



Asset  
Management

***INDEPENDENT AUDITOR'S REPORT  
MANAGEMENT REPORT  
AND ANNUAL FINANCIAL STATEMENTS***  
*As at 31 December 2017*

of **UBB ASSET MANAGEMENT**  
**JOINT STOCK COMPANY**

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## ***Independent Auditor's Report***

### ***To the shareholders of UBB Asset Management AD***

#### ***Opinion***

We have audited the financial statements of UBB Asset Management ('the Company'), which include the statement of financial position as at 31 December 2017 and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, as well as the explanatory notes to the financial statements, including summarized disclosure of significant accountancy policies.

It is our opinion that the attached financial statements give a fair view, in all significant aspects, of the financial position of the Company, as at December 31, 2017, and of its financial results and cash flows for the year ended on that date, in compliance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

#### ***Basis of Audit Opinion***

We performed our audit in compliance with the International Standards on Auditing (ISA). Our responsibilities pursuant to these standards are detailed in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of our report.

We believe that the audit evidence collected by us is sufficient and adequate to serve as basis for our opinion.

#### ***Independence***

We are independent from the Company and the Fund in compliance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements set out in the Independent Financial Audit Act (IFAA), applicable to our audit of financial statement in Bulgaria and we have also fulfilled all other ethical responsibilities in compliance with the requirements of IFAA and the IESBA Code.

#### ***Other Information than the Financial Statements and the Audit Report Thereon***

The Management bears responsibility for the other information. The other information consists of the Management Report prepared by the Management pursuant to Chapter Seven of the Accountancy Act but does not include the financial statements and our audit report thereon.

Our opinion regarding the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon unless our report expressly states otherwise and only to the extent thus stated.

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 consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### ***Additional Issues raised by the Accountancy Act***

In addition to our responsibilities and reporting under ISA, with regard to the Management report we have carried out the procedures supplementary to ISA requirements in accordance with the Guidelines on New and Extended Auditor Reports and Communications by the Auditor issued by the professional organisation of registered auditors in Bulgaria, the Institute of Chartered Accountants (ICA). These procedures refer to checks on the presence and form and content of such other information in order to assist us in our formulation of an opinion as to whether such other information contains the disclosures and reports provided for in Chapter Seven of the Accountancy Act, applicable in Bulgaria.

#### ***Statement pursuant to Article 37, para 6 of the Accounting Act***

On the basis of the procedures performed, it is our opinion that:

- a) The information included in the Management Report for the financial year, to which the financial statements refer, corresponds to the financial statement.
- b) The Management Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 consolidated financial statements.

As part of an audit in accordance with ISAs (EE), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for

our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(sgd.)  
Rositsa Boteva  
Registered Auditor

(sgd.)  
Jock Nunan  
PricewaterhouseCoopers Audit OOD

Date: March 30, 2018  
Sofia, Bulgaria

*Stamp of Audit Company PricewaterhouseCoopers Audit OOD  
Sofia, Reg. No. 085*

## MANAGEMENT REPORT for UBB ASSET MANAGEMENT AD For the year 2017

### I. OVERVIEW OF COMPANY DEVELOPMENT AND PERFORMANCE. MAIN RISKS RELATED TO ACTIVITIES.

#### 1. Company history

UBB Asset Management AD was established on the basis of Licence No1 dated 23.04.2004, issued by Sofia City Court, entered into the file of Commercial Companies under File No 83704, company case No 4098/2004, volume 1021, Reg. I, page 44 and reregistered with the Commercial Register of the Registry Agency under UIC 131239768.

UBB Asset Management AD received its activity licence by the Financial Supervision Commission on the basis of Decision No171-УД/04.03.2004, supplemented by Decision No 66-УД/25.01.2006.

The capital of the company is in the amount of BGN 700,000 (seven hundred thousand), divided into 700 (seven hundred) ordinary, dematerialised voting shares with par value of BGN 1,000 (one thousand) each. The main shareholder of UBB Asset Management AD is United Bulgarian Bank AD, holding 90.86% of the capital. As of June 2017 a change was effected in the shareholder holding 9.14% of company capital and this share was acquired by KBC Bank, Belgium. Thus the managing company is now fully part of KBC Group.

2017 also saw a change in the composition of the Board of Directors. At the date of the present financial statements, the Board of Directors was composed by the following natural persons: Mr Jan Joseph Evrard Swinnen – Chairman, Mr Christof Marcel Elsa De Mil – Deputy Chairman, Mr Teodor Valentinov Marinov – Member, Ms Katina Slavkova Peycheva – Executive Member.

The main activities of UBB Asset Management AD are as follows:

1. Management of the activities of collective investment schemes, including:
  - a) investments management;
  - b) share administration, including legal and accounting services concerning asset management, information requests from investors, asset valuation and calculation of share prices, control over observance of statutory requirements, risk management, keeping the ledger of share owners in cases of management activities for collective investment schemes originating from another member state, allocation of dividend and other payments, share issuance, sale and repurchase, contract performance, record maintaining;
  - c) marketing services.
2. Managing the activities of national investment funds
3. Management services per portfolio agreement with client, including portfolios of collective investment undertakings comprising financial instruments, at own discretion, without special instructions from client;
4. Provision of investment consultations regarding financial instruments;
5. Storing and administrating shares in collective investment undertakings.

## I. OVERVIEW OF COMPANY DEVELOPMENT AND PERFORMANCE. MAIN RISKS RELATED TO ACTIVITIES (CONTINUED)

### 1. Company history (continued)

As at the end of 2017, UBB Asset Management AD organises and manages the activities of 9 mutual funds: UBB Premium Equity, UBB Platinum Bond, UBB Balanced Fund, UBB Patrimonium Land, UBB Global Pharm Invest, UBB Euro Money, UBB Global Child Fund, UBB Global Divided and UBB Global Growth.

MF UBB Premium Equity is a mutual fund with an aggressive portfolio of financial instruments. It invests primarily in shares at the Bulgarian Stock Exchange. The Fund holds Activity Licence No9-ДФ / 24.11.2005, issued by the Financial Supervision Commission. The public offering of shares commenced on 30.01.2006.

MF UBB Platinum Bond is a mutual fund with a low-risk portfolio of financial instruments investing primarily in fixed-income securities. The Fund holds Activity Licence No10-ДФ / 24.11.2005 issued by the Financial Supervision Commission. The public offering of shares commenced on 30.01.2006.

MF UBB Balanced Bund was established as an open-ended investment undertaking (UBB Balanced Fund AD Investment Undertaking) with a balanced portfolio of financial instruments. It maintains a low- to moderate-risk mixed portfolio. The Fund holds Activity Licence No 747-ИД / 13.10.2004 issued by the Financial Supervision Commission. Public offering of shares commenced on 31.01.2005. In 2013 the undertaking was transformed into a mutual fund, and, by means of Decision No 711-ДФ / 24.09.2013 of the Financial Supervision Commission UBB Balanced Fund Mutual Fund was registered as an issuer and UBB Balanced Fund Investment Undertaking was deregistered from the register maintained by the FSC.

MF UBB Patrimonium Land is a mutual fund investing primarily in shares in special investment purpose companies, which invest predominantly in agricultural land, office and logistical premises and in shares issued by issuers from the Agricultural sector and food processing companies accepted for trading on regulated markets in the country and abroad and having a high growth potential. The Fund holds Activity Licence No72-ДФ / 26.01.2009, issued by the Financial Supervision Commission. Public offering of shares commenced on 30.01.2009.

MF UBB Global Pharm Invest is a mutual fund investing mainly in share securities in companies operating in the health sector, mainly the pharmaceuticals, biotechnologies and medical devices sectors. The previous name of the Fund is UBB Premium Euro Shares – a mutual fund investing mainly in shares denominated in euro, accepted for trading on regulated markets in EU member states, having a high growth potential and high price volatility, thus tending to increase risk and respectively – the opportunities for higher profitability. The Fund holds Activity Licence No89-ДФ / 18.05.2010, issued by the Financial Supervision Commission. Public offering of shares commenced on 31.05.2010. The new name of the Fund and the change in its focus were adopted by means of Decision No 1123-ДФ of the Financial Supervision Commission dated 05.12.2012.

## I. OVERVIEW OF COMPANY DEVELOPMENT AND PERFORMANCE. MAIN RISKS RELATED TO ACTIVITIES (CONTINUED)

### 1. Company history (continued)

The previous name of MF UBB Euro Money was UBB Platinum Euro Bonds. The Fund invests mainly in debt securities denominated in euro (long-term and mid-term government bonds, municipal bonds, corporate bonds, mortgage bonds, etc.), accepted for trading on regulated markets in EU member states and cash market instruments denominated in euro (short-term government bonds, bank deposits, etc.), and, to a lesser degree, share securities denominated in euro, accepted for trading on regulated markets in EU member states, investment undertakings and shares in mutual funds, the assets and investments of which are denominated in euro, with the purpose of diversifying portfolio assets. The Fund holds Activity Licence No91-ДФ / 25.05.2010, issued by the Financial Supervision Commission. Public offering of shares commenced on 31.05.2010. The new name of the Fund was adopted on the basis of Decision No 457-ДФ issued by the Financial Supervision Commission on 09.05.2014, whereby there is no change in the investment strategy and the main changes, in addition to the new name of the Fund, are the issuance and repurchase charges (i.e. the issuance charge has been eliminated, while a charge was introduced for the repurchase of funds invested for a period of less than 3 months) and in the management fee (which has been reduced) charged by the Managing Company UBB Asset Management AD.

MF UBB Global Child Fund is a mutual fund with an aggressive portfolio of financial instruments. The funds of the Fund are invested on a global scale, primarily in shares in companies the activity of which is oriented toward the production of child care products and services. The Fund holds Activity Licence No145-ДФ / 12.03.2016, issued by the Financial Supervision Commission. Public offering of shares commenced on 31.03.2016.

MF UBB Global Dividend is a mutual fund with an aggressive portfolio of financial instruments. The funds of the Fund are invested mainly in shares in companies with an established dividend policy and the potential for high dividend yield in the long term, approved for trading on regulated markets in the country and abroad. The Fund holds Activity Licence No153-ДФ / 17.03.2016, issued by the Financial Supervision Commission. Public offering of shares commenced on 11.04.2016.

MF UBB Global Growth is a mutual fund with an aggressive portfolio of financial instruments. The funds of the Fund are invested mainly in shares in companies the income and profit of which are expected to grow at rates exceeding the market average and are approved for trading on regulated markets in the country and abroad. The Fund holds Activity Licence No154-ДФ / 17.03.2016, issued by the Financial Supervision Commission. Public offering of shares commenced on 11.04.2016.

UBB Asset Management AD also performs individual portfolio management.



**I. OVERVIEW OF COMPANY DEVELOPMENT AND PERFORMANCE. MAIN RISKS RELATED TO ACTIVITIES (CONTINUED)**

2. Company developments in 2017

Over the first three quarters of 2017 we have witnessed accelerating and synchronised growth of global economy. Global economy has gained strength in the field of employment, consumer prices, stable GDP growth, etc.

Optimism characterised global markets, which were affected by the expectations continuing throughout the year for tax reform and fiscal expansion from Trump's administration.

Despite the absence of government in Bulgaria in the first quarter of the year, optimism ruled on the Bulgarian stock exchange as well, during the entire first half of the year.

The main local indexes commenced the year on a growing trend, along with the high spirits on global markets.

Low interest rates on deposits and the first Bulgarian fund traded on the stock exchange also contributed to the positive results. In the third quarter rebalancing of the SOFIX index, potential changes in legislation regarding pension funds in Bulgaria as well as other factors cooled down growth rates and the upward market trend was interrupted. The most important event of the last quarter was the sale of a large portion of the shares in Sopharma AD by Rompharm.

In this environment the main Bulgarian and global exchange indicators reached the following results at 31.12.2017:

	Sofix	BG BX40	BG TR30	BG REIT	DJIA	S&P500	NIKKEI	Hang Seng	FTSE 100	DAX
Profitability for the year	15.52%	18.60%	21.08%	7.39%	25.08%	19.42%	19.10%	35.99%	7.63%	12.51%

As is evident from the table below, investments in Bulgaria are presented relatively well by the respective indexes, taking into account the liquidity cash buffer and the strategy of avoiding issuers involved in shadow business.

	UBB Premium Equity <i>BGN</i>	UBB Balanced Fund <i>BGN</i>	UBB Platinum Bonds <i>BGN</i>	UBB Patrimonium Land <i>BGN</i>	UBB Global Pharm Invest <i>BGN</i>	UBB Euro Money <i>EUR</i>
Performance:						
Fund – return for the year	9.83%	5.43%	1.66%	1.12%	-2.09%	1.41%
Benchmark - return for the year	15.52%	8.17%	0.82%	3.52%	4.39%	0.82%

*Benchmarks for the respective funds are as follows:*

- UBB Premium Equity - 100% Sofix
- UBB Patrimonium Land - 20% BG REIT, 50% STOXX Global 1800 /in BGN/ and 30% MVIS Global Agri-business
- UBB Balanced Fund - 50% Sofix and 50% DV 2Y Treasury Bond
- UBB Platinum Bond/ UBB Euro Money - 100% DV 2Y Treasury Bond
- UBB Global Pharm Invest - 100% S&P Global 1200 Health Care (Sector) /in BGN/

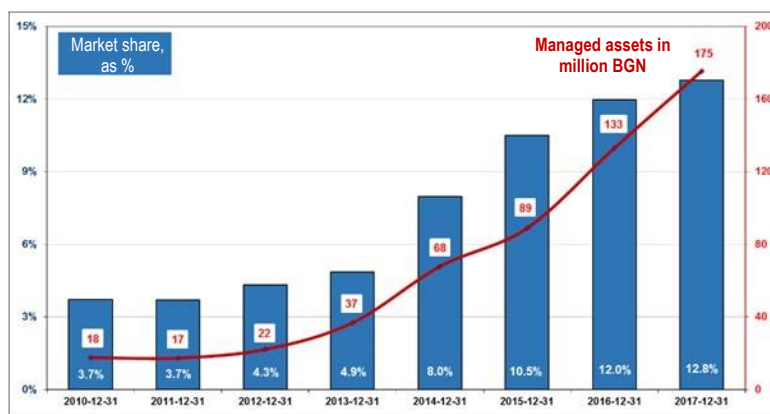
## I. OVERVIEW OF COMPANY DEVELOPMENT AND PERFORMANCE. MAIN RISKS RELATED TO ACTIVITIES (CONTINUED)

### 2. Company developments in 2017 (continued)

The conservative funds managed by the company have performed far better than their corresponding benchmarks.

The last three funds – UBB Global Growth, UBB Global Dividend and UBB Global Child Fund will be reported on this bases when they reach an 80% investment rate as compared to their benchmarks – which were achieved at the end of 2017.

In 2017 the market share of UBB AM in the stock exchange industry (of funds registered in Bulgarian) reached 12.8% - an 0.8% increase as compared to 31.12.2016.



The company has retained its stable third place in the ranking of management companies in Bulgaria.

As of 31.12.2017, the total amount of assets in collective investment schemes managed by UBB AM is equal to BGN 175, 363 thousand.

At the end of 2017 UBB Asset Management AD managed individual portfolios in the amount of BGN 11,181 thousand.

2017 saw the conclusion of all necessary changes in accordance with statutory requirements, including in the documents concerning the activities of the managed collective investment schemes – their rules and prospectuses.

Throughout 2017 UBB Asset Management AD took active part in the events organised by the Bulgarian Association of Asset Management Companies (BAAMC) for promotion of mutual funds in Bulgaria. In 2017 the company continued its active work within BAAMC, including the elaboration and substantiation of changes in legislation concerning the activities of asset management companies and collective investment schemes.

**I. OVERVIEW OF COMPANY DEVELOPMENT AND PERFORMANCE. MAIN RISKS RELATED TO ACTIVITIES (CONTINUED)**

3. Operating results in 2017

Portfolios 2017	Net assets in BGN, 2017	Net assets in BGN, 2016	Commencement of public offering
UBB Platinum Bonds	68,715	52,224	30.01.2006
UBB Balanced Fund	11,496	8,156	31.01.2005
UBB Premium Equity	28,722	24,603	30.01.2006
UBB Patrimonium Land	23,056	18,662	30.01.2009
UBB Global Pharm Invest	12,451	12,598	31.05.2010
UBB Euro Money	26,139	14,862	31.05.2010
UBB Global Child Fund	1,775	1,181	31.03.2016
UBB Global Growth	1,311	200	11.04.2016
UBB Global Dividend	1,698	481	11.04.2016
Individual portfolios	11,181	11,246	
<b>Total:</b>	<b>186,544</b>	<b>144,213</b>	

The profitability achieved by the managed collective investment schemes at the end of 2017 is as follows:

*Profitability performance of managed CIS*

UBB Mutual Funds 2017	Profitability		
	For 2017	Since commencement of public offering	Commencement of public offering
UBB Platinum Bonds	1.66%	3.24%	30.01.2006
UBB Balanced Fund	5.43%	4.40%	31.01.2005
UBB Premium Equity	9.83%	2.29%	30.01.2006
UBB Patrimonium Land	1.12%	6.53%	30.01.2009
UBB Global Pharm Invest	-2.09%	0.43%	31.05.2010
UBB Euro Money	1.41%	1.16%	31.05.2010
UBB Global Child Fund	-5.92%	-4.70%	31.03.2016
UBB Global Growth	-1.69%	-0.76%	11.04.2016
UBB Global Dividend	-2.66%	-1.31%	11.04.2016

4. Main risks associated to company activities

The risks associated with company activities and risk management procedures are as follows:

**Credit risk** – the possibility of loss due to counterparty default. The exposition of the Company to credit risk is limited due to the quality of its financial assets – cash and cash equivalents, interest receivables and receivables from CIS.

**Market risk** – the main components of market risk are interest risk, currency risk and price risk.

**Interest risk** – the risk of decline in the value of an investment in a financial instrument due to change in the interest rate affecting the value of such instrument. The main currency risk to which the Company is exposed is related to the possibility that future changes in interest rates may bring about a decrease in the fair value of interest-bearing financial assets. Fixed-term deposits have a fixed interest rate and are not exposed to interest risk.

## I. OVERVIEW OF COMPANY DEVELOPMENT AND PERFORMANCE. MAIN RISKS RELATED TO ACTIVITIES (CONTINUED)

### 4. Main risks associated to company activities (continued)

Currency risk is the risk of decline in the value of an investment in a financial instrument denominated in a currency other than GN or EUR due to changes in the exchange rate of such currency and BGN or BGN/EUR. The company does not hold significant assets denominated in a currency other than BGN or EUR.

Price risk – the risk of decline in the value of an investment in a financial instrument due to unfavourable changes in market price levels, whereby the Company may incur losses. The Company is not exposed to any significant price risk given the nature and quality of its assets and liabilities. Operational risk is the likelihood to incur losses related to errors or faults in the organization system, insufficiently qualified staff, adverse external events of non-financial nature including legal risk. Operational risks may be:

1. Internal – related to the organization of operations within the Management Company.
2. External – related to macroeconomic, political and other factors which affect and/or may affect the activities of the Management Company.

Liquidity risk – inability to meet short-term obligations. Liquidity risk may arise for the Company if generated income (mainly from the mutual funds managed by the Company) is not enough to cover the costs of the Management Company which would result in the inability to meet current obligations. UBB Asset Management AD strives to maintain such asset structure as to allow unobstructed performance of activities.

## II. COMPANY POSITION, ANNUAL FINANCIAL STATEMENTS

### 1. Non-current financial assets

The non-current assets of the Company comprise software and software licences, office equipment and website with carrying amount as of 31.12.2017 equal to BGN 89 thousand.

### 2. Current non-financial assets

The management company UBB Asset Management AD has no long-term receivables; all receivables are current.

As of 31.12.2017 the Company receivables are receivables from the managed collective investment schemes and individual portfolios, overpaid income tax and interest receivables – in the amount of BGN 250 thousand.

### 3. Cash

As of 31.12.2017 the value of cash is in the amount of BGN 4,276 thousand, allocated in demand deposits and cash on hand.

## II. COMPANY POSITION, ANNUAL FINANCIAL STATEMENTS (CONTINUED)

### 4. Equity

The equity of UBB Asset Management AD is in the amount of BGN 700,000 allocated in 700 dematerialised shares granting voting rights at the General Assembly and having a par value of BGN 1,000 each. 90.86% of the capital of the company is owned by UBB AD, and 9.14% - by KBC BANK, Belgium.

The Company has retained general reserves from previous financial years in the amount of BGN 2,426 thousand.

The current net profit for 2017 is in the amount of BGN 1,352.

### 5. Current liabilities

As of 31.12.2017, the liabilities of the Company amount to BGN 145 thousand and comprise the following items: suppliers in BGN, personnel liabilities in connection with unpaid bonuses and social security contributions, as well as corporate tax liabilities, VAT liabilities and representative expenses tax.

### 6. Income

In 2017 UBB Asset Management AD realised income mainly from the management of collective investment schemes and individual portfolios, in the amount of BGN 2,746 thousand.

Other significant income is interest income, this being in the amount of BGN 21 thousand.

### 7. Expenses

The main expenses of the Company comprise remuneration and social security contributions at the total value of BGN 936 thousand with the total amount of expenses at 31.12.2017 being in the amount of BGN 1,265.

UBB Asset Management AD constantly maintains its liquidity and capital adequacy in full compliance with statutory requirements.

## III. SIGNIFICANT EVENTS ARISING AFTER THE DATE OF THE ANNUAL FINANCIAL STATEMENTS.

The following change in the composition of the Board of Directors of the Company was registered on 25.01.2018: as of the date of compilation of the Annual Financial Statement, the composition of the Board of Directors is as follows: Mr Jan Joseph Evrard Swinnen – Chairman, Mr Christof Marcel Elsa De Mil – Deputy Chairman, Mr Teodor Valentinov Marinov – Member, Ms Katina Slavkova Peycheva – Executive Member.

## IV. FUTURE DEVELOPMENT OF THE COMPANY.

The expected development of UBB Asset Management AD in 2018 comprises the following direction:

- 🕒 Expansion of individual portfolio management activities;
- 🕒 Increase of the net value of managed assets;
- 🕒 Increase in market share;
- 🕒 Introduction of new products;

- 9 Full cooperation with UBB Branch network, including training of employees engaged in the sale of UBB Mutual Funds.

As part of the largest financial and insurance group in Bulgaria – KBC Group, the Company faces numerous challenges related to integration at group level.

#### V. RESEARCH AND DEVELOPMENT ACTIVITIES.

UBB Asset Management AD does not undertake any research and development activities.

#### VI. COMPANY BRANCHES.

UBB Asset Management AD does not have branches in the country and abroad.

#### VII. FINANCIAL INSTRUMENTS USED BY THE COMPANY. FINANCIAL RISK OBJECTIVES AND COMPANY POLICY, INCLUDING HEDGING POLICY HEDGING POLICIES FOR EACH MAIN TYPE OF HEDGED ITEM TO WHICH HEDGING REPORTING IS APPLIED; COMPANY EXPOSURE TO PRICE, CREDIT, LIQUIDITY AND CASH FLOW RISKS.

In 2017 UBB Asset Management AD has not held or used any financial instruments.

#### VIII. NUMBER AND PAR VALUE OF OWN SHARES ACQUIRED AND TRANSFERRED IN THE COURSE OF THE YEAR AS PORTION OF THE EQUITY THEY REPRESENT, AND THE PRICE OF SUCH ACQUISITION OR TRANSFER. GROUNDS FOR ACQUISITIONS MADE DURING THE YEAR. NUMBER AND PAR VALUE OF OWN SHARES HELD AND THE PORTION OF EQUITY THEY REPRESENT.

UBB Asset Management AD has not acquired or transferred own shares in 2017.

#### IX. REMUNERATION RECEIVED FOR THE YEAR BY MEMBERS OF THE BOARD OF DIRECTORS.

In 2017 the Members of the Board of Directors of UBB Asset Management AD did not receive remuneration.

#### XVI. EXPECTED INVESTMENTS AND PERSONNEL DEVELOPMENT.

An increase in the number of employees is expected for 2018 given the increase in the volume of operations. Development of existing personnel will be effected through allocation of training expenses, enhancement of qualifications and experience exchange with KBC Asset Management.

19.02.2018  
Sofia

(sgd.)  
Katina Peycheva,  
Executive Director

(sgd.)  
Stefan Tamnev  
Procurator

(Round seal of UBB Asset Management AD)

UBB ASSET MANAGEMENT AD  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED ON 31 DECEMBER 2017

*In BGN '000, unless otherwise specified*



	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Operating income	3	2,746	2,028
Interest income	4	21	44
Other income		-	1
<b>Total income</b>		<b>2,767</b>	<b>2,073</b>
Operating expenses	6.1 and 6.2	(256)	(265)
Personnel expenses	7	(936)	(731)
Impairment	10 and 11	(18)	(13)
Other expenses (incl. financial expenses)	5 and 6.3	(55)	(42)
<b>Total expenses</b>		<b>(1,265)</b>	<b>(1,051)</b>
<b>Net profit for the period before taxes</b>		<b>1,502</b>	<b>1,022</b>
<b>Tax expenses</b>	<b>8</b>	<b>(150)</b>	<b>(102)</b>
<b>Net profit for the period after taxes</b>		<b>1,352</b>	<b>920</b>
Net earnings per share	9	1.93	1.31
Other comprehensive income		-	-
<b>Comprehensive income for the period</b>		<b>1,352</b>	<b>920</b>

The present Financial Statements were approved by the Board of Directors on 22 February 2018.

<u>(sgd.)</u>	<u>(sgd.)</u>	<u>(sgd.)</u>
Prepared by Elena Kyoseva Chief Accountant 2018	Katina Peycheva Executive Director 2018	Stefan Tamnev Procurator 2018 <i>(round seal of UBB Asset Management AD)</i>

Certified as per auditor's report:

<u>(sgd.)</u>	<u>(sgd.)</u>
Rositsa Boteva Registered Auditor 30.03.2018	Jock Nunan PriceWaterhouseCoopers Audit OOD 30.03.2018

*(Oval seal of PriceWaterhouseCoopers Audit OOD)*



UBB ASSET MANAGEMENT AD  
STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED ON 31 DECEMBER 2017

In BGN '000, unless otherwise specified

	Notes	2017	2016
<b>Assets</b>			
<i>Non-current assets</i>			
Propert, plant and equipment	10	41	1
Intangible assets	11	48	62
Total non-current assets		<u>89</u>	<u>63</u>
<i>Current assets</i>			
Cash and cash equivalents	12	4,276	359
Fixed-term deposits	13	-	2,510
Receivables	14	243	237
Deferred expenses	15	8	4
Deferred tax assets	8	7	-
Total current assets		<u>4,534</u>	<u>3,110</u>
<b>Total assets</b>		<u><b>4,623</b></u>	<u><b>3,173</b></u>
<b>Liabilities and equity</b>			
<i>Equity</i>			
Registered capital	16	700	700
Total reserves		2,426	552
Retained earnings		1,352	1,874
Total equity		<u>4,478</u>	<u>3,126</u>
<i>Current liabilities</i>			
Personnel related liabilities	17	75	3
Trade payables	18	62	38
Tax liabilities	19	8	6
Total current liabilities		<u>145</u>	<u>47</u>
<b>Total liabilities and equity</b>		<u><b>4,623</b></u>	<u><b>3,173</b></u>
<b>Managed foreign assets</b>	20	<u><b>186,544</b></u>	<u><b>144,213</b></u>

The present Financial Statements were approved by the Board of Directors on 22 February 2018.

(sgd.)	(sgd.)	(sgd.)
Prepared by	Katina Peycheva	Stefan Tamnev
Elena Kyoseva	Executive Director	Procurator
Chief Accountant		
2018	2018	2018
		(round seal of UBB Asset Management AD)

Certified as per auditor's report:

(sgd.)	(sgd.)
Rositsa Boteva	Jock Nunan
Registered Auditor	PriceWaterhouseCoopers Audit OOD
30.03.2018	30.03.2018

(Oval seal of PriceWaterhouseCoopers Audit OOD)



UBB ASSET MANAGEMENT AD  
 CASH FLOW STATEMENT  
 FOR THE YEAR ENDED ON 31 DECEMBER 2017

In BGN '000, unless otherwise specified

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>			
Cash receipts related to holders of shares in CIS		97,717	70,067
Cash payments related to holders of shares in CIS		(97,717)	(70,189)
Cash receipts related to CIS management		2,770	1,908
Cash receipts related to the management of individual investment portfolios		92	80
Cash payments related to the management of CIS and individual investment portfolios		(402)	(354)
Cash payments related to remuneration and social security contributions		(849)	(711)
Cash receipts from fees as per tariff		2	2
Bank fees		(6)	(3)
Income tax paid		(156)	(142)
Other taxes paid /on representative expenses, rent/		(3)	(4)
Other cash payments, related to personnel		(18)	(16)
Other cash payments		-	(4)
<b>Net cash flows from operating activities</b>		<b><u>1,430</u></b>	<b><u>634</u></b>
<b>Cash flows from investment activities</b>			
Cash receipts, related to fixed-term deposits		2,500	252
Cash payments, related to fixed-term deposits		-	(2,500)
Cash payments, related to non-current assets		(44)	(14)
Interest related cash receipts		31	37
<b>Net cash flows (for) / from investment activities</b>		<b><u>2,487</u></b>	<b><u>(2,225)</u></b>
<b>Net change in cash and cash equivalents</b>		<b><u>3,917</u></b>	<b><u>(1,591)</u></b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>12</b>	<b><u>359</u></b>	<b><u>1,950</u></b>
<b>Cash and cash equivalents at the end of period</b>	<b>12</b>	<b><u>4,276</u></b>	<b><u>359</u></b>

The present Financial Statements were approved by the Board of Directors on 22 February 2018.

<i>(sgd.)</i>	<i>(sgd.)</i>	<i>(sgd.)</i>
Prepared by Elena Kyoseva Chief Accountant 2018	Katina Peycheva Executive Director 2018	Stefan Tamnev Procurator 2018 <i>(round seal of UBB Asset Management AD)</i>

Certified as per auditor's report:

<i>(sgd.)</i>	<i>(sgd.)</i>
Rositsa Boteva Registered Auditor 30.03.2018	Jock Nunan PriceWaterhouseCoopers Audit OOD 30.03.2018

*(Oval seal of PriceWaterhouseCoopers Audit OOD)*

UBB ASSET MANAGEMENT AD  
 STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR ENDED ON 31 DECEMBER 2017  
*In BGN '000, unless otherwise specified*

	<b>Registered capital</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total</b>
<b>31 December 2015</b>	<b>700</b>	<b>552</b>	<b>954</b>	<b>2,206</b>
Profit for the period	-	-	920	<b>920</b>
<b>31 December 2016</b>	<b>700</b>	<b>552</b>	<b>1,874</b>	<b>3,126</b>
Retained profit brought forward	-	<b>1,874</b>	(1,874)	-
Profit for the period	-	-	1,352	<b>1,352</b>
<b>31 December 2017</b>	<b>700</b>	<b>2,426</b>	<b>1,352</b>	<b>4,478</b>

The present Financial Statements were approved by the Board of Directors on 22 February 2018.

<i>(sgd.)</i>	<i>(sgd.)</i>	<i>(sgd.)</i>
_____ Prepared by Elena Kyoseva Chief Accountant 2018	_____ Katina Peycheva Executive Director 2018	_____ Stefan Tamnev Procurator 2018 <i>(round seal of UBB Asset Management AD)</i>

Certified as per auditor's report:

<i>(sgd.)</i>	<i>(sgd.)</i>
_____ Rositsa Boteva Registered Auditor 30.03.2018	_____ Jock Nunan PriceWaterhouseCoopers Audit OOD 30.03.2018

*(Oval seal of PriceWaterhouseCoopers Audit OOD)*

## 1 Organisation and activity

The Management Company (MC) UBB Asset Management AD (The Company, the Management Company), Sofia, as established in 2003 and is registered in the Commercial Register under company file No 4098 / 23.04.2004 of Sofia City Court as a single-member joint-stock company, UIC 131239768. On the basis of Decision No 29.06.2006 issued by Sofia City Court, the Company was transformed into a joint-stock company with the designation UBB Asset Management AD. The same Decision also increased the share capital of the Company from BGN 300,000 to BGN 330,000 through the issuance of 30 new registered dematerialised voting shares with par value of BGN 1,000 each. Through Decision No 9 issued by Sofia City Court on 05.07.2007 the capital of the Company was increased from BGN 330,000 to BGN 700,000.

Shareholders in UBB Asset Management AD United Bulgarian Bank AD, holding 90.86% of the capital and KBC Bank, Belgium, holding 9.14% of the capital following transfer of the shares held by NBG Asset Management, Greece, on 15.06.2017. UBB Asset Management AD does not hold interests in subsidiaries or associated undertakings.

UBB Asset Management" AD has its seat and registered Office in the city of Sofia, Vazrazhdane municipality, 5, Sveta Sofia Street, mailing address: Sofia, 89B, Vitosha Blvd., Millennium Centre, tel.: + 359 2 / 811 37 63, e-mail [ubbam@ubb.bg](mailto:ubbam@ubb.bg), website: [www.ubbam.bg](http://www.ubbam.bg).

The main scope of Company activities is as follows:

1. Management of the activities of collective investment schemes, including:
  - a) Investments management;
  - b) share administration, including legal and accounting services concerning asset management, information requests from investors, asset valuation and calculation of share prices, control over observance of statutory requirements, risk management, keeping the ledger of share owners in cases of management activities for collective investment schemes originating from another member state, allocation of dividend and other payments, share issuance, sale and repurchase, contract performance, record maintaining;
  - c) marketing services.
2. Managing the activities of national investment funds
3. Management services per portfolio agreement with client, including portfolios of collective investment undertakings comprising financial instruments, at own discretion, without special instructions from client;
4. Provision of investment consultations regarding financial instruments;
5. Storing and administrating shares in collective investment undertakings.

## 1 Organisation and activities (continued)

As of 31 December 2017 the Company manages the following collective investment schemes:

- UBB Premium Equity Mutual Fund – Licence No715-ДФ / 23.11.2005 of the Financial Supervision Commission;
- UBB Platinum Bonds Mutual Fund – Licence No716-ДФ / 23.11.2005 of the Financial Supervision Commission;
- UBB Balanced Fund Mutual Fund – Decision No 747- ИД / 13.10.2004 of the Financial Supervision Commission. The Mutual Funds was established as an open-ended investment undertaking under the name UBB Balanced Fund AD and, as per Decision No 711-ДФ / 24.09.2013 of the Financial Supervision Commission (FSC), Mutual Fund UBB Balanced Fund was registered as an issuer and UBB Balanced Fund AD Investment Undertaking was deregistered from the register maintained by the FSC
- UBB Patrimonium Land Mutual Fund – Decision No 1007-ДФ / 04.08.2008 of the Financial Supervision Commission;
- UBB Global Pharm Invest Mutual Fund – Licence No 306-ДФ / 14.05.2010 of the Financial Supervision Commission. The Mutual Fund was established under the name UBB Premium Euro Shares Mutual Fund; Decision No 1123-ДФ / 05.12.2012 of the Financial Supervision Commission approved a change in the Rules of the Fund along with a change in the name – from UBB Premium Euro Shares Mutual Fund to UBB Global Pharm Invest Mutual Fund;
- UBB Euro Money Mutual Fund - Licence No 305-ДФ / 14.05.2010 of the Financial Supervision Commission. The Mutual Fund was established under the name UBB Platinum Euro Bonds Mutual Fund; Decision No 457-ДФ / 09.05.2014 of the Financial Supervision Commission approved a change in the Rules of the Fund along with a change in the name – from UBB Platinum Euro Bonds Mutual Fund to UBB Euro Money Mutual Fund;
- UBB Global Child Fund Mutual Fund – Licence No 145-ДФ / 12.03.2016 of the Financial Supervision Commission;
- UBB Global Dividend Mutual Fund – Decision No 153-ДФ / 17.03.2016 of the Financial Supervision Commission;
- UBB Global Growth Mutual Fund – Decision No 154-ДФ / 17.03.2016 of the Financial Supervision Commission;

As of 31 December 2017 the Company is a party to seven management contracts for individual investment portfolios (as of 31.12.2016: eight such contracts).

The Company has a single-tier management system. The management bodies of UBB Asset Management AD are the General Meeting of Shareholders and the Board of Directors.

No changes in the structure of activities performed by UBB Asset Management AD have occurred during the reporting year.

The Annual Financial Statements were approved by the Board of Directors of UBB Asset Management AD by means of Protocol No 373 dated 22.02.2018.

## 2 Significant accounting policies

### 2.1 Basis for preparation and presentation of the financial statements

#### Basis for preparation

- (i) *Compliance with IFRSs adopted by the EU*

## 2. Significant accounting policies (continued)

### 2.1 Basis for preparation and presentation of the financial statements (continued)

The financial statements of the Company were prepared in compliance with the International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) applicable to companies reporting under IFRS and adopted for use in the EU.

#### (ii) Historical cost

The financial statements are prepared under the historical cost convention for reporting assets and liabilities.

The financial statements include the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement and the applicable Notes thereto.

Accounting of UBB Asset Management in its role of Management Company is kept separately from the accounts of the collective investment schemes it manages.

### 2.2 Changes in IFRS

#### (i) New and amended standards adopted by the Fund

The Fund adopted the following standards and amendments for the first time during the annual reporting period beginning on January 1, 2017.

- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses;
- Amendments to IAS 7 – Disclosure Initiative.

#### (ii) New standards and interpretations that are effective from 1 January 2018 and have not been previously adopted by the Company

Certain new accounting standards and interpretations were published as non-obligatory for the reporting period as of December 31, 2017 and were not previously adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

#### **IFRS 9 Financial Instruments**

IFRS 9 addresses the classification, measurement and write-off of financial assets and liabilities and introduces new rules for hedging reporting and a new impairment model for financial assets.

#### ***Impact***

The Company has reviewed its financial assets and liabilities and does not expect any impact from the adoption of the new standard on 1 January 2018.

No impact is expected on the reporting of financial liabilities as the new requirements affect only reporting of financial liabilities stated at fair value in profit or loss, and the Company does not have such liabilities. Derecognition rules were transferred directly from IAS 39 Financial Instruments. Recognition and Measurement and were not amended.

## 2. Significant accounting policies (continued)

### 2.2 Changes in IFRS (continued)

(ii) **New standards and interpretations that are effective from 1 January 2018 and have not been previously adopted by the Company (continued)**

#### **IFRS 9 Financial Instruments (continued)**

##### *Impact (continued)*

The new rules on **hedge accounting** will align, to a greater extent, hedge instrument reporting with the Company's risk management practices.

Generally, a wider range of hedging relationships will meet hedge accounting requirements, as the standard introduces a principles-based approach. The Company has confirmed that its current hedging relationships are classified as continuous hedging as per the amended IFRS 9. In addition, the Company intends in future to define the inherent value of options agreements in foreign currency as hedging instruments. Currently these are reported as derivatives held for trading at fair value in profit or loss. Changes in the fair value of foreign currency forward contracts relating to forward elements and the effect of time value of money for the options will, in future, be deferred as expenses for hedging reserves in equity. The sum of deferred amounts will be recognised in line with the occurrence of the underlying hedging transaction.

In the estimates of the Management Company, the adoption of hedging accounting for portfolios involving financial assets and liabilities in accordance with **IAS 39: Financial Instruments: Recognition and Assessment** will not have a significant effect on the financial statements if applied at the reporting date.

**The new impairment method** requires recognition of impairment provisions on the basis of expected credit loss (ECL) and not only on incurred credit loss under IAS 39. It is applied to financial assets stated at amortised cost, debt instruments stated at fair value in other comprehensive income, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan engagements and certain financial guarantees. On the basis of the assessments made the Company does not expect significant changes in impairment.

The new standard also introduces extended requirements to disclosure and changes in presentation. These are not expected to affect the essence and extent of Company disclosures.

##### *Date of adoption by the Company*

The Standard applies to financial years beginning on or after 1 January 2018. The Company will apply the new rules retrospectively as of 1 January 2018 making use of the practical relief provided by the Standard and will not recalculate comparative data for 2017.

#### **IFRS 15 Revenue from Contracts with Customers**

The IASB has issued a new standard for revenue recognition. It repeals IAS 18, which deals with contracts for goods and services, and IAS 11, which covers construction contracts. The new standard is based on the principle that revenue is recognized when the control of a good or service is transferred to the customer. The standard permits either a full or a modified retrospective acceptance approach.

## 2. Significant accounting policies (continued)

### 2.2 Changes in IFRS (continued)

(ii) **New standards and interpretations that are effective from 1 January 2018 and have not been previously adopted by the Company (continued)**

#### **IFRS 15 Revenue from Contracts with Customers (continued)**

##### *Impact*

The Management has assessed the effect of the new standard on the financial statements of the Company and has not identified areas that would be affected.

##### *Date of adoption by the Company*

The standard is compulsory for financial years beginning on or after 1 January 2018. The Company intends to adopt the Standard using the modified retrospective approach, meaning that the cumulative effect of the adoption will be recognized in retained earnings as at 1 January 2018 and that comparative data will not be recalculated.

**Amendments to IFRS 4 Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on September 12, 2016)** in effect as of January 1, 2018 and adopted by the EU.

(iii) **New standards and interpretations that are effective from 1 January 2019 and have not been previously adopted by the Company**

#### **IFRS 16 Leases**

IFRS 16 was issued in January 2016. It will result in the recognition of almost all lease contracts on the balance sheet since the distinction between operating and finance leases is abolished. Under the new standard, an asset (the right of use of the leased property) and a financial liability under lease payments are recognized. The only exception is for short-term leases and low-value leases. Lessor accounting will not change significantly.

##### *Impact*

The Company has not yet assessed what other changes, if any, are necessary, for example with regard to the change in the definition of the lease agreement term, the different treatment of variable lease payments and extension and termination options. Hence as yet it is not possible to assess the value of assets under right of use and lease obligations which will be recognised upon adoption of the new standard and how this adoption will affect the profit or loss of the Company and future classification of cash flows.

The Standard is mandatory for financial years beginning on or after 1 January 2019. At this stage, the Company does not intend to adopt the Standard prior to its entry into force. The Company intends to apply the Simplified Transitional Approach and will not recalculate comparative data for the year preceding initial recognition.

*There are no other standards that are not yet in force and which are expected to have a significant impact on the Company during the current or future reporting period, as well as in foreseeable future transactions.*



## 2. Significant accounting policies (continued)

### 2.2 Changes in IFRS (continued)

#### (iv) New standards, interpretations and amendments not yet adopted by the EU

**IFRS 17 Insurance Contracts (issued on 18 May 2017)** in effect as of 1 January 2021

**IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)**, in effect as of 1 January 2018, expected to be approved in the first quarter of 2018;

**IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017)**, in effect as of 1 January 2019, expected to be approved in 2018;

**Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016)**, in effect as of 1 January 2018, expected to be approved in the first quarter of 2018;

**Annual Improvements to IFRS – 2014-2016 Cycle (issued on 8 December 2016)**, in effect as of 1 January 2017 and 2018, expected to be approved in 2018;

**Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016)**, in effect as of 1 January 2018, expected to be approved in the first quarter of 2018;

**Amendments to IFRS 9 Prepayment Features with Negative Compensation (issued on 12 October 2017)**, in effect as of 1 January 2019, expected to be approved in 2018;

**Amendments to IAS 28 Investments in Associates and Joint Ventures (issued on 12 October 2017)**, in effect as of 1 January 2019, expected to be approved in 2018;

**Annual Improvements to IFRS – 2015-2017 Cycle (issued on 12 December 2017)**, in effect as of 1 January 2019, expected to be approved in 2018.

The management company does not expect that the adoption of these new standards and amendments to existing standards will have a significant effect on the financial statements of the Company in the period of their initial adoption.

### 2.3 Going concern

The financial statements of the Company have been prepared on a going concern basis.

### 2.4 Accounting estimates

Preparation of the financial statements requires the management to make accounting estimates and reasonable assumptions that affect the carrying amounts of assets and liabilities, income and expenses for the period. These estimates and assumptions are based on information available at the date of preparation of the financial statements and future actual results may differ from these estimates.



## 2. Significant accounting policies (continued)

### 2.5 Functional currency and presentation currency

The functional currency of the Company is the national currency of the Republic of Bulgaria - BGN („Bulgarian Lev“). The financial statements are prepared and presented in thousands Lev (BGN ‘000).

### 2.6 Foreign currency

Transactions in foreign currencies, i.e. transactions denominated in currencies other than BGN, which is the functional currency of the Fund, are recorded at the exchange rate prevailing at the date of the transaction. Gains and losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are included in the result for the period.

Monetary assets and liabilities denominated in foreign currencies are assessed in BGN at the following official BNB rates of exchange:

Currency	<u>31.12.2017</u>	<u>31.12.2016</u>
EUR*	1.95583	1.95583
USD	1.63081	1.85545

*\* fixed exchange rate in accordance with the Bulgarian National Bank Act*

### 2.7 Cash and cash equivalents

For the purposes of the financial statements, the Company accounts as cash and cash equivalents cash on hand, cash in current bank accounts or deposits with original maturity of up to 3 months.

### 2.8 Fixed-term deposits

For the purposes of the financial statements, the Company account as fixed-term deposits those having an original maturity of more than 3 months.

### 2.9 Financial assets and liabilities

In accordance with IAS 39 „Financial Instruments: Recognition and Measurement“ (IAS 39) all financial assets and liabilities, including derivative financial instruments, must be recognized and valued in the balance sheet depending on the category to which they are classified.

#### Financial assets

Financial assets are classified in accordance with IAS 39 into four categories: financial assets at fair value through profit or loss, investments held to maturity, loans and receivables, and financial assets available for sale. The management determines the classification of its investments at initial recognition.

## 2. Significant accounting policies (continued)

### 2.9 Financial assets and liabilities (continued)

When managing its own funds, the Company maintains portfolio contents and structure in observance of the following limits:

<u>Types of financial instruments</u>	<u>Limit of relative share in portfolio</u>
Debt securities listed or traded on regulated markets, as well as recently issued debt securities, the issue of which includes the commitment to request listed and, within a term of no more than one year from issue, to be listed for trading on an official stock exchange market or other regulated market;	Up to 100 %
Bank deposits payable upon request or for which the right exists to withdraw the deposit at any time, with no more than 12 months till maturity;	Up to 100 %
Cash market instruments listed or traded on regulated markets;	Up to 100 %
Shares in collective investment schemes, the investment policy of which conforms to the risk policies and the objectives of own funds management of the Company	Up to 30 %
Share securities listed or traded on regulated markets;	Up to 20 %
Recently issued share securities the issue of which includes the commitment to request listed and, within a term of no more than one year from issue, to be listed for trading on an official stock exchange market or other regulated market	Up to 10 %

As of 31 December 2017 and 2016 the Management Company UBB Asset Management AD has not invested own funds in financial instruments such as government securities, bonds, stocks, shares in collective investment schemes and other financial instruments other than bank deposits.

#### Receivables

The Company's receivables are current in nature and are expected to be collected within the next reporting period. Receivables are stated at their nominal value, net of depreciation.

#### Financial liabilities

Financial liabilities which are not derivatives or are not defined upon acquisition at fair value through profit or loss, are measured at amortized cost. They are initially recognized at "cost", i.e. the fair value of incoming cash flows upon occurrence of liability net of transaction costs. Subsequently any difference between net proceeds and the redemption value is recognized in net income for the period using the effective interest rate for the term of the liability.

## 2. Significant accounting policies (continued)

### 2.9 Financial assets and liabilities (continued)

#### Fair value measurement

IFRS 13 is applied when another IFRS requires or permits fair value measurement or disclosure of fair value measurement of both financial instruments and non-financial assets. The standard is not applicable to share-based payment operations falling within the scope of IFRS 2 Share-based Payments, lease transactions within the scope of IAS 17 *Leases* as well as to assessments that bear some similarities to fair value measurement but do not constitute such measurement – such as the assessment of net realisable value as per IAS 2 *Inventories* or of value in use as per IAS 36 *Impairment of Assets*.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date at a principle (or most advantageous) market at current market conditions. The fair value under IFRS 13 is the selling price, regardless of whether that price is directly available or determined by another method of valuation.

#### Fair value disclosure

IFRS 7 *Financial Instruments: Disclosures* requires disclosure in the notes to the financial statements of information about the fair value of financial assets and liabilities. The Company's policy is to disclose the fair value of those assets and liabilities for which there is available market information, and whose fair value is materially different from recorded amounts.

The financial instruments of the Company include cash on hand and in bank accounts, fixed-term deposits, receivables and liabilities. The following methods and assumptions are used to measure the fair value of each group of financial instruments:

Cash on hand and in bank accounts – due to the liquid nature of these instruments, their carrying amount corresponds to fair value.

Fixed-term deposits are initially recognized at fair value. After initial recognition, they are recorded at amortised cost. Since fixed-term deposits have a term up to one year, the Company believes that the carrying value of term deposits does not differ significantly from their fair value.

Other receivables and payables are stated at nominal value, whereby receivables are reduced by the impairment loss. The carrying value of these instruments is the best estimate of their expected fair value.

#### Impairment of financial assets

On a current basis and at the end of each reporting period the Company determines whether there is objective evidence of impairment of a financial asset or group of financial assets. A financial asset or a group of financial assets is considered impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the acquisition of the asset / group of assets and these events have an effect on the expected cash flows of the asset / group of assets.

#### Writing off of financial assets and liabilities

A financial asset is written off on the value date after the Company has no more control over the contractual rights and has transferred substantially the risks of ownership of the asset. This occurs when the rights are realised, expired or are redeemed. A financial liability is written off when it is repaid.

## 2. Significant accounting policies (continued)

### 2.9 Financial assets and liabilities (continued) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when the Company has a legally enforceable right to offset and intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

### 2.10 Property, plant and equipment

Property, plant and equipment include tangible assets with a useful life time more than one year. They are initially recognized at cost, which includes the purchase price, including import duties and non-refundable purchase taxes, and any directly attributable expenses for bringing the asset to working condition for its intended use.

Subsequent costs related to certain property, plant and equipment that have already been recognised are added to the carrying amount of the asset when it is likely that the company has economic benefits in excess of the originally assessed standard of performance of the existing asset.

After initial recognition as an asset, each individual item of property, plant or equipment accounts at acquisition cost, decreased with all depreciations and the accumulated impairment losses.

The Company's management reviews the carrying value of items of property, plant and equipment and determines their recoverable value. In cases where the carrying amount of the asset is greater than its estimated recoverable amount, the asset is depreciated and the Company recognizes an impairment loss.

A given item of property, plant and equipment is derecognised from the balance sheet on disposal or when the asset is permanently withdrawn from use and no other economic benefits are expected. Upon sale of fixed assets, the difference between the book value and the sale price of the asset is recognised in profit or loss in the current period.

Items of property, plant and equipment are depreciated using the straight-lie method over their useful service life. The following annual depreciation rates are used for the different groups of assets:

	<b>Annual depreciation rate</b>
Computers and servers	30%
Peripheral computer devices	20%
Cars	20%
Office equipment and fittings	15%

## 2. Significant accounting policies (continued)

### 2.11. Intangible assets

Intangible assets consist of licenses, software and more. Initially intangible assets are recognized at cost which includes the purchase price, including import duties and non-refundable purchase taxes, and any directly attributable expenses for bringing the asset to working condition for its intended use.

Subsequent costs on an intangible asset after its acquisition are directly stated as expenses at the moment of their occurrence, except in the following cases:

- Where costs are likely to help the asset generate future economic benefits in excess of those initially foreseen
- Where these costs can be reliably measured and related to the asset.

If the above conditions are met, subsequent expenses are added to the cost of the intangible asset.

Subsequent expenses on a recognised intangible asset are recorded as expense if these expenses are necessary to maintain the originally intended standard state of the asset.

After initial recognition intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The Company evaluates whether the useful life of an intangible asset is limited or unlimited, and, if useful life is deemed to be limited, the duration of, or the number of production or similar units constituting such useful life.

An intangible asset is regarded as having an indefinite useful life when, based on an analysis of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the Company.

Intangible assets with limited useful lives are amortised and intangible assets with unlimited useful life are not amortised.

Intangible assets subject to amortisation are amortised using the straight-line method over their useful service life. The following annual amortisation rates are used for the different groups of assets:

	<b>Annual amortisation rate</b>
Software and software licences	20%
Other intangible fixed assets	15%

### 2.12. Trade and other payables and credits

Trade and other payables are financial liabilities arising from the direct receipt of goods, services, cash or cash equivalents from suppliers and creditors.

Following initial recognition, loans and commercial obligations that have no fixed maturity are stated at their estimated acquisition value.

Credits and liabilities with fixed maturity are reported at their amortised cost.

UBB ASSET MANAGEMENT AD  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017  
*In BGN '000 unless otherwise specified*

## 2. Significant accounting policies (continued)

### 2.13. Payables to employees and provisions for long-term employee benefits

Payables to employees include payables of the Company for past service of personnel and the relevant social security contributions required by law. In accordance with IAS 19, employee benefits include accrued short-term employee benefits originating from unused holidays and the social security contributions on such income, accrued on the basis of current social security rates.

According to the requirements of the Labour Code, undertakings in the country are obligated, upon termination of employment relations with an employee who has reached the relevant retirement age, to pay a lump compensation sum in the amount of 2 to 6 monthly work salaries depending on length of service with the Company. The Company has calculated the potential amount of such compensation but, due to its insignificant amount and the low average age of personnel has not made provisions for such compensations in these annual financial statements.

### 2.14. Provisions

Provisions are liabilities of uncertain timing or amount. Provisions are recognized in the context of structural and legal obligations resulting from past events, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

A legal obligation is an obligation that derives from:

- contract (as per contract's explicit and implicit provisions);
- legislation; or
- other action of law.

A constructive obligation is an obligation arising from the actions of the Company, where:

- based on a pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it is ready to undertake certain responsibilities; and
- As a result, the entity has created in the other parties a valid expectation that it will discharge those responsibilities.

A provision is recognised when:

- The Company has a present obligation (legal or constructive) has arisen as a result of a past event;
- an outflow of economic benefit to settle the obligation is probable; and
- the amount of the obligation can be estimated reliably

If these conditions are not met, the provision is not recognised.

Provisions are estimated at the best estimate of the Management at the end of the reporting period of the expenditure required to settle the present obligation.

The amount of recognised provisions are reviewed at each reporting period end and are recalculated to reflect the best current estimate.

As of the reporting date, the Company has provisions for unused paid holidays of personnel.

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## 2. Significant accounting policies (continued)

### 2.15. Taxes

The Company accrues current taxes in accordance with Bulgarian laws. Income tax is calculated based on taxable profit for the period, determined in accordance with the rules established by the tax authorities, whereunder taxes are paid (recovered)

The tax effect related to transactions or other events reported in the statement of comprehensive income is also reported in the statement of comprehensive income, while the tax effect related to transactions and other events recognised directly in equity is also taken directly to equity.

Deferred tax liabilities are recognised for all taxable temporary differences unless they arise from the initial recognition of an asset or liability which, at the time of the transaction, does not affect accounting profit or taxable profit (tax loss).

Deferred tax receivables are reported for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the temporary difference will be utilised. This does not apply to the cases where such receivables arise from the initial recognition of an asset or liability which, at the time of the transaction, does not affect accounting profit or taxable profit (tax loss).

Deferred income taxes are recognized as income or expense and are included in the net profit for the period, unless the tax arises from a transaction or an event, recognized in the same or a different period, directly in equity. Deferred taxes are charged in or credited directly to equity when the tax relates to items that are credited or charged in the same or a different period, directly in the equity.

### 2.16. Prepaid expenses

Prepaid expenses include contracted and documented expenses, paid in the current year, some of which relate to future periods (insurance, subscriptions, etc.).

### 2.17. Equity

The Company reports its share capital at the nominal value of issued and registered shares. Shares are paid on time and in the amount required by valid legislation.

The subscribed capital of the Company is reflected in the financial report at historical cost at the date of registration.

Reserves are established and spent on the basis of a decision of the General Meeting of Shareholders. The Company's equity is the residual value of the assets of the Company after deduction of all of its liabilities.

### 2.18. Operating income

Revenue is measured at the fair value of received receivable payment or compensation. They are accrued when they arise, regardless of cash proceeds.

Revenue associated with a transaction involving the rendering of services is recognised when the outcome of the transaction can be estimated reliably.



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## **2. Significant accounting policies (continued)**

### **2.18. Operating income (continued)**

The main revenue of the Company arises from the management of collective investment schemes (CIS). This revenue is recognised on a monthly basis and is formulated as a percentage of the average annual net asset value of each Fund, the activity and/or portfolio of which is managed by UBB Asset Management AD.

Income from management of individual investment portfolios are calculated as a percentage of the portfolio on a monthly basis.

### **2.19. Financial income and expenses**

Interest revenue and interest expenses for all interest-bearing instruments are recognised in the result for the period using the principle of current accrual apportioned to the time basis through the effective interest rate method.

#### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating the interest income / expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all received fees and other allowances or discounts) for the expected life of the financial instrument or, where appropriate, for a shorter period to its balance value.

### **2.20. Expenses**

Expenses are recognised when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Recognition of expenses for the current period is effected when their corresponding income is accrued.

When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined, expenses are recognized on the basis of procedures of systematic and rational allocation.

Expense is recognised immediately in the Statement of comprehensive income when the expense does not create future economic benefits or when, and only to the extent to which such future economic benefit does not qualify or ceases to meet the requirements for recognition of an asset in the statement of financial position.

Expenses are reported on the basis of accrual accounting. They are recognised at fair value of paid or payable amounts.

The main expenses of the Company are those for hired services and remuneration.

### **2.21. Comparative information**

Presentation and classification of items in the financial statements are retained for the various reporting periods in order to ensure comparability of comparative information. Data for the previous year is adjusted where necessary for the purpose of comparability with current year presentation.



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### 3. Operating income

	<u>2017</u>	<u>2016</u>
Income from mutual funds management, including:	2,639	1,953
- costs associated with the issue and redemption of shares in CIS	90	55
Income under management contracts for individual portfolios	95	68
Income from fees collected under tariff (including issuance of prospectus and other documents)	12	7
<b>Total</b>	<b><u>2,746</u></b>	<b><u>2,028</u></b>

The main income of the Company arises from management fees charged to each mutual fund managed, as follows:

In 2017:

- MF UBB Premium Equity – 2.90% of the average annual net asset value. (valid throughout 2016 as well);
- MF UBB Platinum Bonds – 0.50% of the average annual net asset value (valid throughout 2016 as well);
- MF UBB Balanced Fund – 2.25% of the average annual net asset value (valid throughout 2016 as well);
- MF UBB Patrimonium Land – 2.90% of the average annual net asset value (valid throughout 2016 as well);
- MF UBB Global Pharm Invest – 3.00% of the average annual net asset value (valid throughout 2016 as well);
- MF UBB Euro Money – 0.50% of the average annual net asset value (valid throughout 2016 as well);
- MF UBB Global Child Fund – 2.50% of the average annual net asset value (valid throughout 2016 as well);
- MF UBB Global Dividend – 2.50% of the average annual net asset value (accrual commenced on 14.03.2017 when the Fund reached net asset value of BGN 1 million);
- MF UBB Global Growth – 2.50% of the average annual net asset value (accrual commenced on 02.06.2017 when the Fund reached net asset value of BGN 1 million`).

The applicable redemption fees for 2017 and 2016 are as follows:

FUND	Redemption fee	Period	Effective date of redemption charges
MF UBB PATRIMONIUM LAND	0.25%	held for up to 1 year and 6 months	18 months 29.03.2012
MF UBB PREMIUM EQUITY	0.40%	held for up to 1 year and 6 months	18 months 29.03.2012
MF UBB PLATINUM BONDS	0.50%	held for up to 5 months	5 months 29.03.2012
MF UBB BALANCED FUND	0.40%	held for up to 1 year	12 months 16.05.2012
MF UBB EURO MONEY	0.50%	held for up to 3 months	3 months 09.05.2014

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### 3. Operating income (continued)

The applicable issuance fees for 2017 and 2016 are as follows:

Fund	Issuance fees
MF UBB GLOBAL PHARM INVEST	2%
	1. For orders up to BGN 25,000 (inclusive) – 2%
	2. For orders from BGN 25,000 to 100,000 (inclusive) – 1.5%
	3. For orders from BGN 100,000 to BGN 200,000 (inclusive) – 1%
MF UBB GLOBAL CHILD FUND	4. For orders over BGN 200,000 – NAV per 1 share.
	1. For orders up to BGN 25,000 (inclusive) – 2%
	2. For orders from BGN 25,000 to 100,000 (inclusive) – 1.5%
	3. For orders from BGN 100,000 to 200,000 (inclusive) – 1%
MF UBB GLOBAL DIVIDEND	4. For orders over BGN 200,000 – NAV per 1 share.
	1. For orders up to BGN 25,000 (inclusive) – 2%
	2. For orders from BGN 25,000 to 100,000 (inclusive) – 1.5%
	3. For orders from BGN 100,000 to 200,000 (inclusive) – 1%
MF UBB GLOBAL GROWTH	4. For orders over BGN 200,000 – NAV per 1 share.

By Decision of the Board of Directors No 317 of 15.11.2015, management fees, issuance fees and all other establishment costs incurred on behalf of MF UBB Global Dividend and MF UBB Global Growth will not be accrued until a minimum net asset value of BGN 1 million has been reached by MF UBB Global Dividend and MF UBB Global Growth.

The management company recovers the initial establishment costs incurred on behalf of MF UBB Global Dividend and MF UBB Global Growth after the minimum net asset value of the Fund has reached BGN 1 million.

The costs of preparation of all documents necessary to obtain a permit from the FSC are payable to the management company after the net asset value has reached BGN 1 million.

MF UBB Global Dividend reached net asset value of BGN 1 million on 14.03.2017 and MF UBB Global Growth – on 02.06.2017.

### 4. Interest income

	<u>2017</u>	<u>2016</u>
Interest on bank deposits	15	12
Interest on current accounts	6	32
<b>Total</b>	<u><b>21</b></u>	<u><b>44</b></u>

### 5. Other expenses (including financial)

	<u>2017</u>	<u>2016</u>
Financial expenses for bank transfers	(6)	(3)
Expenses related to the statutory interest on late payments	-	(2)
<b>Total</b>	<u><b>(6)</b></u>	<u><b>(5)</b></u>

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**6. Operating expenses**

**6.1. Cost of materials**

	<u>2017</u>	<u>2016</u>
Office materials	(2)	(1)
Fuel	(3)	(3)
Equipment	(1)	(1)
Consumables	(3)	(1)
<b>Total</b>	<u><u>(9)</u></u>	<u><u>(6)</u></u>

**6.2. Cost of hired services**

	<u>2017</u>	<u>2016</u>
Expenses under agency agreements	(100)	(88)
Rent, consumables and premises maintenance	(49)	(52)
Expenses related to maintenance of software products	(35)	(28)
Marketing and advertising	(23)	(28)
Project management	(16)	(14)
Central Depository fees	(1)	(29)
AFS certification	(4)	(4)
Legalised translations of documents into foreign languages	(7)	(7)
Annual fee for general financial supervision payable to FSC	(3)	(3)
Vehicle expenses	(6)	(4)
Safe working conditions	(1)	(1)
Subscriptions	(1)	(1)
Legal fees	(1)	-
<b>Total</b>	<u><u>(247)</u></u>	<u><u>(259)</u></u>

**6.3. Other non-financial expenses, including:**

	<u>2017</u>	<u>2016</u>
Business trips	(25)	(11)
Partial tax credit on VAT	(14)	(12)
Representation costs and taxes thereon	(5)	(9)
Memberships	(3)	(3)
Donation	(1)	-
Tax on personal use of assets	(1)	-
Fines	-	(2)
<b>Total</b>	<u><u>(49)</u></u>	<u><u>(37)</u></u>

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## 7. Personnel expenses

As of 31 December 2017 the staff of the Company numbers 17 individuals (31.12.2016: 20 individuals).

### 7.1. Salaries and wages

	<u>2017</u>	<u>2016</u>
Salaries and wages	(823)	(634)
Remuneration for unused paid leave	-	(3)
<b>Total</b>	<b><u>(823)</u></b>	<b><u>(637)</u></b>

### 7.2. Social security expenses

	<u>2017</u>	<u>2016</u>
Social security contributions for personnel	(92)	(76)
Social security for unused paid leave	-	(1)
<b>Total</b>	<b><u>(92)</u></b>	<b><u>(77)</u></b>

### 7.3. Other personnel expenses

	<u>2017</u>	<u>2016</u>
Costs for additional health insurance, supplementary voluntary pension insurance and life and accident insurance	(13)	(12)
Personnel qualification expenses	(8)	(5)
<b>Total</b>	<b><u>(21)</u></b>	<b><u>(17)</u></b>

## 8. Taxes

As at 31 December 2017 the relationship between tax representation in the statement of comprehensive income and accounting profit is as follows:

	<u>Year ended 31.12.2017</u>	<u>Year ended 31.12.2016</u>
Profit before taxation	1,502	1,022
Applicable tax rate	10%	10%
Tax according to tax rate	<u>150</u>	<u>102</u>
Effect of permanent differences	-	-
Expected tax expense	<u>150</u>	<u>102</u>
Change in deferred tax asset	(7)	-
Current tax expenses	<b><u>157</u></b>	<b><u>102</u></b>

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## 8. Taxes (continued)

As of 31 December 2017 deferred tax asset is recognised for bonus accrual in the amount of BG 7 thousand (1 January and 31 December 2016: 0). As of 31 December 2017 and 2016 there are no unused tax losses available to be carried forward in subsequent periods.

## 9. Net earnings per share Basic earnings per share

	<u>2017</u>	<u>2016</u>
1.Share capital	700	700
2.Uncovered loss from previous years at the beginning of the period	-	-
3.Financial result for the previous year	920	954
4. Basic earnings per share (BGN per share) for the preceding year (p.3: p.1)	<u>1,31</u>	<u>1,36</u>
5.Financial result	<u>1,352</u>	<u>920</u>
6. Basic earnings per share (BGN per share) (p.5: p.1)	<u><u>1,93</u></u>	<u><u>1,31</u></u>

## 10. Property, plant and equipment

	<u>Office equipment</u>	<u>Computers and peripheral devices</u>	<u>Vehicles</u>	<u>Total</u>
<b>1. Reporting value</b>				
1 January 2016	16	61	24	<b>101</b>
Derecognised	(5)	-	-	<b>(5)</b>
31 December 2016	<u>11</u>	<u>61</u>	<u>24</u>	<u>96</u>
Derecognised	-	(50)	-	<b>(50)</b>
Acquired	-	-	44	<b>44</b>
31 December 2017	<u>11</u>	<u>11</u>	<u>68</u>	<u>90</u>
<b>2. Accumulated depreciation</b>				
1 January 2016	15	61	24	<b>100</b>
Derecognised for the year	(5)	-	-	<b>(5)</b>
31 December 2016	<u>10</u>	<u>61</u>	<u>24</u>	<u>95</u>
Accrued for the year	1	-	3	<b>4</b>
Derecognised for the year	-	(50)	-	<b>(50)</b>
31 December 2017	<u>11</u>	<u>11</u>	<u>27</u>	<u>49</u>
<b>3. Net book value</b>				
<b>As of 31 December 2016</b>	<u><u>1</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1</u></u>
<b>As of 31 December 2017</b>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>41</u></u>	<u><u>41</u></u>

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### 11. Intangible assets

	Software and rights to use software	Patents, licences	Webpage	Total
<b>1. Reporting value</b>				
1 January 2016	103	1	22	126
Acquired	21	-	-	21
31 December 2016	124	1	22	147
Acquired	-	-	-	-
31 December 2017	124	1	22	147
<b>2. Accumulated amortisation</b>				
1 January 2016	58	1	13	72
Accrued for the year	10	-	3	13
31 December 2016	68	1	16	85
Accrued for the year	12	-	2	14
31 December 2017	80	1	18	99
<b>3. Net book value</b>				
As of 31 December 2016	56	-	6	62
As of 31 December 2017	44	-	4	48

### 12. Cash and cash equivalents

	31.12.2017	31.12.2016
Cash on hand in BGN	1	-
Cash in current accounts	4,275	359
	<i>In BGN</i> 4,275	345
	<i>In EUR</i> -	14
<b>Total:</b>	<b>4,276</b>	<b>359</b>

Cash on hand in BGN is shown at nominal value. Cash on hand in EUR is shown at the BNB exchange rate as at 31 December 2017 and 2016.

### 13. Fixed-term deposits

	31.12.2017	31.12.2016
Cash on hand in fixed-term deposits with maturity up to 1 year	-	2,500
	<i>In BGN</i> -	2,500
Interest accrued	-	10
	<i>In BGN</i> -	10
<b>Total:</b>	<b>-</b>	<b>2,510</b>

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### 13. Fixed-term deposits (continued)

Funds deposited as at 31 December 2016 comprise fixed-term deposit in United Bulgarian Bank AD maturing in August 2017.

### 14. Receivables

	<u>As at 31.12.2017</u>	<u>As at 31.12.2016</u>
Receivables from management fees for collective investment schemes and share issuance and redemption fees	201	202
Receivables for administration of shares in collective investment schemes	10	7
Receivables from remuneration for management of individual investment portfolios– fiduciary services	29	7
Receivables on advance payments	2	2
Receivables from the Central Depository – prepaid fees	1	1
Receivables for establishment of collective investment schemes	-	17
Other receivables	-	1
<b>Total</b>	<u><u>243</u></u>	<u><u>237</u></u>

Receivables in BGN are valued at the cost incurred. Receivables in EUR and USD are shown at the BNB exchange rate at 31 December 2017 and 2016 respectively. The management company UBB Asset Management AD has no long-term receivables.

### 15. Deferred expenses

The deferred expenses indicated in the statement of financial position relate to:

	<u>As at 31.12.2017</u>	<u>As at 31.12.2016</u>
Annual software maintenance fee	4	2
Training expenses	3	-
Vehicle insurance expenses	1	-
Audit expenses	-	2
<b>Total</b>	<u><u>8</u></u>	<u><u>4</u></u>

### 16. Capital

The share capital of UBB Asset Management AD amounts to BGN 700 thousand divided into 700 dematerialised, registered voting shares with a par value of BGN 1,000, distributed as follows:

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## 16. Capital (continued)

Name of shareholder	As at		As at	
	31.12.2017	%	31.12.2016	%
United Bulgarian Bank AD	636	90,86%	636	90,86%
NBG Asset Management up to 14.06.2017	64	9,14%	64	9,14%
<b>TOTAL SHARES AT 14.06.2017</b>	<b>700</b>	<b>100%</b>	<b>-</b>	<b>-</b>
United Bulgarian Bank AD	636	90,86%	-	-
KBC Bank from 15.06.2017	64	9,14%	-	-
<b>TOTAL SHARES AT 31.12.2017</b>	<b>700</b>	<b>100%</b>	<b>700</b>	<b>100%</b>

## 17. Wages and salaries payable

	As at	As at
	31.12.2017	31.12.2016
Wages and salaries payable, including	75	3
<i>Variable remuneration</i>	75	-
<i>Unused paid leave</i>	-	3
<b>Total:</b>	<b>75</b>	<b>3</b>

## 18. Trade payables

	As at	As at
	31.12.2017	31.12.2016
Payables to suppliers	62	38
<b>Total:</b>	<b>62</b>	<b>38</b>

## 19. Tax liabilities

	As at	As at
	31.12.2017	31.12.2016
Profit tax	5	4
Tax on representation expenses and personal use tax	2	1
VAT payable	1	1
<b>Total:</b>	<b>8</b>	<b>6</b>



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## 20. Foreign assets managed

	<u>As at 31.12.2017</u>	<u>As at 31.12.2016</u>
Net assets of:		
MF UBB Platinum Bonds	68,715	52,224
MF UBB Premium Equity	28,722	24,603
MF UBB Euro Money	26,139	14,862
MF UBB Patrimonium Land	23,056	18,662
MF UBB Global Pharm Invest	12,451	12,598
MF UBB Balanced Fund	11,496	8,156
MF UBB Global Child Fund	1,775	1,181
MF UBB Global Dividend	1,698	481
MF UBB Global Growth	1,311	200
Net value of individual investment portfolios	11,181	11,246
<b>Total:</b>	<b><u>186,544</u></b>	<b><u>144,213</u></b>

## 21. Related parties and related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or the parties are subject to common control by a third party.

The main related parties with which UBB Asset Management AD carries out its activities are as follows:

<u>Company name</u>	<u>Type of relation</u>
MF „UBB Balanced Fund“	relation through key management personnel
MF UBB Premium Equity	relation through key management personnel
MF UBB Platinum Bonds	relation through key management personnel
MF UBB Patrimonium Land	relation through key management personnel
MF UBB Global Pharm Invest	relation through key management personnel
MF UBB Euro Money	relation through key management personnel
MF UBB Global Child Fund	relation through key management personnel
MF UBB Global Dividend	relation through key management personnel
MF UBB Global Growth	relation through key management personnel
KBC Bank	beneficial owner of capital as of 15.06.2017 and as at 31.12.2017
NBG National Bank of Greece	beneficial owner of capital up to 14.06.2017
United Bulgarian Bank AD	parent company
DZI Life Insurance	company under common control
Jan Joseph Evrard Swinnen	key management personnel
Christof Marcel Elsa De Mil	key management personnel
Teodor Valentinov Marinov	key management personnel
Ivan Borisov Koutlov (removed on 25.01.2018)	key management personnel
Katina Slavkova Peycheva	key management personnel
Stefan Stefanov Tamnev	Procurator

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## 21. Related parties and related party transactions (continued)

Balances on related party transactions and the corresponding expenses and income at 31 December 2017 and 2016 are as follows:

<b>Transactions and balances</b>		
<b>Income</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<i>MF UBB Balanced Fund</i> – management fees and redemption fees	231	163
<i>MF UBB Premium Equity</i> – management fees and share redemption fees	838	596
<i>MF UBB Platinum Bonds</i> – management fees and share redemption fees	312	204
<i>MF UBB Patrimonium Land</i> – management fees and share redemption fees	624	492
<i>MF UBB Global Pharm Invest</i> – management fees and share issuance fees	416	428
<i>MF UBB Euro Money</i> – management fees and share redemption fees	104	54
<i>MF UBB Global Child Fund</i> – management fees and share issuance fees	51	22
<i>MF UBB Global Dividend</i> – management fees, prospectus fees and share issuance fees	46	-
<i>MF UBB Global Growth</i> – management fees, prospectus fees and share issuance fees	27	-
<i>United Bulgarian Bank AD</i>		
- interest income on demand deposits	6	32
- interest income on fixed-term deposits	15	12
<b>Expenses</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<i>United Bulgarian Bank AD</i>		
- consumables and premises maintenance	(11)	(11)
- expenses under agency agreements	(100)	(88)
- expenses under Microsoft licences	(7)	-
- bank fees	(6)	(3)
- expenses under contract with the Labour Medicine Office of UBB AD	(1)	(1)
<i>DZI General Insurance</i>		
- company vehicle insurance	(1)	-
<i>Key management personnel transactions</i>		
- remuneration	(170)	(109)

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## 21. Related parties and related party transactions (continued)

<i>Receivables</i>	<b>31.12.2017</b>	<b>31.12.2016</b>
MF UBB Balanced Fund	19	15
MF UBB Premium Equity	61	59
MF UBB Platinum Bonds	32	26
MF UBB Patrimonium Land	51	47
MF UBB Global Pharm Invest	28	32
MF UBB Euro Money	10	6
MF UBB Global Child Fund	3	28
MF UBB Global Dividend	4	6
MF UBB Global Growth	3	6
United Bulgarian Bank AD	2	-
Key management personnel	-	1
<i>Reinvoiced fees for share administration at Central Depository AD</i>	<b>31.12.2017</b>	<b>31.12.2016</b>
MF UBB Balanced Fund	3	-
MF UBB Premium Equity	6	2
MF UBB Platinum Bonds	59	17
MF UBB Patrimonium Land	25	8
MF UBB Global Pharm Invest	3	1
MF UBB Euro Money	2	1
MF UBB Global Child Fund	1	-
MF UBB Global Dividend	-	-
MF UBB Global Growth	1	-
<i>Liabilities</i>	<b>31.12.2017</b>	<b>31.12.2016</b>
UBB AD – under premises maintenance agreement	1	2
UBB AD – remuneration under agency agreement	22	18
UBB AD – Microsoft licences	11	-
<b>Cash equivalents and fixed-term deposits</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
UBB AD – current account in BGN	4,275	345
UBB AD – current account in EUR	-	14
UBB AD – fixed-term deposit with accrued interest	-	2,510

Members of the Board of Directors have not received remuneration for 2017 and 2016.

## 22. Risk management

The Company is exposed to the following risks related to its business activities: credit risk, market risk, liquidity risk, operational risk and regulatory risk.

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## 22. Risk management (continued)

### 22.1. Credit risk

Credit risk is the possibility of loss due to counterparty default. The Company considers that its exposition to credit risk is limited due to the quality of its financial assets – cash and cash equivalents, interest receivables and payables to and from CIS.

As of 31 December 2017 and 2016 the Company does not hold investments in corporate or government bonds.

The bank deposits of the Company have a maturity of up to 1 year (as at 31 December 2016: BGN 2,500 thousand). The choice of bank for such deposits is carried out on the basis of a proposal from the portfolio manager, subject to approval as per analysis by the Management of the Company.

Analysis of credit exposition quality and of fixed-term deposits and cash equivalents on the basis of credit institutions evaluation by BCRA – Credit Rating Agency AD:

<u>Type of investment and rating</u>	<u>2017</u>	<u>2016</u>
<b>Cash and cash equivalents</b>	<b>4,275</b>	<b>359</b>
<i>Long-term rating BBB- and short-term rating A-3</i>	4,275	-
<i>Long-term rating BB and short-term rating B</i>	-	359
<b>Deposits</b>	-	<b>2,510</b>
<i>Long-term rating BB and short-term rating B</i>	-	2,510
<b>Total:</b>	<b>4,275</b>	<b>2,869</b>

The Company has not used derivative instruments to manage credit risk.

### 22.2. Market risk

The main components of market risk are interest risk, currency risk and price risk.

Interest risk is the risk of decrease in the value of an investment in a financial instrument due to changes in interest rates levels affecting the value of such instrument.

The following table presents the sensitivity of the Company's financial assets and liabilities to changes in interest rates as of 31 December 2017:

<u>31.12.2017</u>	<u>Interest-free</u>	<u>Floating interest rate</u>	<u>Fixed interest rate</u>	<u>Total</u>
<b>Current assets</b>				
Receivables	243	-	-	243
Cash and cash equivalents	1	4,275	-	4,276
<b>Current liabilities</b>				
Trade payables	62	-	-	62
<b>Short-term risk exposure</b>				
<b>Total financial assets</b>	<b>244</b>	<b>4,275</b>	-	<b>4,519</b>
<b>Total financial liabilities</b>	<b>62</b>	-	-	<b>62</b>
<b>Total interest risk exposure</b>	<b>182</b>	<b>4,275</b>	-	<b>4,457</b>

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## 22. Risk management (continued)

### 22.2. Market risk (continued)

The following table represents the sensitivity of Company's financial assets and liabilities to changes in interest rates as at 31 December 2016:

31.12.2016	Interest-free	Floating interest rate	Fixed interest rate	Total
<b>Current assets</b>				
Receivables	237	-	-	237
Cash and cash equivalents	-	359	-	359
Fixed-term deposits	-	-	2,510	2,510
<b>Current liabilities</b>				
Trade payables	38	-	-	38
<b>Short-term risk exposure</b>				
<b>Total financial assets</b>	<b>237</b>	<b>359</b>	<b>2,510</b>	<b>3,106</b>
<b>Total financial liabilities</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>38</b>
<b>Total interest risk exposure</b>	<b>199</b>	<b>359</b>	<b>2,510</b>	<b>3,068</b>

### 22.3. Currency and price risk

Currency risk is the risk of decrease in the value of an investment in a financial instrument denominated in a currency other than BGN or EUR due to changes in the exchange rate of such currency and BG/EUR (As a result of the Bulgarian Currency Board, the Bulgarian lev is pegged to the euro.)

As of 31 December 2017 the Company does not have significant assets denominated in a currency other than BGN or EUR. For this reason the Management of the Company does not consider that the Company is exposed to significant currency risk as at 31 December 2017

Analysis of the currency structure of the Company's financial assets and liabilities as at 31 December 2017:

Assets	BGN	EUR	USD	Total
Cash and cash equivalents	4,276	-	-	4,276
Receivables	232	8	3	243
<b>Total (BGN '000)</b>	<b>4,508</b>	<b>8</b>	<b>3</b>	<b>4,519</b>
<b>Total (as %)</b>	<b>99,76%</b>	<b>0,18%</b>	<b>0,07%</b>	

Liabilities	BGN	Total
Trade payables	62	62
<b>Total (BGN '000)</b>	<b>62</b>	<b>62</b>
<b>Total (as %)</b>	<b>100%</b>	

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## 22. Risk management (continued)

### 22.3. Currency and price risk (continued)

Analysis of the currency structure of the Company's financial assets and liabilities as at 31 December 2016:

<b>Assets</b>	<b>BGN</b>	<b>EUR</b>	<b>USD</b>	<b>Total</b>
Cash and cash equivalents	345	14	-	359
Fixed-term deposits	2,510	-	-	2,510
Receivables	232	4	1	237
<b>Total (BGN '000)</b>	<b>3,087</b>	<b>18</b>	<b>1</b>	<b>3,106</b>
<b>Total (as %)</b>	<b>99.39%</b>	<b>0.58%</b>	<b>0.03%</b>	
<b>Liabilities</b>	<b>BGN</b>			<b>Total</b>
Trade payables	38			38
<b>Total (BGN '000)</b>	<b>38</b>			<b>38</b>
<b>Total (as %)</b>	<b>100%</b>			

Price risk is related to changes in the market prices of financial assets and liabilities whereby the Company may suffer losses. The Management of the Company considers that due to the nature and quality of Company assets and liabilities it is not exposed to significant price risk.

### 22.4. Liquidity risk

Liquidity risk is the risk of lack of sufficient cash resources at a time when the Company is required to pay maturing obligations that may arise from disparities in the regularity and amount of cash flows. The Company strives to maintain a positive displace between incoming and outgoing cash flows.

Analysis of the maturity structure according to the remaining maturity of the financial assets and liabilities of the Company as at 31 December 2017:

	<b>Up to 3 months</b>	<b>from 3 to 12 months</b>	<b>From 1 to 3 years</b>	<b>From 3 to 5 years</b>	<b>over 5 years</b>	<b>Without maturity</b>	<b>Total</b>
Cash and cash equivalents	-	-	-	-	-	4,276	4,276
Receivables	241	2	-	-	-	-	243
<i>Total financial assets</i>	<b>241</b>	<b>2</b>	-	-	-	4,276	4,519
Trade payables	62	-	-	-	-	-	62
<i>Total financial liabilities</i>	<b>62</b>	-	-	-	-	-	<b>62</b>
Discrepancies in maturity structure	179	2	-	-	-	4,276	4,457

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## 22. Risk management (continued)

### 22.4. Liquidity risk (continued)

Analysis of the maturity structure according to the remaining maturity of the financial assets and liabilities of the Company as at 31 December 2016:

	Up to 3 months	from 3 to 12 months	From 1 to 3 years	From 3 to 5 years	over 5 years	Without maturity	Total
Cash and cash equivalents	-	-	-	-	-	359	359
Fixed-term deposits	-	2,510	-	-	-	-	2,510
Receivables	194	40	-	-	3	-	237
<i>Total financial assets</i>	<b>194</b>	<b>2,550</b>	-	-	<b>3</b>	<b>359</b>	<b>3,106</b>
Trade payables	38	-	-	-	-	-	38
<i>Total financial liabilities</i>	<b>38</b>	-	-	-	-	-	<b>38</b>
Discrepancies in maturity structure	<b>156</b>	<b>2,550</b>	-	-	<b>3</b>	<b>359</b>	<b>3,068</b>

### 22.5. Operational risk

Operational risk is the likelihood to incur losses related to errors or faults in the organization system, insufficiently qualified staff, adverse external events of non-financial nature including legal risk.

Operational risks can be:

1. Internal – related to the work organisation of the management company. Internal risks include, but are not limited to:
  - a. Personnel-related risks;
  - b. Process-related risks;
  - c. System-related risks.
2. External – associated to macroeconomic, political and other factors which affect and/or may affect the activities of the management company. External risks include, but are not limited to:
  - a. Environmental risks;
  - b. Physical interference risks.

The Management of the Company controls operational risk in accordance with an established risk identification, assessment and control procedure. In 2017 and 2016 no losses associated with operational events have been reported.

## 23. Capital management

The Company carries out its activities with own funds. The capital structure includes owner funds in the form of registered share capital and accumulated operating reserves.

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#### **24. Contingent assets and contingent liabilities**

As of 31 December 2017 and 2016 the Company has not issued third-party guarantees.

#### **25. Events after the end of the reporting period**

The latest and final change in the composition of the Board of Directors of the Management Company UBB Asset Management AD was entered on 25.01.2018 with the current composition being as follows: Mr Jan Joseph Evrard Swinnen – Chairman, Mr Christof Marcel Elsa De Mil – Deputy Chairman, Mr Teodor Valentinov Marinov – Member, Ms Katina Slavkova Peycheva – Executive Member.

No other significant events of adjusting and/or non-adjusting nature have occurred after the date of the financial statements which require reporting or disclosure in the present financial statements.