, ending 31 December

| | Note | 2020<br>BGN '000 | 2019<br>BGN '000 |
|---|---|---|---|
| Net profit/(loss) from financial assets at fair value through profit or loss | 12 | 558 | 323 |
| Revenues from interest | | 149 | 147 |
| Revenues from participation in the equity | | 9 | 29 |
| Revenue from impairment losses recovered | | - | 20 |
| **Net Revenues from financial assets** | | **716** | **519** |
| Expenses on remuneration of the management company | 15.1.3 | (534) | (454) |
| Expenses on remuneration of the custodian bank | 13 | (19) | (17) |
| Other expenses | 14 | (22) | (20) |
| **Total operating expenses** | | **(575)** | **(491)** |
| **Net (loss)/profit for the year** | | **141** | **28** |
| **Total comprehensive income/ (loss) for the year** | | **141** | **28** |

**Prepared by:** _____
**(Ivelina Ivanova)**

**Executive Director:** _____
**(Ivan Ovcharov)**

**Procurator:** _____
**(Ivelina Ivanova)**

**Date: 22 March 2021**

**Audited, according to auditor's report, dated 25 March 2021**

**Kameliya Terziyska**
**Manager**
**BRAIN STORM CONSULT – OD OOD**
**Audit company**
**25 March 2021**

**Kameliya Terziyska**
**Registered auditor, responsible for the audit**

The explanatory notes from page 18 to page 47 form an integral part of the Financial Statements.

# Statement of changes in net assets belonging to unitholders

| | Notes | Registered capital '000 лв. | Share premium reserve '000 лв. | Accumulated profit/(loss) '000 лв. | Total net assets '000 лв. |
|---|---|---|---|---|---|
| **Balance as at 1 January 2020** | | **18 058** | **1 083** | **(424)** | **18 717** |
| Shares issued | 10 | 6 456 | 104 | - | 6 560 |
| Transactions with unitholders | | 6 456 | 104 | - | 6 560 |
| Profit for the year | | - | - | 141 | 141 |
| **Total comprehensive income for the year** | | **-** | **-** | **141** | **141** |
| **Balance as at 31 December 2020** | | **24 514** | **1 187** | **(283)** | **25 418** |

**Prepared by:** _____
**(Ivelina Ivanova)**

**Executive Director:** _____
**(Ivan Ovcharov)**

**Procurator:** _____
**(Ivelina Ivanova)**

**Date: 22 March 2021**

**Audited, according to auditor's report, dated 25 March 2021**

**Kameliya Terziyska**
**Manager**
**BRAIN STORM CONSULT - OD OOD**
**Audit company**
**25 March 2021**

**Kameliya Terziyska**
**Registered auditor, responsible for the audit**

# Statement of changes in net assets belonging to unitholders

| | Notes | Registered capital | Share premium reserve | Accumulated profit/(loss) | Total net asset |
|---|---|---|---|---|---|
| | | '000 лв. | '000 лв. | '000 лв. | '000 лв. |
| **Balance as at 1 January 2019** | | **14 955** | **986** | **(452)** | **15 489** |
| Shares issued | 10 | 3 103 | 97 | - | 3 200 |
| Transactions with unitholders | | 3 103 | 97 | - | 3 200 |
| Profit for the year | | - | - | 28 | 28 |
| **Total comprehensive income for the year** | | **-** | **-** | **28** | **28** |
| **Balance as at 31 December 2019** | | **18 058** | **1 083** | **(424)** | **18 717** |

**Prepared by:** _____
**(Ivelina Ivanova)**

**Executive Director:** _____
**(Ivan Ovcharov)**

**Procurator:** _____
**(Ivelina Ivanova)**

**Date: 22 March 2021**

**Audited, according to auditor's report, dated 25 March 2021**

**Kameliya Terziyska**
**Manager**
**BRAIN STORM CONSULT – OD OOD**
**Audit company**
**25 March 2021**

**Kameliya Terziyska**
**Registered auditor, responsible for the audit**

# Statement of Cash Flows for the year, ending 31 December

| | Note | 2020 BGN '000 | 2019 BGN '000 |
|---|---|---|---|
| **Cash flow from operating activity** | | | |
| Proceeds from operations in financial assets | | 5 160 | 4 779 |
| Payments for acquisition of financial assets | | (11 135) | (7 270) |
| Interest received | | 91 | 196 |
| Dividends received | | 9 | 6 |
| Payments for operating expenses and other expenses | | (510) | (516) |
| Cash flow from operating activity | | **(6 385)** | **(2 805)** |
| **Cash flow from financial activity** | | | |
| Proceeds from issues of shares | 10 | 6 560 | 3 200 |
| Cash flow from financial activity | | **6 560** | **3 200** |
| **Net change in cash and cash equivalents** | | **175** | **395** |
| Cash and cash equivalents at the beginning of the year | | 1 706 | 1 311 |
| **Cash and cash equivalents at the end of the year** | **9** | **1 881** | **1 706** |

**Prepared by:** _____
**(Ivelina Ivanova)**

**Executive Director:** _____
**(Ivan Ovcharov)**

**Procurator:** _____
**(Ivelina Ivanova)**

**Date: 22 March 2021**

**Audited, according to auditor's report dated 25 March 2021**

**Kameliya Terziyska**
**Manager**
**BRAIN STORM CONSULT – OD ООД**
**Audit company**
**25 March 2021**

**Kameliya Terziyska**
**Registered auditor, responsible for the audit**

# Notes to the financial statements

## 1. General information

The Mutual Fund 'EF Principal' ('the Fund') is organised and managed by the management company 'EF Asset Management' AD, Sofia, 43 Christopher Columbus Blvd., floor 5, on the grounds of a decision of the Board of Directors and the General Meeting of the shareholders of the management company held on 16 June 2005. The Fund has a licence issued by the Financial Supervision Commission under No. 526-DF dated 17 August 2005, the scope of activities under the licence being: 'Collective investment in transferable securities and other liquid financial assets under Art. 38, para. 1 of the Law on the Activity of Collective Investment Schemes and Other Undertakings for Collective Investments (LACISOUCI) of pecuniary resources raised by way of public offering of shares, which is performed following the principle of distribution of risk'.

MF 'EF Principal' is not a separate legal entity and has neither legal personality, nor governing bodies. The Fund represents property intended for collective investment in securities of the pecuniary resources that have been raised. All the assets acquired for the Fund are under the common ownership of the persons who have invested therein. The profits/losses of the Fund shall be received/covered by the investors in proportion to their part in the property of the Fund.

MF 'EF Principal' issues shares which give rights over the respective part of the property of the Fund, including the event of liquidation, the right to repurchase as well as other rights provided for in the Law on the Activity of Collective Investment Schemes and Other Undertakings for Collective Investments and in the Rules of the Fund.

The Mutual Fund does not have any registered initial capital.

The profile of the Fund is a moderate to a high risk one. The Fund invests predominantly in Bulgarian and foreign stocks and shares in collective investment schemes (CIS), corporate bonds and mortgage bonds, which are traded on regulated markets. The objective of the Fund consists in the realisation of capital profits from securities, revenues from dividends/income from share securities as well as current income from debt securities and other financial instruments. For achieving the investment objectives, a strategy of active management of the portfolio of securities, financial assets and pecuniary resources is implemented.

## 2. Basis for preparation of financial statements

The financial statement of the Fund was prepared in conformity with the International Financial Reporting Standards (IFRS), elaborated and published by the International Accounting Standards Board (IASB) and verified by the European Union (EU).

The financial statement as of the 31st of December 2020 was prepared in BGN, being the functional currency of the FUND. All sums are presented in thousand BGN ('000 BGN), including the comparative information about 2019.

At the beginning of 2020, due to the spread of the new coronavirus COVID - 19 worldwide, difficulties appeared in the business and economic activity of a number of enterprises and entire economic sectors. In the capital markets have been observed sharp increases in the levels of market volatility, caused mainly by the sale of assets and rebalancing of portfolios of large institutional investors, which led to a significant decline in the profitability of major stock indexes.

At the reporting date, the Management of the Management Company is not able to assess the overall impact of the COVID-19 pandemic situation on the future financial standing and results of the Fund, but considers that the effect will continue to lead to higher volatility and an increase of market and price risk related to the Fund's financial assets.

The financial statement was prepared in conformity with the going concern principle.

As of the date of drawing the present financial statement, the management assessed Fund's capacity to keep doing its business according to the going concern principle based on the available information for the foreseeable future. After the performed review of the FUND operations, the Management Board expects it would have sufficient financial resources to keep doing its operational business in the near future and keep implementing the going concern principle when drawing the financial statement.

**3. Changes in the accounting policy**

**3.1** Changes in the accounting policy – up-to-date changes as of 1st of January 2020 and changes during the period.

**As of the date of approving the present financial statement, the following new standards, supplementations and improvements to the available standards issued by the International Accounting Standards Board (IASB) and passed for implementation by the EU are effective during the current period:**

The Fund has applied for the first-time certain standards that come into force for annual periods beginning on or after 01.01.2020. The Company has not applied earlier other standards or amendments to standards which have been published, but have not entered into force yet.

**(a) Amended standards in force from 01.01.2020, adopted for implementation in the EU**

- **Amendments to IFRS 3 - Definition of Business**

The amendment to IFRS 3 Business Combinations clarifies that in order to be considered as an economic activity, an integrated set of activities and assets must include a minimum inputs and a substantial process which together contribute significantly to the ability to generate results. It also clarifies that the economic activity can exist without involving all the input resources and processes needed to generate results. These changes have not had an impact on the Company's financial statements, but may affect in future periods if the Company undertakes any business combinations.

- **Amendments to IFRS 7, IFRS 9 and IAS 39 - Basic Interest Rate Reform**

Amendments to IFRS 7 Financial Instruments: Disclosure, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Estimation are the result of Phase 1 of the IASB draft base rate reform, published by the IASB in September 2019. They provide certain reliefs in connection with the replacement of the reference (base / benchmark) interest rates, such as EURIBOR, EONIA, LIBOR, etc. sub., with alternative interest rates, effective after 31.12.2021, in relation to hedge accounting, so that the interest rate reform does not lead to the termination of hedge accounting before that date. According to the provided reliefs the Company is required to accept that the interest rate on which the hedged cash flows are based does not change as a result of the reference interest rate reform, and therefore the entity may continue to apply hedge accounting.
These amendments do not have an impact on the Company's financial statements because it does not apply hedge accounting.

- **Amendments to IAS 1 and IAS 8 - Definition of Materiality**

With the amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors a new definition of materiality has been introduce, which states: "information is regarded as material if it could reasonably be expected to be omitted, inaccurate presenting or concealing its effect on the decisions that key users of general purpose financial statements make on the basis of those statements containing financial information about a particular reporting Company. " It is clarified that materiality depends on the nature or scale of the information, alone or in combination with other information, in the context of the financial statements generally. They also explained the ways of concealing information in the financial statements. These amendments had no impact on the Company's financial statements, nor are they expected to have any effect on the Company in the future.

- **Revised Conceptual Framework for Financial Reporting**

On March 29, 2018, the IASB published a revised Conceptual Framework for Financial Reporting (third version of the framework). The conceptual framework is not a standard and the concepts contained in it do not take precedence over the requirements in the IFRS standards. The purpose of the Conceptual Framework is to assist the IASB in developing standards, for financial compilers to develop consistent accounting policies when there is no applicable standard or interpretation, and to help all parties understand and interpret IFRS. The revised conceptual framework from 2018 will affect companies that develop their accounting policies based on the framework. The revised framework includes some new concepts, updated definitions and criteria for recognizing assets and liabilities and clarifies some important concepts. These changes did not have an impact on the financial statements of the Company.
The conceptual framework for financial reporting is not a standard and is therefore not subject to adoption by the European Commission for application in the EU in accordance with regulatory procedures.

- **Amendments to IFRS references to the Conceptual Framework**

Along with the revised Conceptual Framework, published in March 2018, the IASB also publishes amendments to the references to the Conceptual Framework in the IFRS standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32. However, not all amendments update the references and citations of the framework so that they relate to the revised Conceptual Framework. Some of the amendments specify which version of the framework is relevant (General provisions published by the IASB and adopted by the IASB in 2001, the 2010 IASB Conceptual Financial Reporting Framework or the new revised Financial Reporting Framework from 2018) or it is stated that the definitions in the standard are not updated according to the new definitions in the revised Conceptual Framework.

- **Amendment to IFRS 16 - Rental discounts in the Context of COVID-19**

On 28.05.2020, the IASB published an amendment to IFRS 16 Leasing regarding rental discounts related to COVID-19. The amendment provides an exemption for lessees from the application of the guidance in IFRS 16 on reporting the changes of lease agreements for rental discounts arising as a direct consequence of the COVID-19 pandemic. As a practical measure, the lessee may choose not to assess whether the rental discount associated with Covid-19 and provided by the lessor is an amendment to the lease agreement. A lessee who makes this choice shall account for any change in lease payments arising from a COVID-19-related rental discount in the same way as it would account for the change in IFRS 16 if the change was not an amendment (modification) to the lease agreement. According to the IASB, the amendment to IFRS 16 should be applied for annual reporting

periods beginning on or after 01.06.2020, but according to Art. 2 of the Regulation on the implementation of the amendment in the EU, the date of initial application is 01.01.2020. This amendment to IFRS 16 did not have an impact on the financial statements of the Company.

**3.3. 3.2.Standards, amendments and explanations, issued by the International Accounting Standards Board (IASB) and adopted for implementation by the EU, which were not in effect for the current period and were not applied to the Fund**

In the current year the Fund applied amendments to IFRS and explanations, issued by the International Accounting Standards Board (IASB), which have become effective for annual periods, commencing on or after 01.01.2020. Their application does not have a significant impact on the disclosures or amounts in these financial statements. These amendments and explanations include:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Base Rate Reform – Phase 2**

The amendments address issues which can affect financial reporting after the reform of reference interest rates, including their replacement by alternative interest rates. In September 2019, the IASB published a connected amendment to IFRS 9, IAS 39 and IFRS 7 as a result of Phase 1 of the draft. The amendments to Phase 2 apply to the change required by the interest rate reform regarding to financial instruments and hedge accounting. Hedge accounting should not be discontinued solely due to interest rate reform.
Regarding to floating rate financial instruments, as a practical measure, an Company is required to apply par. B5.4.5 of IFRS 9, so that the change in the basis for determining contractual cash flows is applied in perspective, by reviewing the effective interest rate.
With the amendment to IFRS 4, Insurance contracts insurers, which applies a temporary exemption from IFRS 9, are required to apply the amendment to IFRS 9 when reporting the modifications directly required by the interest rate reform.
IFRS 7 Financial Instruments: Disclosures is also amended, additional disclosures are required that allow consumers to understand the nature and extent of the risks arising from interest rate reform, on which the Company is exposed and how the Company is managing those risks.
Lessees, as a practical measure, apply par. 42 of IFRS 16 Leasing, taking into account the change in the reference interest rate regarding to variable lease payments as a change in the lease contract. As a result, when revaluing lease liabilities, lessees should use an adjusted discount rate that reflects the change in the reference interest rate.
Amendments to these standards shall enter into force for annual periods beginning on or after 1 January 2021, and shall be permitted earlier. The amendments have not been accepted for application in the EU yet.

- **Amendment to IFRS 3 - Reference to the Conceptual Framework**

With the amendment to IFRS 3 Business Combinations the reference to the Conceptual Framework for Financial Reporting from 2018 has been changed (instead of the General Provisions for the Preparation and Presentation of Financial Statements), without significantly changing in the standard requirements.
The amendment to IFRS 3 should be applied for annual periods beginning on or after 1 January 2022, with earlier application permitted if the Company also applies other references to the Conceptual Framework published with the new version of the Framework. The amendment has not yet been accepted for application in the EU.

- **Amendment to IAS 16 - Revenues before Intended Use**

With the amendment to IAS 16 Property, Plant and Equipment it is prohibited to deduct from the cost of acquisition of a property, plant or equipment the net revenues from the sale of the manufactured units until the asset is brought to the location and condition necessary to be able to function in the manner prescribed by management. Instead of that, an Company recognizes the revenues from the sale of such units and the cost of producing them in profit or loss. The amendment to IAS 16 shall be applied for annual periods beginning on or after 1 January 2022, allowing earlier application. The amendment has not yet been accepted for application in the EU.

- **Amendment to IAS 37 – Onerous Contracts - Contract Implementing Costs**

With the amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets clarifies that "the cost (the price) of a contract" includes "costs that are directly attributable to the contract". Costs that are directly related to the contract may be additional costs for the implementation of this contract (for example direct labor costs, materials) or distribution of other costs that are directly related to the implementation of the contract (for example distribution of depreciation costs of an assets from property, plant and equipment used to perform the contract).
The amendment to IAS 37 should be applied for annual periods beginning on or after 1 January 2022, allowing earlier application. The amendment has not yet been accepted for application in the EU.

- **Annual improvements to IFRS, cycle 2018-2020**

With these consecutive annual improvements, the following standards are amended:

**IFRS 1 Application for the first time of International Financial Reporting Standards** - The amendment allows a subsidiary that applies par. D16 (a) of IFRS 1, to estimate the cumulative exchange differences from recalculation using the amounts reported by its parent undertaking, based on the date of transition to IFRS of the parent undertaking.
**IFRS 9 Financial Instruments** - The amendment clarifies which fees should the Company include when applying the "10%" criterion in paragraph B3.3.6 of IFRS 9 in the assessment for writing off a financial liability. The Company includes only fees paid or received between the Company (the borrower) and the lender, including fees paid or received either by the Company or by the lender on behalf of the other.
**IFRS 16 Leasing** - An example of Illustration 13 accompanying IFRS 16 has been amended by removing from the example the text for reimbursement of improvements to the leased property by the lessor in order to avoid possible confusion regarding the treatment of lease incentives that may arise due to the way the leasing incentives are illustrated in this example.

- **Amendment to IAS 1 - Classification of liabilities as current or non-current**

The amendment to IAS 1 Presentation of Financial Statements has the intention to encourage consistency in the application of the requirements by enabling companies to determine whether loans and other liabilities with an uncertain settlement date should be classified as current in the statement of financial position. or possibly due within one year) or non-current. The amendment to IAS 1 shall apply for annual periods beginning on or after 1 January 2022 (revised date as set out below). It has not yet been accepted for application in the EU.

- **Amendment to IAS 1 - Classification of the liabilities as current or non-current - deferring the date of entry into force**

The amendment to IAS 1 Presentation of Financial Statements postpones the effective date of the amendment regarding the classification of liabilities as current or non-current by one year, so companies will have to apply the amendment for annual periods beginning on or after 01.01. 2023. The amendment shall enter into force immediately. It has not yet been accepted for application in the EU.

- **Amendment to IFRS 4 - Extension of the period of application of the temporary exemption from IFRS 9**

The amendment to IFRS 4 Insurance Contracts changes the fixed expiry date of the temporary exemption in IFRS 4 from the application of IFRS 9 Financial Instruments (applying IAS 39 Financial Instruments: Recognition and Estimation instead of IFRS 9) so that companies which perform insurance activities as a main activity and have taken advantage of this opportunity will apply IFRS 9 for annual periods beginning on or after 01.01.2023 together with the new IFRS 17 Insurance Contracts. The amendment enters into force on 01.01.2021. The amendment is accepted for application in the EU.

- **IAS 41 Agriculture –**

With the amendment the requirement in para. 22 of IAS 41 removes the requirement that the Companys should exclude tax cash flows when measuring the fair value of a biological asset using the present value technique. That achieves consistent treatment as in IFRS 13 Fair Value Measurement.

Amendments to appointed standards should be applied for annual periods beginning on or after 1 January 2022, allowing for earlier application. These amendments have not yet been adopted in the EU.

- **IFRS 17 Insurance Contracts**

IFRS 17 Insurance Contracts is a new standard that will replace IFRS 4 Insurance Contracts. The new standard requires insurance liabilities to be measured at the current value of performance and provides a more unified approach to the valuation and presentation of all insurance contracts. These requirements are designed to achieve the objective of consistent, principle-based accounting for insurance contracts. IFRS 17 is effective for annual periods beginning on or after 1 January 2021 (amended date as set out below), with earlier application permitted if IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. IFRS 17 has not yet been accepted for application

- **Amendment to IFRS 17 Insurance Contracts**

The IASB has published an amendment to IFRS 17 to address the concerns and challenges regarding applying the standard that were identified since its publication in 2017. The amendment to IFRS 17 postpones the date of initial application of IFRS 17 by two years - for annual periods beginning on or after 1 January 2023. A number of other amendments to IFRS 17 are also introduced.
The amendment shall enter into force for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendment to IFRS 17 has not yet been accepted for application in the EU.

- **Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture**

The amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures was published by the IASB on 11 September 2014. On 17 December 2015, with a new amendment, the IASB postponed the application of this amendment for an indefinite date in the future, until the completion of its research project on accounting under the equity method. However, companies are still allowed to apply the amendments to the two standards from an earlier date. The amendments have not been accepted for application in the EU.
The Fund does not expect that the adoption of these new standards, amendments to existing standards and new explanations would have a significant effect on Fund's financial statement in the period of initial application.

## 4. Accounting policy

### 4.1. General provisions

The most significant accounting policies applied in the course of preparation of these financial statements are shown here below.

The financial statements have been prepared following the principles of measurement of all types of assets, liabilities, revenues and expenses in compliance with the ISFRs. The bases of measurement are shown in detail in the accounting policy to the financial statements. The financial statements have been drawn up in compliance with the going concern principle.

It must be pointed out that, when preparing these financial statements, certain accounting assessments and assumptions have been used. Although they are based on information submitted by the governing body as at the date of preparation of the financial statements, the real results may differ from the said assessments and assumptions.

All valuations of assets, liabilities, income and expenses were performed in accordance with the Rules on the measurement of the assets and determination of the net value of the assets and no methods or approximations were used outside the normatively determined for the activity of the Fund.

### 4.2. Presentation of financial statements

The financial statements are presented in compliance with IAS 1 'Presentation of financial statements'.
The Fund has taken the decision to present the statements of the comprehensive income in a consolidated statement.
The statement of financial position presents two comparative periods in those cases where the Fund applies the accounting policy retrospectively, retrospectively restates items in the financial statements; or reclassifies items in the financial statements and this has a significant effect on the information in the statement of financial position as at the beginning of the previous period.

### 4.3. Transactions in foreign currency

The transactions in foreign currency are accounted for in the functional currency of the Fund in accordance with the official currency exchange rate as at the date of the transaction (the announced exchange rate of the Bulgarian National Bank). The foreign exchange gains and losses which arise in the course of settlement of these transactions and the revaluation of foreign currency monetary items as at the end of the reporting period are recognised in the profit or loss.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional exchange rate at the reporting date.

The non-monetary items carried at historical cost in foreign currency are assessed in accordance with the currency rate of exchange as at the date of the transaction (with no revaluation). The non-monetary items carried at fair value in foreign currency are accounted for in accordance with the currency rate of exchange as at the date on which the fair value is determine.

The gains and losses with financial instruments in foreign currency, classified as accounting at fair value through profit or loss are included in profit or loss in the statement of profit or loss and other comprehensive income as part of the net gain or loss on financial assets and liabilities at fair value through profit or loss.

### 4.4. Financial instruments under IFRS 9

#### 4.4.1. Recognition and derecognition

The financial assets and liabilities are recognised in those cases where the Fund is a party to contractual agreements which involve financial instruments.

A financial asset is written-off when the rights to receive cash flows from the asset have expired; or the rights to receive cash flows from the asset have been transferred or the Fund is responsible to pay in full received cash flows without significant delay to a third party through a transfer agreement and the Fund has:

a) transferred substantially all the risks and benefits of ownership of the asset; or;

б) neither transferred nor retained substantially all the risks and benefits of ownership of the asset but has not retained the control on it;

Where the Fund has transferred its rights to receive cash flows from the asset (or has entered into a transfer agreement) and has neither transferred, nor retained substantially all the risks and benefits of the ownership of the financial asset, nor transferred control of the financial asset, it continues to recognise the transferred asset to the extent of its continuing involvement in the financial asset. In this case, the Fund also recognises the related liability. The transferred asset and the related liability are measured on a basis that reflects the rights and liabilities that the Fund has retained.

A financial liability is written off upon its discharge or repayment, or cancellation of the transaction, or expiration of the limitation period.

#### 4.4.2. Clasification and initial measurement of financial assets

Financial assets are initially measured at fair value plus the expenses under the transaction, with the exception of those financial assets carried at fair value in the profit or loss and trade receivables that do not contain a significant financial component. The initial measured of financial assets at fair value through profit or loss is not adjusted with transaction costs that are reported as current expenses.

In accordance with IFRS 9, the Fund classifies its financial assets and financial liabilities on initial recognition in the categories of financial assets and financial liabilities discussed below.

Depending on the method of subsequent measurement, the financial assets are classified in the following categories:

- Debt instruments at amortised cost;
- Financial assets at fair value in the profit or loss;
- Financial assets at fair value through other comprehesive income whit or whitout reclassification to profit or loss depending on whether they are debt or equity instruments

The classification is determined by both:

- The entity's business model for managing the financial assets;

- The contractual cash flows characteristics of the financial assets.

The fund classifies its investments on the basis of both the business model for their management and the characteristics of the contractual cash flows on the financial assets. The investment portfolio of the Fund is managed and its performance is evaluated on the basis of fair value information. The management of the Fund's Management Company concentrates on information about the fair values of its financial assets and uses this information to make decisions and evaluate the performance of the assets.

The Fund has not chosen once and irrevocably to designate equity instruments as measured at fair value through other comprehensive income.

All investments of the Fund are reported subsequently at fair value through profit or loss.

#### 4.4.3. Subsequent measurent of financial assets

**Debt instruments at amortised cost**

Financial assets are measured at amortised cost if the assets meet the following conditions and are not designated as fair value through profit or loss:

- the fund manages the assets within a business model whose objective is to hold the financial assets and collect their contractual cash flows;
- according to the contractual terms of the financial asset give rise to cash flows arise on specific dates, which are only payments on principal and interest on the outstanding amount of the principal.

This category includes non-derivative financial assets like receivables with fixed or determinable payments that are nor quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Fund's receivables and cash and cash equivalents fall into this category of financial instruments.

The effective interest method is a method that used in the calculation of the amortized cost of a financial asset or a financial liability and in allocation and recognition of interest income or interest expense in profit or loss over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or the amortised cost of the financial liability. When calculating the effective interest rate, the Fund estimates cash flows taking into account all contractual terms of the financial instruments, but does not take into account expected credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts.

The Fund's receivables arise mainly from declared dividends and from matured principal and interest on bonds. These financial assets are classified as debt instruments at amortized cost because the Fund holds them to collect the contractual cash flows thereon, which consist only of principal payments and interest on outstanding principal.

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

Financial assets that are held within a different business model "hold to collect" or "hold to collect and sell", and financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for a financial assets at fair value through profit or loss. All derivative financial instruments are accounted in that category with the exception of those that are defined as effectively

hedging instruments and for which are applied the requirements for reporting of the hedging (see below).

After the initial measurement, the Fund measures financial instruments that are classified at fair value through profit or loss at fair value. The subsequent changes in the fair value of these financial instruments are recognized in net profit or loss of financial assets at fair value through profit or loss in the income statement and other comprehensive income. The interest and dividends received or paid on these instruments are reported separately in interest income or expense and dividend income or expense in the income statement and other comprehensive income.

Changes in the fair value of the assets in this category are recognized in profit and loss. The fair value of financial assets in this category are determined by quoted prices in an active market or using valuation techniques in case there is no active market.

The Fund uses various methods and makes assessments based on market conditions existing at for every reporting date. The used techniques for valuation include the use of comparable recent ordinary transactions between market participants, references to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants who use maximum the market entry and relying as little as possible on enterprise-specific data.

Regarding assets and liabilities that are measured at fair value on a recurring basis, the Fund identifies transfers between levels in the hierarchy by revaluing the categorization (based on the lowest level of input, which is important for fair value measurement as a whole), and considers that the transfers occurred at the beginning of each reporting period.

The Fund has no debt instruments or equity instruments at fair value through other comprehensive income. Therefore, the above policy does not further discuss such a classification.

The main measurement methods used are listed below, depending on the type of instrument:

**Shares, tradable rights and other securities equivalent to shares, at fair value in the profit or loss**

The subsequent assessment of Bulgarian and foreign shares and rights admitted to trading on a regulated market of securities in the Republic of Bulgaria and of Bulgarian shares and rights admitted to trading on a regulated market in the Member States is carried out:

- at the average weighted price of the transactions contracted therein during the last working day, the said price being announced either through the trading system or in the stock exchange bulletin, provided that the amount of the transactions contracted therein during the day is not lower than 0,02 per cent of the amount of the respective issue.
- Where it is impossible to determine the price under the preceding item, the price of the shares, and respectively, the price of the rights is determined as the arithmetic mean of the highest bid price of the orders valid as at the closing time of the regulated market on the last working day, and the average weighted price of the transactions contracted in the respective securities during the same day. The price is determined in accordance with this procedure in the event that transactions have been contracted and orders have been placed at the bid price.
- In those cases where the preceding item cannot be applied, the price of the shares, and respectively, the price of the rights is the average weighted price of the transactions contracted therein during the closest day within the last 30 days' period preceding the day of the assessment, this being a period during which transactions were contracted. In the event that an increase in capital was made, or division of the shares of the issuer or payment of a dividend was announced during the preceding 30 days' period, the average weighted price under the first sentence is adjusted by the ratio of the capital increase, respectively, the division of the shares or the amount of dividend, provided that the closest day during the last

30 days' period prior to the assessment date in which transactions were contracted precedes the day following which the shareholders are not entitled to take part in the increase of capital, or, respectively, the day of division, or the day following which the shareholders have no right to a dividend.

As for shares which are not traded on regulated markets as well as where it is impossible to apply the above methods to certain shares, the assessment is carried out by the following methods:

- the method of price/profit ratio of similar companies;
- the method of net carrying value of the assets;
- the method of discounted net cash flows.

**Bulgarian and foreign bonds at fair value in the profit or loss**

The subsequent assessment of Bulgarian and foreign bonds admitted to trading on a regulated market of securities in the Republic of Bulgaria and of Bulgarian bonds admitted to trading on a regulated market in the Member States is carried out:

- at the average weighted price of the transactions contracted therein during the last working day, the said price being announced either through the trading system or in the stock exchange bulletin, provided that the amount of the transactions contracted therein during the day is not lower than 0,01 per cent of the amount of the respective issue
- In those cases where it is impossible to determine a price by way of applying the procedure set out in the preceding item, the subsequent assessment of bonds is carried out at the average weighted price of the transactions contracted therein during the closest day within the last 30 days' period preceding the day of the assessment, this being a period in which transactions were contracted. In the event that it is impossible to determine a price by way of applying the procedure set out in the preceding items, the assessment is carried out by the method of discounted cash flows, the same method being also used for bonds that are not traded on regulated markets.

The fair value of shares in collective investment schemes having an authorisation for carrying out activity according to Directive 2009/65/EC of the European Parliament and of the Council and/or of other undertakings for collective investment under Art. 38, para. 1, subpara. 5 of the LACISOUCI is determined at the latest announced repurchase price. In the cases of temporary suspension of the repurchase of shares in the collective investment scheme, their subsequent assessment is carried out either at the latest determined and announced repurchase price, or at the fair value of a share. In the event that the temporary suspension of the repurchase of shares lasts longer than 30 days, their subsequent assessment is carried out at the fair value of a share by applying the method of net carrying value of the assets.

**Bulgarian and foreign securities admitted to trading or traded on regulated markets abroad that are regularly operating, recognised and publicly available ones**

The subsequent assessment of securities traded on regulated markets and stock exchange official markets which have closed before 3 p.m. Bulgarian time on the assessment day shall be assessed:

- at the latest price of a transaction therein contracted on the respective market on the last working day.
- where it is impossible to apply the way of assessment under the preceding item, the assessment shall be carried out at the latest price of a transaction contracted therein during the last 30 days' period.
- Where it is impossible to determine a price in accordance with the procedure set out in the preceding items, the measurement of a given type of securities is made on the basis of

application of subparas 5, 6 and 9 of the Rules on portfolio assessment and determination of the net value of assets.

**4.4.4. Impairment of financial assets**

**Policy effective from 1 January 2018 (IFRS 9)**

IFRS 9's new impairment requirements use more forward-looking information to recognise expected credit losses - the "expected credit loss" model, which replaces the "incurred loss model" presented in IAS 39.

Instruments within the scope of the new requirements include receivables and other debt financial assets measured at amortised cost, as well as debt instruments measured at fair value through other comprehensive income.

Recognition of credit losses is no longer dependent on the occurrence of an event of credit losses. Instead the Fund considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportive forecasts that affect the expected collection of future cash flows of the instrument.

The Fund's approach to expected credit losses reflects the weighted result, the time value of money and reasonable and maintenanceable information that is available without undue expense or effort at the reporting date for past events, current conditions and forecasts of future economic conditions.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1), and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2) whose has
- "Stage 3"whould covers financial assets that have objective evidence of impairment at the reporting date. However, none of the Fund's financial assets falls into this category.

12-month expected credit losses are recognized for the first category, while expected losses for the entire term of the financial instruments are recognized for the second category. Expected credit losses are determined as the difference between all contractual cash flows attributable to the Fund and the cash flows it actually expects to receive ("cash shortfall"). This difference is discounted at the original effective interest rate (or credit adjusted effective interest rate).

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

The Fund uses its experience, external indicators and long-term information to calculate the expected credit losses on assets carried at amortized cost.

**4.4.5. Classification, recognition and subsequent measurement of financial liabilities**

The financial liabilities of the Fund include liabilities to related parties and other liabilities.

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

Financial liabilities are subsequently measured at amortized cost using the effective interest method, except for derivatives and financial liabilities that are designated at fair value through profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest expenses and, if applicable, changes in the fair value of the instrument that are recognized in profit or loss are included in financial expenses or financial income.

The Fund has not determined its liabilities as at fair value through profit or loss.

#### 4.4.6. Contracts for sale and repurchase of securities

Securities can be rented or sold with a repurchase commitment (repo transaction). These securities continue to be recognized in the statement of financial position when all significant risks and rewards of ownership remain at the expense of the Fund. In this case the liability is to the other side of the contract in the financial statement when the fund receives the monetary payment.

Similarly, when the Fund rents or buys securities with a commitment to resell them (reverse repo transaction) but does not acquire the risks and rewards of ownership, transactions are treated as collateralised loans where the remuneration is paid. The securities are not recognized in the statement of financial position.

The difference between the sale price and the repurchase price is recognized in installments over the contract period using the effective interest method. Leased securities continue to be recognized in the statement of financial position. Borrowed securities are not recognized in the statement of financial position unless they are sold to third parties, whereby the repurchase obligation is recognized as a trade liability at fair value and the subsequent gain or loss is included in net profit or loss.

### 4.5. Income from interest and dividend payments

The income from interest is due to the bank deposits and the securities that have interest yields. They are accounted through the method of the effective interest according to the requirements of IFSR 9 'Financial instruments.

Dividend income is recognized when the right to receive payment is established.

### 4.6. Interest expenses

Interest expenses are reported on the effective interest method.

### 4.7. Net profit/(loss) from financial assets at fair value through profit or loss

Net profit or loss from financial assets at fair value through profit or loss are changes in the fair value of financial assets and liabilities or determined on initial recognition at fair value through profit or loss, and exclude income and expenses on interest and dividends.

### 4.8. Operating expenses

The expenses related to the activity of the Fund are recognised in the profit or loss in the Statement of Profit or Loss and Other Comprehensive Income, with due regard for the principle of current accrual. The expenses related to the activity of the Fund ("Operating expenses") which are indirectly payable by all its shareholders are accrued daily, and so is the remuneration of the management company and remuneration of the Custodian Bank in accordance with the concluded agreements with the Management Company and the Custodian Bank.
The annual operating expenses of the Fund may not exceed 4,5% of the annual average net value of the assets of the Fund. Those operating expenses related to the activity of the Fund which are indirectly payable by all its shareholders are accrued daily, and so is the remuneration of the management company.

The investors shall pay no fees or commission upon the issues or repurchase of shares.

### 4.9. Cash and cash equivalents

The cash and cash equivalenets consist from the current cash, cash held at bank accounts, deposits, short-term and highly liquid investments which are easily convertible to monetary sums and contain insignificant risk from a change in value.

### 4.10. Income taxes

According to Art. 174 of the Law on Corporate Income Taxation, those collective investment schemes which are admitted to public offering in the Republic of Bulgaria and the national investment funds under the Law on the Activity of Collective Investment Schemes and Other Undertakings for Collective Investment are not subject to corporate tax.

### 4.11. Net assets belonging to unitholders

**Classification of shares subject to redemption**

Units Redeemable be classified as an equity instrument when:

- The units to be repurchased entitle the holder to a proportional share of the Fund's net assets in the event of liquidation of the Fund.;
- The units to be repurchased are in the instrument class, which is subordinate to all other instrument classes;
- All units to be repurchased in the instrument class that are subordinated to all other instrument classes have identical characteristics;
- The units to be repurchased do not include a contractual obligation to pay cash or deliver another financial asset, other than the holder's rights, for a proportionate share of the Fund's net assets;
- The total expected cash flows that relate to units to be redeemed during the life of the instrument are based primarily on profit or loss, the change in recognized net assets or the change in the fair value of the Fund's recognized and unrecognized net assets in tool life.

Apart from the units to be repurchased, having all the characteristics listed above, the Fund must not have any other financial instrument or contract that has:

- Total cash flows based primarily on profit or loss, change in recognized net assets or change in fair value of recognized and unrecognized net assets of the Fund;
- An effect from a significant restriction of the remaining return of units to be repurchased.

At the Statement on Profit or Loss and Other Comprehensive Income are not accounted profit or loss from share issuing, redemption or annulling of units of the Fund.

The Fund is a mutual fund which issues its 'capital' instruments and has the obligation to repurchase them thereafter. The financial resources raised – the nominal and the issue reserves – and the achieved financial result determine the net value of the assets owned by the investors.

The objectives, policies and processes related to the management of the Fund's obligation to repurchase the instruments in those cases where the holders of the said instruments request so, are specified in explanatory note 'Risks related to financial instruments'.

The net value of the assets of the Fund is determined in accordance with the Rules on portfolio assessment and determination of the net value of assets, these Rules being approved by the Financial Supervision Commission. The methodology of determining the net value of the assets of the Fund is based on:

- the provisions of accountancy legislation;
- the provisions of the Law on the Activity of Collective Investment Schemes and Other Undertakings for Collective Investments;
- Ordinance No. 44 on the requirements for the activity of collective investment schemes, management companies, national investment funds and the persons managing alternative investment funds;
- the Rules and the Prospectus of the Fund;

The net value of the assets per share is the basis for determining the issue price and the repurchase price of the shares of the Fund.

The net value of the assets value otf the Fund is obtained by reducing the value of all assets from the value of liabilities.

The undistributed profit/accumulated loss consists of the current financial result and the accumulated profits and outstanding losses of previous years.

### 4.12. Provisions, contingent liabilities and contingent assets

Provisions are recognised in those cases where it is probable that a present obligation resulting from a past event may bring about an outgoing flow of resources of the Fund, and the amount of the said obligation can be reliably assessed. It may happen that the term or the amount of the outgoing cash flow is uncertain. The present obligation arises from the presence of a legal or constructive obligation as a consequence of past events, for instance legal disputes. The provisions regarding restructuring shall only be recognised if a detailed formal plan for restructuring has been developed and applied, or the governing body has announced the main points of the restructuring plan to those that would be affected. No provisions for future losses from the activity shall be recognised.

The amount which is recognised as a provision is calculated on the basis of the most reliable assessment of those expenses which are necessary for settling the present obligation as at the end of the reporting period, taking into consideration the risks and uncertainty related to the present obligation. Where there are a number of similar obligations, the probable need of an outgoing flow for discharging the obligation is determined by way of taking into account the group of obligations as a whole. The provisions are discounted in those cases where the effect of the differences in the time value of money is considerable.

Those indemnities due by third parties related to a certain obligation which the Fund shall certainly receive are recognised as a separate asset. This asset may not exceed the value of the respective provision.

Provisions are reconsidered as at the end of each reporting period and the value thereof is adjusted in order to reflect the best estimate.

In those cases where it is considered unlikely for an outgoing flow of economic resources to result from a current obligation, no liability is recognised.

Those probable incoming flows of economic benefits which do not yet conform to the criteria for asset recognition shall be regarded as contingent assets

### 4.13. Significant assumptions made by the governing body in the course of application of the accounting policy

Those significant assumptions of the governing body made in the course of application of the accounting policies of the Fund which have had the most important influence on the financial assets are described below:

- The issue price and the repurchase price of the shares of the Fund are based on the net value of the assets of the Fund as at the date of determining these prices. The management company carries out an assessment of the portfolio of the Fund, determines the net value of the assets of the Fund and the net value of the assets per share, and calculates the issue price and the repurchase price under the supervision of the depository bank, in accordance with the statutory requirements;
- The management company invests the assets of the Fund in securities, the ratios being in compliance with those set out in Arts. 45-50 of the LACISOUCI;
- Any subsequent measurements of the assets of the Fund are carried out in compliance with the Rules of the Fund and Ordinance 44 dated 20 October 2011 on the requirements for the

activity of collective investment schemes, management companies, national investment funds and the persons managing alternative investment funds;

- According to the contracts concluded with the management company and the depository bank, the fees collected shall be charged on a daily basis;

  The management of the activity of the Fund shall be carried out by the management company. In addition, the activity of the Fund has its regulatory constraints. For these reasons, the Fund has no tangible or intangible assets, or any investment property, neither does it have any right to conclude lease contracts; therefore, the Fund has not adopted an accounting policy regarding the measurement of this type of assets.

- The Fund has no personnel of its own; therefore, the Fund has not adopted an accounting policy regarding the accounting for pension liabilities and other liabilities to the personnel, or any remuneration due to the personnel on the basis of shares.

### 4.14. Uncertainty of the accounting estimates

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

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

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

#### 4.14.1. Fair value of financial instruments

The Fund uses techniques to measure the fair value of financial instruments in the absence of quoted prices in an active market. Details of the assumptions used are provided in the notes on financial assets and liabilities.

In applying the valuation techniques, the Fund makes maximum use of market data and assumptions that market participans would use in pricing the financial instruments. Where applicable data, the Fund uses its best estimate of assumptions that market participants would make. These estimates may differ from the actual prices that would be determined in a fair market transaction between knowledgeable and willing parties in the end of the reporting period.

#### 4.14.2. Measurement of expected credit losses

The credit losses are the difference between all contractual cash flows due to the Fund and all cash flows that the Fund expects to receive. Expected credit losses are a probability-weighted estimate of credit losses that require the Fund's judgement.

Expected credit losses are discounted at the original efective interest rate (or the credit-adjusted effective interest rate for purchased or initially created financial assets with credit impairment).

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

| | 2020<br>BNG '000 | 2019<br>BNG '000 |
|---|---|---|
| **Financial assets at fair value through profit or loss** | | |
| Investments in shares | 17 966 | 13 083 |
| Investments in bonds | 2 356 | 1 623 |
| Investments in shares in mutual funds | 2 266 | 1 385 |
| | **22 588** | **16 091** |

There are no blocked investments during the reporting periods.
According to the valuation model used in accordance with the Fund's Valuation Rules, financial assets at fair value through profit or loss are categorized as follows:

| In thousands BGN, to 31.12.2020 | Fair value determined by quotations from active markets | Fair value - determined by other observable market data | Fair value - discounted cash flow method | Net asset value as an approximation of fair value | Total |
|---|---|---|---|---|---|
| Bulgarian Shares | 15 761 | 590 | - | 1 165 | 17 516 |
| Foreign shares | 450 | - | - | - | 450 |
| Shares in mutual funds | - | 2 266 | - | - | 2 266 |
| Bulgarian corporative bonds | - | - | 1 959 | - | 1 959 |
| Foreign corporative bonds | - | - | 397 | - | 397 |
| **Total** | **16 211** | **2 856** | **2 356** | **1 165** | **22 588** |
| **% of assets** | **71.77%** | **12.64%** | **10.43%** | **5.16%** | **100%** |

When determining the fair value as at 31 Dec. 2020 of the shares of 'OZOK Ins' AD, Biovet AD, Enemona AD and Sparky AD issue, a technique of assessing the net carrying value of the assets was used.

The subsequent assessment of Bulgarian shares and rights admitted to trading on a regulated market or traded on another regulated market in the Republic of Bulgaria:

- at the average weighted price of the transactions contracted therein during the last working day, the said price being announced either through the trading system or in the stock exchange bulletin, provided that the amount of the transactions contracted therein during the day is not lower than 0,02 per cent of the amount of the respective issue
- the arithmetic mean of the highest bid price of the orders valid as at the closing time of the regulated market on the last working day, and the average weighted price of the transactions contracted in the respective securities during the same day.
- the average weighted price of the transactions contracted therein during the closest day within the last 30 days' period preceding the day of the assessment.

As where it is impossible to apply the above methods to certain shares as well as for shares which are not traded on regulated markets, the assessment is carried out by the net carrying value of the assets.

The fair value of the foreign securities abroad traded at active market is valued through the price 'Buy' at the closure of the market at the last working day announced in the system for pricing information.

A fair value of share and other collective investment schemes at art 38, para 1, 5 from LACISCIPI including the cases of temporary cesation of share repurchases announced at the end of the day preceding the day of the valuation.

The fair value of Bulgarian bonds and other debt instruments allowed to be traded on a regulated market or another place for trade in Republic of Bulgaria is defined as following:

- at an average price of the deals made for the last working day, if the volume of the deals that have ben made is not less than 0,01 from 100 of the volume for this share emission;
- At an average price of the deals made for the neares day of the last 30-day period preceding the day of the valuation when there have been deals made.
- the average weighted price of the transactions contracted therein during the closest day within the last 30 days' period preceding the day of the assessment.

When it is impossible to apply the abovedetailed methods to define the fair value of bonds and other shares allowed to be traded at regulated market or other place for trade and also when defining the fair value of bonds and other securities which are note traded on regulated markets or other places for trade we use the discounted net cash flows.

**6. Valuation through fair value of financial instruments**

The fund holds in its portfolio financial assets which are accounted through the mehthod of the fair value through profit or loss according to the already applied accounting policy. This accounting policy is used to evaluate the same specific methods, according to the Rules for valuation of the assets and applied normative regulation.

As at 31 December 2020 the carrying amount of financial assets at fair value through profit or loss (presented in detail in Note 5 to the financial statements) amounts to BGN 22 588 thousand (2019: BGN 16 091 thousand) is their fair value.

The following table presents the financial assets and liabilities, valued through their fair value in the report for the financial statement in accordance with the hierarchy of fair value.

This hierarchy groups the financial assets and liabilities by three levels according to their data, used to define the fair value of balance sheet assets and liabilities. The hierarchy of the fair value includes the following levels:

- 1 level: market prices (uncorrected) of active markets for identical assets and liabilities;
- 2 level: incoming information different from level 1 which chould be seen to relate to information for a set of assets or liabilities or directly (through prices) or indirectly (based on prices)
- 3 level: incoming information for a given asset or liability which is not based on market data.

A financial asset or liability could be classed to its lowest level at a significant incoming information used for the definition of the fair value.

The following table analyses the hierarchy of the fair value of the assets and liabilities of the Fund, measured at fair value as of 31 December 2020.

| | Level 1 '000 BGN | Level 2 '000 BGN | Level 3 '000 BGN | Total '000 BGN |
|---|---|---|---|---|
| **Groups of financial assets at fair value through profit or loss** | | | | |
| Bulgarian shares | 15 761 | 590 | 1 165 | 17 516 |
| Foreign shares | 450 | - | - | 450 |
| Shares in mutual funds | - | 2 266 | - | 2 266 |
| Bulgarian corporate bonds | - | - | 1 959 | 1 959 |
| Foreign corporate bonds | - | - | 397 | 397 |
| **Total** | **16 211** | **2 856** | **3 521** | **22 588** |

The following table analyses the hierarchy of the fair value of the assets and liabilities of the Fund, measured at fair value as of 31 December 2019.

| | Level 1 '000 BGN | Level 2 '000 BGN | Level 3 '000 BGN | Total '000 BGN |
|---|---|---|---|---|
| **Groups of financial assets at fair value through profit or loss** | | | | |
| Bulgarian shares | 9 194 | 2 796 | 978 | 12 968 |
| Foreign shares | 115 | - | - | 115 |
| Shares in mutual funds | - | 1 385 | - | 1 385 |
| Bulgarian corporate bonds | - | 155 | 1 070 | 1 225 |
| Foreign corporate bonds | - | - | 398 | 398 |
| **Total** | **9 309** | **4 336** | **2 446** | **16 091** |

**Defining the fair value**

The fair value of the assets traded on active markets (for example publicly traded securities) is based on market prices at the last date for trading during the year. A financial asset is considered traded on an active market if the market prices are existing from stock markets, dealers, brokers etc. These prices are presented and regularly traded market deals.

**Defining the fair value at level 3**

For financial assets and liabilities of the Fund, classed on level 3, fair value of the financial asset is valued through using techniques for valuation. The Fund uses different methods for valuation and guesses, based on market developments existing to the end of the year (see Note 4.4)

The following table presents the techniques used when assessing the fair value at level 3 as well as significant unobservable incoming data:

| Type of financial instrument | Fair value as of 31.12.2020 ('000 BGN) | Techniques for valuation | Significant unobservable incoming data | Relation between the unobservable data and fair value |
|---|---|---|---|---|
| Bulgarian corporate bonds | 1 959 | Discounted cash flows | Discounted percent corrected to the risk above the risk-free premium | Significant increase above the risk-freee interest percent could lead to lower fair value |
| Foreign corporate bonds | 397 | Discounted cash flows | Discounted percent corrected for the risk above the risk-free premium | Significant increase above the risk-free interest would lead to a lower fair value |
| Bulgarian shares | 1 165 | Net value of the assets | - | - |

## 7. Receivables under repo transactions

| Issuer | Interest | Maturity | Currency | BGN '000 |
|---|---|---|---|---|
| | | | | 2020 |
| Synthetica AD-Sofia | 4.149299 | 23.04.2021 | BGN | 463 |
| Synthetica AD-Sofia | 4.195402 | 05.05.2021 | BGN | 119 |
| Synthetica AD-Sofia | 4.222094 | 16.06.2021 | BGN | 260 |
| | | | | **842** |

| Issuer | Interest | Maturity | Currency | BGN '000 |
|---|---|---|---|---|
| | | | | 2019 |
| Synthetica AD-Sofia | 4.297488 | 03.04.2020 | BGN | 80 |
| Synthetica AD-Sofia | 4.267010 | 24.04.2020 | BGN | 447 |
| Synthetica AD-Sofia | 4.267010 | 08.05.2020 | BGN | 115 |
| Synthetica AD-Sofia | 4.243693 | 17.06.2020 | BGN | 250 |
| | | | | **892** |

## 8. Other receivables

| | 2020<br>BGN '000 | 2019<br>BGN '000 |
|---|---|---|
| Receivables from accrued interest, dividends and matured issues, gross amount before impairment | 465 | 131 |
| Expected credit losses and impairment losses on trade receivables | (107) | (101) |
| **Total** | **358** | **30** |

All receivables are short-term. The net carrying amount of trade and other receivables is considered a reasonable estimate of their fair value.

All other receivables of the Fund have been reviewed for indications of impairment. Some receivables were impaired on an individual basis and the corresponding impairment in the amount of BGN 6 thousand. (2019: BGN 8 thousand) is recognized in the income statement and other comprehensive income under "Other expenses". Impaired receivables are related to maturing interest and principal receivables on bonds.

The change in the impairment of other receivables can be presented as follows:

| | 2020<br>BGN '000 | 2019<br>BGN '000 |
|---|---|---|
| As at 1 January | 101 | 113 |
| Recovered Impairment loss | - | (20) |
| Impairment loss | 6 | 8 |
| **As at 31 December** | **107** | **101** |

## 9. Cash and cash equivalents

| | 2020<br>BGN '000 | 2019<br>BGN '000 |
|---|---|---|
| Current account with the depository bank: | | |
| - in BGN | 676 | 999 |
| - in USD | 1 | 1 |
| - in EUR | 3 | 6 |
| Fixed-term bank deposits | 1 201 | 700 |
| **Total** | **1 881** | **1 706** |

The Fund has evaluated the expected credit losses on cash and cash equivalents. The estimated value is amount is less than 0.2% of the gross amount of cash deposited with financial institutions, which is therefore considered to be immaterial and has not been accrued for in the financial statements of the Fund.

The Fund does not have any frozen cash or cash equivalents.

## 10. Net assets, belongin to unitholders

### 10.1. Number of units issued

During the presented period, the number of units in circulation is are follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Number of units | Nominal value | Number of units | Nominal value |
| **As at 1 January** | **18 057 772.56** | **1 BGN/unit** | **14 955 277.85** | **1 BGN/unit** |
| Units issued | 6 455 915.74 | 1 BGN/unit | 3 102 494.71 | 1 BGN/unit |
| Units redeemed | - | 1 BGN/unit | - | 1 BGN/unit |
| **As at 31 December** | **24 513 688.29** | **1 BGN/unit** | **18 057 772.56** | **1 BGN/unit** |

As at 31 Dec. 2020, MF 'EF Principal' has 24 513 688.2870 units in circulation. Their total value is in the amount of BGN 24 513 688.29 (each share has a par value of BGN 1), which is the amount of the outstanding shares under the balance sheet of the Fund.

### 10.2. Units issued at net value of the assets per unit

| | 2020 | 2019 |
|---|---|---|
| | BGN '000 | BGN '000 |
| Registered capital | 24 514 | 18 058 |
| Premiums related to the issue of capital | 1 299 | 1 195 |
| Discounts related to the repurchase of capital | (112) | (112) |
| | **25 701** | **19 141** |

### 10.3. Net asset value per unit

The net value of the assets per unit as at 31 December 2020 is BGN 1.0369. It is calculated for the purposes of these financial statements, in compliance with the principles of the ISFRs. As at 31 December 2020 the value of the net assets of the Fund amounts to BGN 25 418 283.

The net value of the assets of the Fund is the basis for determining the issue price and the repurchase price of the units. It is calculated on a daily basis. The net value of the assets of the Fund is equal to the aggregate of the carrying value of the securities within the portfolio of the Fund, the receivables of interest and dividends from these securities, the financial resources in the bank accounts and cash, and other assets decreased by the carrying value of the payables for management, depository services, loans received and others. The net value per unit is calculated by way of dividing the net value of the assets by the number of units.

## 11. Other liabilities

| | 2020 | 2019 |
|---|---|---|
| | BGN '000 | BGN '000 |
| Liabilities to custodian bank | 2 | 2 |
| Liabilities for subscription of shares | 200 | - |
| | **202** | **2** |

## 12. Net profit/(loss) from financial assets at fair value through profit or loss

| | 2020<br>BGN '000 | 2019<br>BGN '000 |
|---|---|---|
| Profit from foreign exchange revaluation of financial assets at fair value through profit or loss | 4 | 6 |
| Losses from foreign exchange revaluation of financial assets at fair value through profit or loss | (6) | (6) |
| Profit from a change in the fair value of the financial assets at fair value through profit or loss | 12 462 | 7 031 |
| Loss from a change in the fair value of the financial assets at fair value through profit or loss | (11 902) | (6 708) |
| | **559** | **323** |

## 13. Remuneration expenses of the Custodian Bank

All expenses for the custodian bank Unicredit Bulbank AD, where the fund's assets are stored, are BGN 19 thousand, and for 2019 they are BGN 17 thousand. The expenses related to the custodian bank are calculated based on the average annual net value of the assets and additional fees related to the safekeeping of securities, income collection fees and corporate events.

## 14. Other expenses

The other expenses incurred by the Fund in the amount of BGN 22 thousand. (2019: BGN 20 thousand) are mainly related to impairment of receivables at matured interest and principal on bonds, fees to the Financial Supervision Commission, Central Depository AD, audit, etc.

## 15. Related parties

The Fund's related parties include the management company, the owners of the management company and other key management staff.

### 15.1. Transactions during the year

Unless explicitly specified, the transactions with related parties are not regarded as being carried out under special conditions.

#### 15.1.1. Transactions with the owners of the management company

The owners of the management company have not carried out transactions involving the Fund's shares.

#### 15.1.2. Transactions with key management staff of the management company

The key management staff of the management company consists of the members of the Board of Directors. The indicated persons have not carried out transactions involving the Fund's shares.

#### 15.1.3. Transactions with the management company

| | 2020<br>BGN '000 | 2019<br>BGN '000 |
|---|---|---|
| Management fee | (534) | (454) |
| | **(534)** | **(454)** |

The commission of the management company for the management of the Fund is calculated on a daily basis and is in the amount of 2.35 % of the average annual net value of the assets. As for the year 2020, the aggregate of the amount of these commission fees is in the amount of BGN 534 452.

The structure of the annual remuneration payable to the management company can be presented as follows:

- annual management fee:
  - 2.35 % - management company remuneration
  - 0.15% other operating expenses

**15.2. Accounts receivable from or payable to related parties as at the end of the year**

| | 2020<br>BGN '000 | 2019<br>BGN '000 |
|---|---|---|
| Liabilities to the management company | 49 | - |
| | **49** | **-** |

As at 31 Dec. 2020, MF 'EF Principal' has liabilities to the management company 'EF ASSET MANAGEMENT' in the amount of BGN 49 136.

**16. Non-cash transactions**

During the accounting period, the Fund did not carry out investment or financial transactions involving cash or cash equivalents that are not accounted for in the statement of cash flows.

**17. Contingent assets and contingent liabilities**

During the period the Fund has no contingent assets.

During the year no legal claims were brought.

The Fund does not have other liabilities assumed.

**18. Categories financial assets and financial liabilities.**

The carrying amounts presented in the statement of financial position relate to the following categories assets and liabilities:

| **Financial assets** | **Note** | **2020<br>BGN '000** | **2019<br>BGN '000** |
|---|---|---|---|
| Debts instruments at amortized cost: | | | |
| Receivables under repo transactions | 7 | 842 | 892 |
| Other receivables | 8 | 358 | 30 |
| Cash and cash equivalents | 9 | 1 881 | 1 706 |
| | | **3 081** | **2 628** |
| Financial assets at fair value through profit or loss: | 5 | | |
| Corporate bonds | | 2 356 | 1 623 |
| Equity instruments | | 17 966 | 13 083 |
| Units | | 2 266 | 1 385 |
| | | **22 588** | **16 091** |

| Financial liabilities | Note | 2020 BGN '000 | 2019 BGN '000 |
|---|---|---|---|
| Financial liabilities, instruments at amortized cost: | | | |
| Liabilities to related parties | 15.2 | 49 | - |
| Liabilities to custodian bank | 11 | 2 | 2 |
| Liabilities for subscription of shares | 11 | 200 | - |
| | | **251** | **2** |

See note 4.4 about information related to the accounting policy for each category financial instruments. The motods which are used for assessment ot fair is presented in note 4.4. Description of the risk management objectives and policies of the Fund related to the financial instruments is presented in note 19.

## 19. Risks related to financial instruments

### Objectives and policy of the governing body as regards risk management

The risk associated with the activity of managing the Fund's portfolio is connected with the possibility of having the actual proceeds from a given investment not corresponding to the estimated ones, and with the Fund's obligation to the shareholders to repurchase the financial instruments in those cases where so required by the shareholders.

The specifics of the management of mutual funds' portfolios brings about the necessity of applying adequate systems for timely identification and management of different types of risk, the procedures for risk management, the mechanisms of keeping the risks within acceptable limits, the optimum liquidity and diversification of the portfolio being extremely important.

The greatest financial risks to which the Fund is exposed are market risk, credit risk and liquidity risk.

### Analysis of market risk

Market risk is the risk of loss of value of balance sheet items and off-balance sheet ones, the said loss arising from changes in the market prices of investment instruments. The main components of market risk which the management company keeps track of are the following ones: stock exchange risk; interest risk; currency risk.

Stock exchange risk is the risk of loss resulting from a change in the prices of shares which are traded on a regulated market. According to modern portfolio theory and especially the Capital Assets Pricing Model (CAPM), this risk consists of two components: systematic and specific risk.

Systematic risk concerns the sensitivity of the investment instrument or the value of the portfolio to the changes in the levels of the principal market index.
Non-systematic (specific) risk concerns the portion of changeability of an instrument and is determined by the specific characteristics of the company. It is only the non-systematic risk that can be eliminated through diversification.

However, because of the specifics of Bulgarian market, the monitoring of these two types of stock exchange risk is not sufficiently effective. This is conditioned by the nature of the market as a newly emerging one. As far as newly emerging markets are concerned, it is established that the sensitivity of assets with respect to the market levels is not clearly expressed; it is greatly changeable and of uncertain value. This fact gives rise to the need for applying other models of assessment of stock exchange risk which go beyond the capacity of the CAPM.

Owing to that, apart from the systematic and non-systematic risk, the management company also keeps track of the general risk and the changes in the risk associated with each separate asset which forms part of the portfolio of the Fund. The monitoring of the unsteadiness of general risk (i.e. the risk of the risk) is of extreme importance.

### 19.1.1. Currency risk

The currency risk which is attributable to the shares of the company is mainly connected with the currency risk posed by the investment instruments of its portfolio. The investment policy and strategy of the company is based on the fact that the country has the so-called 'monetary board' ('currency board') and the BGN/EUR currency exchange rate is a fixed one, which, in practice, eliminates the risk of a change in the ratio between the two currencies. When investing in securities, shares and debt securities denominated in a currency other than BGN or EUR, there shall be applied standard techniques of insurance (hedging) against currency risk: purchase of currency options, forward transactions, purchase or sale of currency through spot transactions, and purchase or sale of futures contracts.

As at 31 December, the assets structure by types of currency is as follows:

| | Exposure to short-term risk | | | | |
|---|---|---|---|---|---|
| **31 December 2020** | **Polish zloty** | **USD** | **EUR** | **BGN** | **Total** |
| | **BGN '000** | **BGN '000** | **BGN '000** | **BGN '000** | **BGN '000** |
| Shares | 14 | - | 436 | 17 516 | 17 966 |
| Corporate bonds | | | 1 033 | 1 323 | 2 356 |
| Units | - | - | - | 2 266 | 2 266 |
| Receivables | - | - | 153 | 1 047 | 1 200 |
| Cash and cash equivalents | - | 1 | 3 | 1 877 | 1 881 |
| **Total exposure to short-term risk** | **14** | **1** | **1 625** | **24 029** | **25 669** |

| | Exposure to short-term risk | | | | |
|---|---|---|---|---|---|
| **31 December 2019** | **Polish zloty** | **USD** | **EUR** | **BGN** | **Total** |
| | **BGN '000** | **BGN '000** | **BGN '000** | **BGN '000** | **BGN '000** |
| Shares | 18 | - | 97 | 12 968 | 13 083 |
| Corporate bonds | | | 1 079 | 544 | 1 623 |
| Units | - | - | - | 1 385 | 1 385 |
| Receivables | - | - | - | 922 | 922 |
| Cash and cash equivalents | - | 1 | 6 | 1 699 | 1 706 |
| **Total exposure to short-term risk** | **18** | **1** | **1 182** | **17 518** | **18 719** |

The value of the assets in Polish zloty and USD of the Fund related to the total assets is minimal, and the limited movement of the exchange rate of Polish zloty to the Bulgarian lev does not require calculation of currency risk due to insignificance.

### 19.1.1. Interest risk

Interest risk arises from a change in the value of securities resulting from a change in the interest rates. The effect of interest risk mainly concerns debt securities. In general, in those cases where the interest percentage increases, the price of the respective instruments decreases and vice versa. The bonds of longer maturity, as well as those of lower percentage of coupon payment are more sensitive to the fluctuations in interest rates.

An increase in the average interest rates may have its implication on the increase in the interest expenses of the companies in which the Fund has invested. The increase in interest expenses

may lower the rate of return for the said companies, which may exercise an influence over the stock quotes of their shares. In order to decrease this risk, a regular analysis of market conditions is carried out for preventing against the unfavourable fluctuations in the prices of those securities in which the Fund has invested.

The following table shows information about the nominal interest rates of the Fund's assets:

| 31 December 2020 | Interest % | Interest-bearing BGN '000 | Interest-free BGN '000 | Total BGN '000 |
|---|---|---|---|---|
| Shares | - | - | 17 966 | 17 966 |
| Corporate bonds | 2.5% up to 5.5% | 2 356 | - | 2 356 |
| Units | - | - | 2 266 | 2 266 |
| Receivables under repo transactions and other receivables | 4% up to 5% | 842 | 358 | 1 200 |
| Cash and cash equivalents | 0% up to 1% | 1 881 | - | 1 881 |
| **Total assets** | | **5 079** | **20 590** | **25 669** |

| 31 December 2019 | Interest % | Interest-bearing BGN '000 | Interest-free BGN '000 | Total BGN '000 |
|---|---|---|---|---|
| Shares | - | - | 13 083 | 13 083 |
| Corporate bonds | 3% up to 9% | 1 623 | - | 1 623 |
| Units | - | - | 1 385 | 1 385 |
| Receivables under repo transactions and other receivables | 3% up to 9% | 892 | 30 | 922 |
| Cash and cash equivalents | 0% up to 1% | 1 706 | - | 1 706 |
| **Total assets** | | **4 221** | **14 498** | **18 719** |

### 19.1.2. Price risk

Price risk is the risk of unfavourable changes occurring in the prices of the Mutual Fund's shares as a result of changes in the measurement of net assets. The management company shall restate the value of the assets on a daily basis, doing so under the supervision of the depository bank. A change in the price may be either in the direction of an increase or in the direction of a decrease. There is no guarantee that the investors shall realise a positive income from the shares they hold in the Fund, neither is there any guarantee that they shall preserve the initial value of the investments they have made. The value of the assets of the Fund depends on the decisions of the management company's portfolio managers, the indicated decisions being taken after a preliminary analysis and an examination of the factors influencing the value of the investments made. This is the risk of a change occurring in the price of shares as a result of changes in the prices of the assets of the investment portfolio of the Fund. This type of risk is also associated with an unfavourable change in the financial position of the Fund. A change in the price can be either in the direction of a decrease or in the direction of an increase.

The price risk of the Fund's shares which is caused by a change in the financial position of the Fund is considerably limited because of the statutory requirements regarding the structuring of its investment portfolio, the additional restrictions provided for in the Fund's rules and the legal limitations on the Fund's expenses. In addition to the control on the part of the management

company, both the Financial Supervision Commission and the depository bank exercise constant control over the activity of the Fund as well as on the activity of the company that manages it.

For the calculation of the total risk exposure, the Fund uses the Commitment method recommended in the CESR Risk Measurement Guidelines and the calculation of the total risk exposure and counterparty risk at collective investment schemes (CESR/10-788.).

**Analysis of credit risk**

Credit risk is the risk that it might be impossible for the issuer of debt securities, or, respectively, for the person that has furnished the security, to perform his obligations, and particularly, to pay in due time the principal and/or the interest due. As for repurchase contracts, if the contractor of the Fund is unable to perform his obligation to repurchase the securities, the Fund may sustain a loss inasmuch as the revenues from the sale of the security are lower compared to the price of the repurchase in those cases where the latter is a fixed one. Should the specific securities have their credit rating, the credit risk also reflects the possibility of a decrease in the credit rating of those securities which the Mutual Fund has invested in.

The credit risk exposure of the Fund is limited to the amount of the carrying value of the financial assets recognized as at the date of the statements, as shown below:

| | 2020 BGN'000 | 2019 BGN'000 |
|---|---|---|
| Classes of financial assets - carrying amounts: | | |
| Other Receivables | 358 | 30 |
| Receivables under repo transactions and other receivables | 842 | 892 |
| Cash and cash equivalents | 1 881 | 1 706 |
| Financial assets at fair value through profit or loss | 22 588 | 16 091 |
| **Carrying amounts** | **25 669** | **18 719** |

The credit risk on cash and cash equivalents is considered insignificant, as the counterparties are banks with a good reputation and a high external credit rating.

The management of the Management Company believes that all the above financial assets that are not impaired during the reporting periods are financial assets with high credit quality.
The Fund regularly monitors the timely receipt of amounts due, and the information is used to analyze the credit risk of counterparties.
The Fund has no collateral held as a guarantee for its financial assets, except for the assets that are pledge on receivables from repo transactions.

**19.2. Analysis of liquidity risk**

Liquidity risk is the realization of possible losses from the sale of assets at unfavorable conditions in relation to short term liabilities. For the Fund, this risk would arise at the time of redemption of shares by investors with greater participation in the Fund's units, which would reduce the free cash.

Protection against this risk is realized by maintaining a certain balance on the current account and investment securities with relatively good rate of liquidity.

The liquidity of the Fund is subject to supervision on a daily basis. In view of the obligation regarding the daily presentment of shares for repurchase, the management company monitors the outgoing and incoming cash flows on a weekly and monthly basis.

The management company and the Fund are bound by the liquidity obligations ensuing from Ordinance 44 dated 20 October 2011 on the requirements regarding the activity of collective investment schemes, management companies, national investment funds and the persons managing alternative investment funds as regards the minimum liquid assets that must constantly be available to the Fund.

For the purpose of avoiding liquidity problems, control is exercised and assessment is made of the Fund's liquidity and cash flows.

The liquidity of the Fund is subject to supervision on a daily basis. In view of the obligation regarding the daily presentment of shares for repurchase, the management company monitors the outgoing and incoming cash flows on a weekly and monthly basis.

During the reporting period the liquid assets kept being over 5 % of the net value of the assets, which is indicative of the fact that during the said period the Fund was not exposed to a significant decrease in its liquid assets.

Since the start of the Fund's activity, no deficiency of liquid assets or difficulties in discharging its liabilities have been established.

During the reporting period the Fund has not made use of external sources for the provision of liquid assets, and performed its current liabilities in due time.

All the current liabilities of the Fund are non-interest bearing ones and have residual maturity not exceeding 3 months.

The maturity structure for the residual term at book value of assets and liabilities is prepared according to the contractual maturities for deposits and securities:

| As at 31.12.2020 | up to 3 months | up to 1 years | from 1 to 5 years | over 5 years | No maturity | Total |
|---|---|---|---|---|---|---|
| | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 |
| Cash and cash equivalents | - | 1 201 | - | - | 680 | 1 881 |
| Other Receivables | 358 | 842 | - | - | - | 1 200 |
| Shares | - | - | - | - | 17 966 | 17 966 |
| Units | - | - | - | - | 2 266 | 2 266 |
| Corporate bonds | 629 | 1 | 749 | 977 | - | 2 356 |
| **Total assets** | **987** | **2 044** | **749** | **977** | **20 912** | **25 669** |
| Current liabilities | 251 | - | - | - | - | 251 |
| **Total** liabilities | **251** | **-** | **-** | **-** | **-** | **251** |

The Management Company and the Fund follow the liquidity obligations according to the regulations for liquid assets, which the Fund must have at its disposal at all times. In 2020, the liquid funds were always above the normative minimum and no external sources of liquid funds were used.
As of December 31, 2020 the liabilities of the Fund are current and amount to BGN 2 thousand due to the custodian bank, BGN 49 thousand due to the management company and BGN 200 thousand due to the subscription of shares.

| As at 31.12.2019 | up to 3 months | up to 1 years | from 1 to 5 years | over 5 years | No maturity | Total |
|---|---|---|---|---|---|---|
| | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 |
| Cash and cash equivalents | - | 700 | - | - | 1 006 | 1 706 |
| Other Receivables | 30 | 892 | - | - | - | 922 |
| Shares | - | - | - | - | 13 083 | 13 083 |
| Units | - | - | - | - | 1 385 | 1 385 |
| Corporate bonds | 46 | 226 | 1 196 | 155 | - | 1 623 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Total assets** | **76** | **1 818** | **1 196** | **155** | **15 474** | **18 719** |
| Current liabilities | 2 | - | - | - | - | 2 |
| **Total** liabilities | **2** | **-** | **-** | **-** | **-** | **2** |

The Management Company and the Fund follow the liquidity obligations according to the regulations for liquid assets, which the Fund must have at its disposal at all times. In 2019, the liquid funds were always above the normative minimum and no external sources of liquid funds were used.
As of December 31, 2019 the liabilities of the Fund are current and amount to BGN 2.

## 20. Policy and procedures for capital management

According to the Rules of the Fund, the management company manages the Mutual Fund, taking the necessary decisions related to its organisation, operation and winding up. The said decisions are taken by the Board of Directors of the management company. The decisions regarding the investment of the assets of the Mutual Fund are taken by the investment consultant, who is an employee of the management company, in compliance with the investment objectives, strategy and restrictions of the Fund. The decisions related to the current operative management of the Fund are taken by the Executive Member of the Board of Directors (Executive Director) of the management company.

The objectives of the Management Company regarding the management of the net asset value belonging to the investors are:
• achieve profitability with minimum risk for investors;
• maintain high liquidity for timely repay repayment of obligations to investors that could arise when repurchasing shares;
• adequate ratio between cash invested in securities and cash instruments.

The management of the net value of the assets belonging to the investors - the use and for generating income is performed by the investment consultant of the Management Company in accordance with the regulations, the Prospectus and the Rules of the Fund.

## 21. Events occurring after the end of the reporting period

No adjusting events or considerable non-adjusting events occurred between the date of the Statement of Financial Position and the date of the Board of Directors' approval of the said Statement.

## 22. Approval of the Financial Statements

The Financial Statements as at 31 December 2020 (including the comparative information) were approved and adopted by the Board of Directors on 22 March 2021.