



**INVESTOR  
COMPENSATION  
FUND**



**ANNUAL  
REPORT  
2017**



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# ABBREVIATIONS

**ABB** – Association of Banks in Bulgaria

**AMC** – Asset Management Companies

**BAAMC** – Bulgarian Association of Asset Management Companies

**BALII** – Bulgarian Association of Licensed Investment Intermediaries

**BNAO** – Bulgarian National Audit Office

**BNB** – Bulgarian National Bank

**BSE** – Bulgarian Stock Exchange

**B-II** – Banks-Investment Intermediaries

**CA** – Current Account

**EFDI** – European Forum of Deposit Insurers

**EU** – European Union

**FSC** – Financial Supervision Commission

**FI** – Financial Instruments

**GS** – Government Securities

**IADI** – International Association of Deposit Insurers

**ICF** – Investor Compensation Fund

**II** – Investment Intermediaries

**IFRF** – Investment Firms Resolution Fund

**LMFI** – Law on Markets in Financial Instruments

**LPOS** – Law on Public Offering of Securities

**LRRCIIF** – Law on the Recovery and Resolution of Credit Institutions and Investment Firms

**MB** – Management Board

**MFs** – Monetary Funds

**ROOICF** – Regulation of Operation and Organization of Investor Compensation Fund



# MANAGEMENT BOARD:

## Management Board:

Chair of the management board: **Teodora Yakimova - Drenska**

Deputy Chair: **Diyana Miteva - Boncheva**

Members: **Irina Martzeva**

**Mihaela Koleva**

**Radoslava Maslarska**

## Management Board (until 23 February 2017):

Chair of the management board: **Teodora Yakimova - Drenska**

Deputy Chair: **Diyana Miteva - Boncheva**

Members: **Irina Martzeva**

**Mihaela Koleva**

**Pavlina Anachkova - Kantareva**

## Headquarters:

1000 Sofia,  
31 Tsar Shishman Str., Floor 2



# MISSION OF THE INVESTOR COMPENSATION FUND

The Fund contributes to the stability and confidence in the capital market, by providing compensation to the investors' claims.

## MANDATE

The **Investor Compensation Fund** is an independent legal entity, established in 2005 due to transposing Directive 97/9/EU into the Law on Public Offering of Securities.

Pursuant to the Law on Public Offering of Securities, **ICF** provides compensation to the clients of investment intermediaries, determines and collects initial and annual contributions from all participants and invests collected resources in GS, short-term bank deposits and BNB deposits.

Under the Law on the Recovery and Resolution of Credit Institutions and Investment Firms since the beginning of 2017, ICF's MB also started managing the **Investment Firms Resolution Fund**. The main purpose of IFRF is to fund the implementation of the resolution instruments for investment intermediaries that fall within the scope of the law.



# 1. KEY MOMENTS IN THE ACTIVITY OF THE FUND IN 2017

The main activity of the Fund is to provide compensation to investment intermediaries' clients, in case they cannot recover the monetary funds or financial instruments to its clients. In 2017, the procedure for payment of compensation to the clients of Positiva AD was activated. The reason to initiate the procedure was that on 23.06.2017 the Financial Supervision Commission (FSC) withdraw the company's license to carry out activity as an II due to the permanently deteriorated financial condition, poor capital adequacy and committed violations. In compliance with the statutory requirements, the Management Board (MB) of the Fund selected a servicing bank to make compensation payments to the intermediary's clients. The claims for compensation payments shall be made in writing to the Fund within one year from 03.07.2017. The compensation provided by the Fund to each client of II is 90% of the amount of clients' assets but not more than 40,000 BGN.

By the end of 2017 ICF received three claims for payment of compensation. The first claim was found to be unjustified by the MB of the Fund, and the second one was subsequently withdrawn by the client, as the due amount was paid by the intermediary's quaestors. Regarding the third claim, the MB is yet to decide.<sup>1</sup>

Along with the procedure for payment of compensation to the clients of Positiva AD, the activity of the Fund was focused on the

collection of the contributions due by participants within the legal deadlines; management of the ICF's resources; collection and analysis of the information on clients' assets, managed by the scheme participants; ICF's exposure assessment, etc.

The Fund is managed by a MB which discusses and takes decisions on all matters within its competence. The chair of the MB organizes, manages and controls the operational activities of the Fund. The Fund's activity is performed by administration which, as of December, 31<sup>st</sup> 2017, consists of five employees. (The organizational structure of the Fund is given in Appendix 1).

At the end of the year, the MB decided to keep the amount of the annual contribution for the year 2018 at the level of 0.05% for the protected FI (where the maximum level is 0.1%) and 0.25% for the MFs (where the maximum level is 0.5%) calculated on an average monthly basis for 2017. Thus, for the second consecutive year, Fund participants will pay a lower contribution rate for the monetary funds (MFs) and the amount of the financial instruments (FI) contribution remains unchanged for the ninth consecutive year.

In 2017 the amendments proposed by the Fund to the Regulation of Operation and Organization of the ICF (ROOICF) were adopted. The changes are in line with the requirements of the LRRCIIF and synchronize the ROOICF with the current regulatory framework.

<sup>1</sup> On April 18, 2018, the Fund's Management Board decided to pay off compensation in respect of the third claim.



A Law for amendment and supplement to Law on Public Offering of Securities (LPOS) was adopted, as part of the changes affect the activity of the Fund. Consequently, the MB of the Fund actively participated in the preparation and discussion of the project. A minimum level of the investment intermediaries' annual contribution to the Fund was introduced, a new provision was adopted dealing with the payment of compensation from the Fund without the license of the intermediary being revoked, and the procedure for election of members of the MB was changed.

The successful cooperation with national institutions and organizations

such as FSC, BNB, Ministry of Finance, ABB, BALII, BAAMC, as well as with the participants in the Fund was important for the effective implementation of ICF's activities.

In 2017 the Fund continued to carry out active international activity as an important priority in its work. Through the associate membership of the Fund at the European Forum of Deposit Insurers (EFDI), its representatives participated in several international events - working groups, conferences and meetings. During the year, contacts were maintained and information exchanged with other investor compensation schemes from EU Member States.

## 2. RESOURCES

The resources of the Fund are formed by the initial and annual contributions of the II, B-II and AMC<sup>2</sup> as well as of investment's revenues. The main part of the Fund's resources come from the participants' annual contributions. The collection, investment and spending of the Fund's resources is carried out in compliance with the provisions of

LPOS, ROOICF and ICF's internal rules and the supervision of these activities is carried out by the Bulgarian National Audit Office (BNAO) and the FSC.

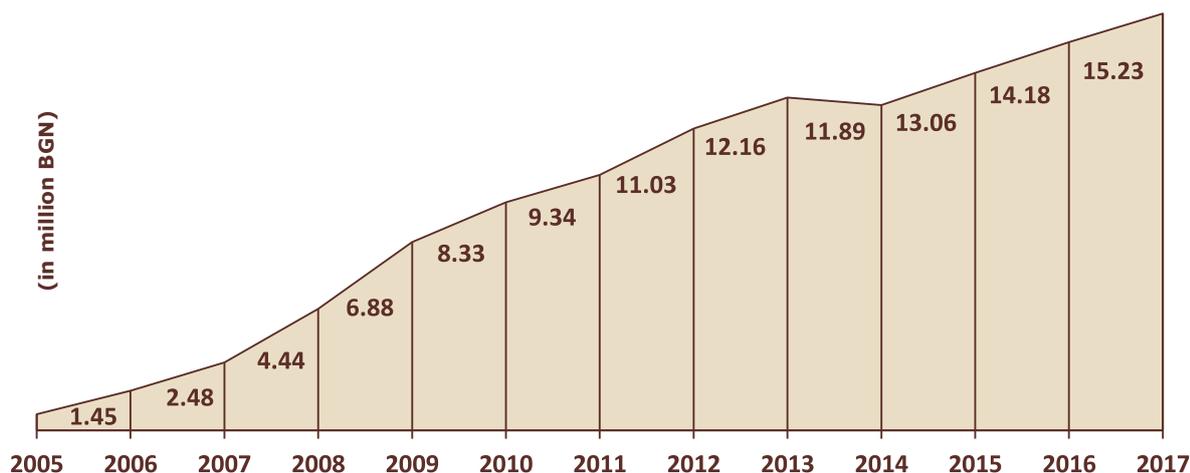
Figure 1 shows the investment portfolio of the Fund since its establishment to present, as of December 31<sup>st</sup> of the respective year.

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<sup>2</sup> AMC do not pay initial contribution.



**FIG. 1**  
**INVESTMENT PORTFOLIO OF THE FUND AS AT 31 DECEMBER**  
**OF RESPECTIVE YEAR**



As of December, 31<sup>st</sup> 2017 the investment portfolio of the Fund amounted to 15.23 million BGN<sup>3</sup> compared to 14.18 million BGN in 2016, which is an increase by 1.05 million BGN. As seen on the figure after 2014<sup>4</sup> the Fund's resources have grown steadily - an average of about 8.6% on an annual basis, whereas in the previous periods this rate was much higher.

The administrative expenses of the Fund for 2017 are BGN 361 thousand<sup>5</sup>, i. e. there is a savings of 11% of the expenditure initially foreseen in the budget. According to the provisions of ROOICF, the administrative activity is financed by the revenues from investments of its resources.

The financial result of the Fund for 2017 is a profit of 76 thousand BGN.<sup>6</sup>

## 2.1. CONTRIBUTIONS

All participants in the Fund who declare client assets eligible to compensation make annual contributions. They are transferred in four equal installments. The amount of the annual contribution is determined each year by ICF's MB and for 2017 it was as follows:

- 0,25% of the average monthly amount of the protected MFs for 2016 and
- 0,05% of the average monthly amount of the rest of the clients' assets, eligible to compensation in 2016.

<sup>3</sup> The Fund's investment portfolio includes deposits, revaluated GS without accrued interest, cash and current accounts. Revaluated GS value is as of 31.12.2017.

<sup>4</sup> In the indicated amount of the portfolio as of 31.12.2014, the resources blocked in CCB (b) amounting to BGN 1.42 million were not included. On February 24, 2017, the funds collected from the insolvency mass of CCB (b) were distributed. The Fund must receive BGN 164 850, which represents 10.05% of the claim submitted.

<sup>5</sup> The amount does not include depreciation costs of tangible and intangible fixed assets amounting to BGN 2 thousand.

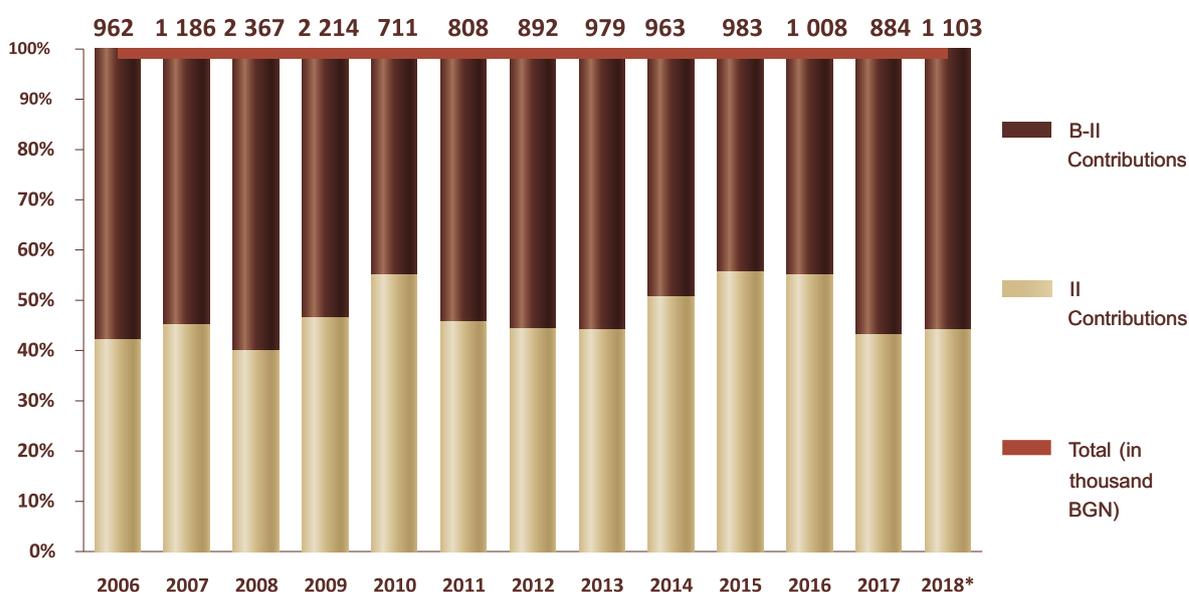
<sup>6</sup> The financial result for the year is calculated on the basis of the financial revenues increased (decreased) by the profit (loss) from revaluation of the GS and decreased by the administrative and financial expenses of the Fund for the current year.



The participants in the Fund also make an initial contribution of 1% of the minimum capital. It is paid once by the investment intermediaries upon their inclusion in the scheme<sup>7</sup>, as only AMC do not make any initial contributions. During the year there have been no revenues from initial contributions as there have been no new participants to the scheme.

The revenues from the participants' contributions in 2017 are at the amount of BGN 946 thousand<sup>8</sup>, compared to BGN 1 034 thousand in 2016. On Figure 2 the annual contribution of banks – investment intermediaries (B-II) and II is given, determined for each year. It is based on the average monthly amount of financial instruments (FI) and MFs, reported by the participants for the previous year.

**FIG. 2 DISTRIBUTION OF CONTRIBUTIONS OF II AND B-II**



\* The data for 2018 is preliminary

Source: ICF

The annual contribution of II and B-II for 2017 is BGN 884 thousand<sup>9</sup>, i. e. 12% less than in 2016. This is due to the decrease in the amount of the MFs contribution from 0.5% to 0.25%. At the same time, the basis on which contributions are calculated shows slight growth. As can be seen on Fig. 2 in 2017, the share of the contributions paid by the B-II (57% of the total contribution) is greater than that of the II

(43%). It is expected that in 2018 the contribution paid by B-II will again be greater than that of the II.

The contribution calculated for 2018 is BGN 1 103 thousand<sup>10</sup>, i. e. about BGN 219 thousand more than the annual contribution for 2017.<sup>11</sup> The increase is due to the higher average monthly amount of client assets in 2017.

<sup>7</sup> II with a limited license do not participate in the Fund.

<sup>8</sup> In 2017 one quarter of the annual contributions due for 2016 was paid until 30.01.2017 and three quarters for the annual contributions due for 2017.

<sup>9</sup> This amount differs from actual revenues during the year, since in 2017 one quarter of the annual contributions due for 2016 was paid until 30.01.2017 and three quarters for the annual contributions due for 2017.

<sup>10</sup> The amount does not include the annual contribution of AMC, which for 2018 amounts to BGN 39.7 thousand.

<sup>11</sup> In 2017, the Fund received only three installments of the annual contribution for 2017, and the fourth was paid in early 2018.



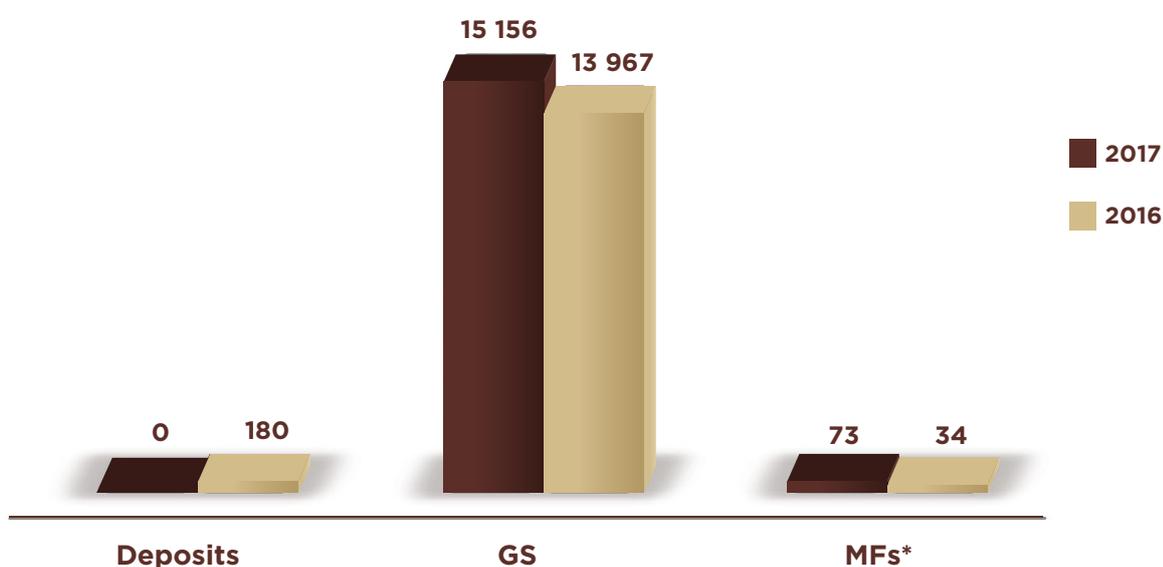
## 2.2. INVESTMENTS

In accordance with the provisions of LPOS and the “Investment Policy”, the accumulated resources by the Fund can be invested in financial instruments issued or guaranteed by the state, short-term deposits in commercial banks and deposits in BNB. All investment

decisions of the ICF are in accordance to the requirements for security and liquidity of resources.

Figure 3 shows the structure of the investment portfolio of the Fund, as of the end of 2016 and 2017.

**FIG. 3 INVESTMENT PORTFOLIO STRUCTURE IN THOUSANDS BGN**



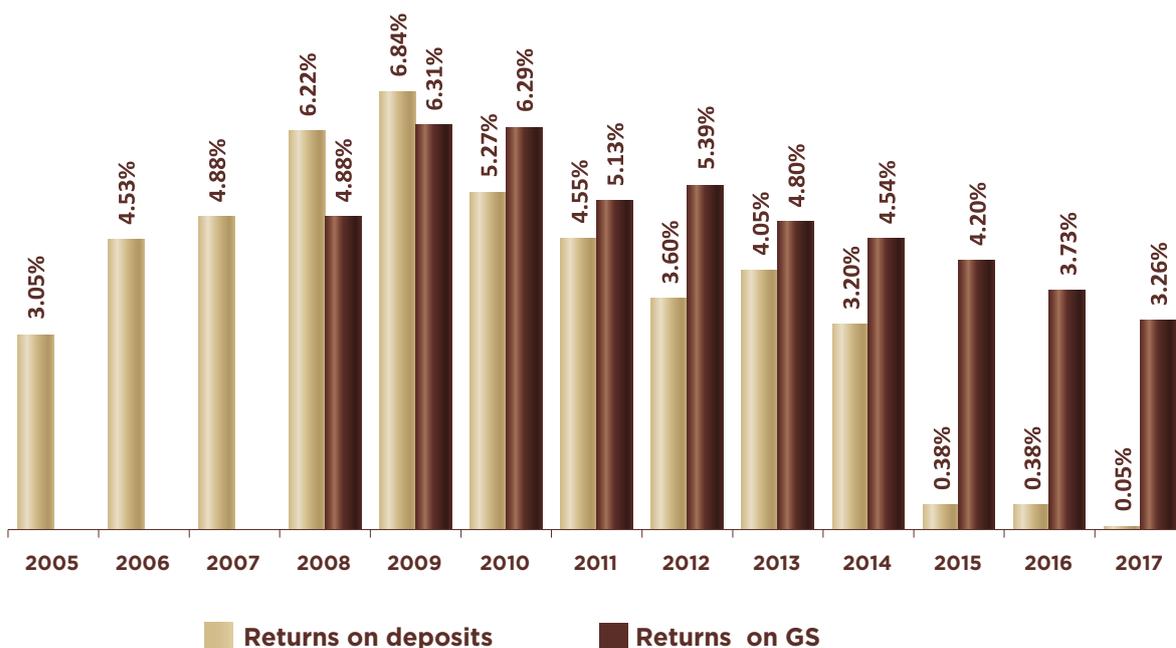
\* MFs - in cash and in current accounts

As of 31.12.2017, investments in government securities (GS) represent 99.5% of the Fund’s portfolio. Unlike in 2016, when some of the Fund’s resources were held in short-term bank deposits, the Fund had no investment in deposits as of 31.12.2017. There is a slight increase of funds in current accounts (CA) and in cash - from BGN 34 thousand as of 31.12.2016 to BGN 73 thousand as of 31.12.2017. Low deposit yield as well as negative interest rates of the BNB continue to affect the structure of the Fund’s portfolio. In 2017, the net investment income of the

Fund amounted to BGN 443 thousand against BGN 474 thousand in 2016 and they include interest on deposits, GS coupons, profit/loss from revaluation of GS and other financial income/expenses.

Figure 4 shows the accomplished average yield from deposit interest and GS for the period 2005-2017.

**FIG. 4 AVERAGE YIELD ON INVESTMENTS**

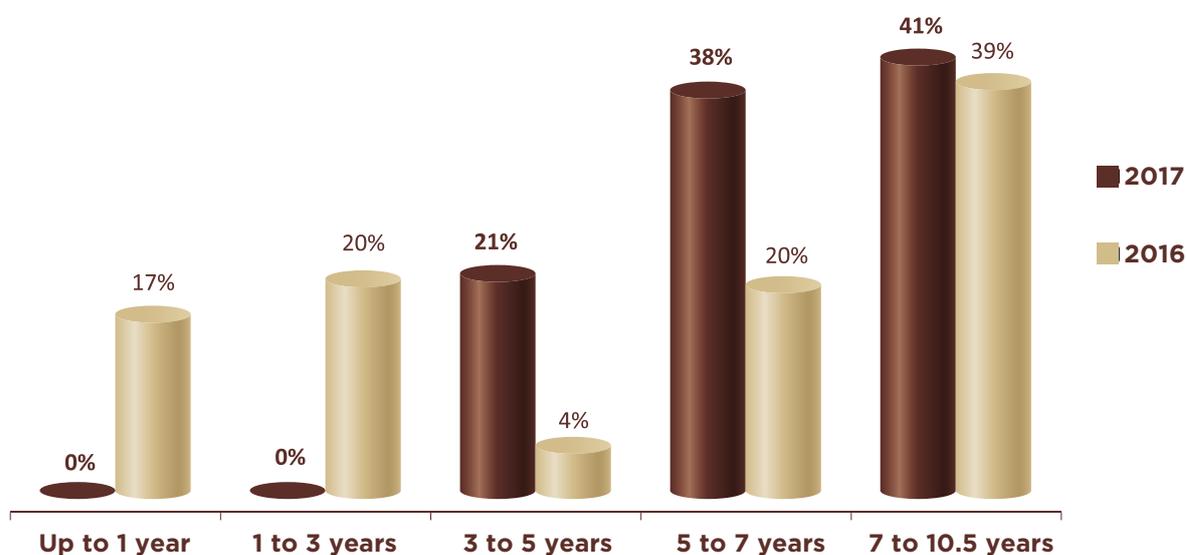


In 2017, the average yield of deposit interest was 0.05% and from GS coupons - 3.26%. Since 2012, there is a constant decrease in the average yield on coupons of GS on an annual basis due to lower coupon rates on newly purchased issues. The average yield on

deposits also declined due to the low interest rates on deposits since 2015.

Figure 5 shows the maturity structure of GS and deposits as of 31.12.2017 and 31.12.2016.

**FIG. 5 MATURITY STRUCTURE OF GS AND DEPOSITS**



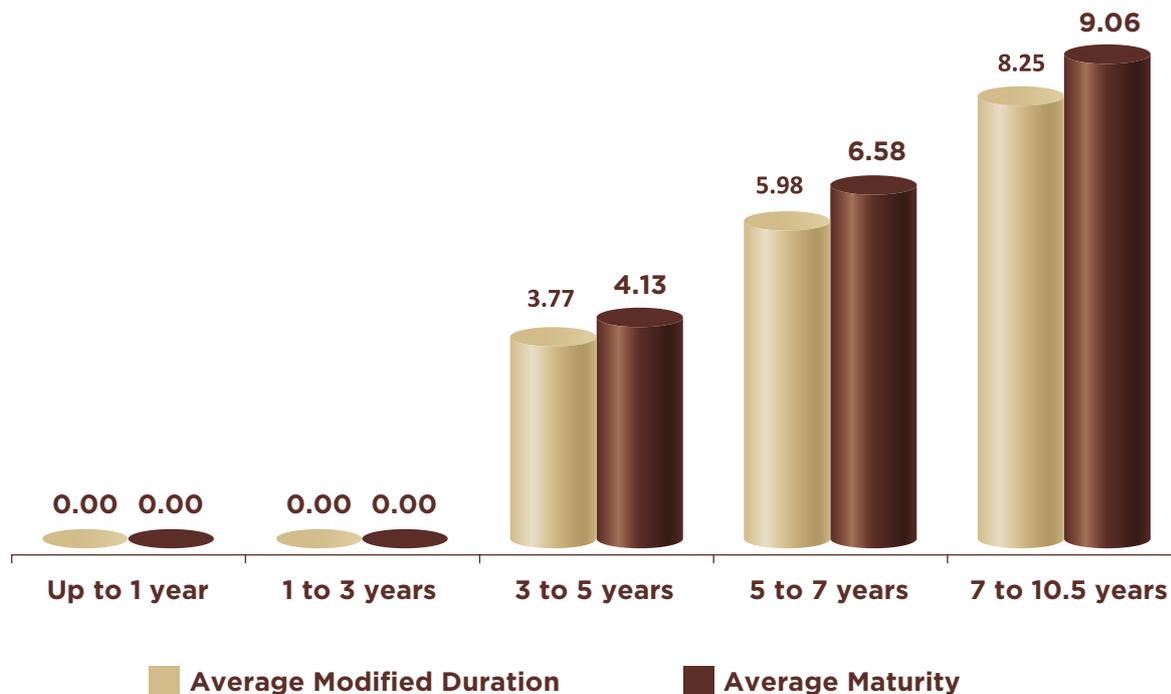


The share of investments with a maturity of 3 to 5 years and from 5 to 7 years increases at the expense of a decrease in the share of investments in the first two groups. There is also a slight increase in the share of investments

with a maturity from 7 to 10.5 years.

The modified duration and the average remaining maturity of the investments in GS according to their maturity structure as of 31.12.2017, are presented on Fig. 6.

**FIG. 6 MODIFIED DURATION AND AVERAGE MATURITY IN GS**



The weighted average modified duration of the GS portfolio as of 31.12.2017 is 6.46 years versus 4.57 years at the end of 2016. The average residual maturity of GS investments rose from 5.01 years as of 31.12.2016 to 7,09 years as of 31.12.2017.<sup>12</sup> The increase

in the weighted average duration and the average residual maturity is due to the increase in the share of purchased GS with a term of 5 to 10.5 years.

<sup>12</sup> The average weighted maturity of the GS portfolio is calculated as a sum of all investment maturities, weighted by the share of each investment in the total amount of resources invested in GS, as of 31.12.2017.



### 3. PARTICIPANTS

In the past year, Positiva AD dropped out of the Investor Compensation Scheme. Its license was revoked by the FSC due to non-compliance with statutory requirements and systemic breaches. Thus, the total number of participants in the Fund as of 31.12.2017 is 90, of which 38 II, 21 B-II and 31 AMC. Due to the fact that only 4 of the AMC hold clients' assets protected by the Fund, the number of active participants in the ICF as of 31.12.2017

is 63. (List of participants in the Fund is given in Appendix 2).

Table 1 shows the number of dropped out II, B-II and AMC for the period 2009-2017. The total number of participants that dropped out of the scheme for the respective period is 47, as the largest decline occurred in 2010. In 2017, there is no new intermediary to join the scheme.

**TABLE 1 - NUMBER OF PARTICIPANTS THAT DROPPED OUT OF THE SCHEME**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
<b>II</b>	3	9	5	4	3	3	4	1	1	33
<b>AMC</b>	-	6	1	4	0	0	0	0	0	11
<b>B-II</b>	0	0	0	0	0	3	0	0	0	3

Source: ICF

As of 31.12.2017, the Bulgarian intermediaries working under the principle of free providing of services on the territory of the EU are a total of 16. In 2017, Bulgarian intermediaries having branches abroad are two and the countries in which they are established are Romania and Poland.<sup>13</sup>

The number of investment firms from EU Member States that can provide investment services on the territory of the country through both a branch and a free provision of services as of the end of 2017 is over 1 800, of which 6 have established branches.<sup>14</sup>

<sup>13</sup> According to a list of investment intermediaries that have the right to provide investment services on the territory of other EU member-states, published on the internet website of the FSC.

<sup>14</sup> According to the FSC's data.



## 4. CLIENTS' ASSETS MANAGED BY THE PARTICIPANTS

According to the statutory requirements, each participant in the Fund presents a monthly data on the clients' assets that they hold, administer and manage. Investment firms provide information on clients' assets eligible to compensation from the Fund as well as those that are not eligible to compensation.

Table 2 shows the protected and unprotected clients' assets for all participants (II, B-II and AMC) as of 31 December of the respective year. According to the data received from the participants, the total amount of clients' assets eligible to compensation as of the end of 2017 is BGN 1.96 billion, and the unprotected assets - BGN 33.7 billion.

**TABLE 2 - CLIENTS' ASSETS MANAGED BY PARTICIPANTS AS OF 31 DECEMBER OF THE RESPECTIVE YEAR**

<i>By groups:</i>	<i>Protected clients' assets as of 31.12.2017</i>	<i>Protected clients' assets as of 31.12.2016</i>	<i>Change on an annual basis</i>	<i>Unprotected clients' assets as of 31.12.2017</i>	<i>Unprotected clients' assets as of 31.12.2016</i>	<i>Change on an annual basis</i>
	(1)	(2)	[3=(1-2)/2]	(4)	(5)	[6=(4-5)/5]
<b>FI - B-II</b>	1 208 278 015	1 145 853 740	5%	20 777 854 238	18 086 276 060	15%
<b>FI - II</b>	586 088 862	435 687 065	35%	12 798 462 992	6 138 945 479	108%
<b>MFs - II</b>	82 546 590	85 450 665	-3%	56 325 818	35 411 172	59%
<b>FI - AMC</b>	84 206 057	31 515 994	167%	57 466 629	34 594 138	66%
<b>MFs - AMC</b>	2 666 588	6 183 794	-57%	10 926 125	34 268 341	-68%
<b>TOTAL:</b>	<b>1 963 786 112</b>	<b>1 704 691 259</b>	<b>15%</b>	<b>33 701 035 801</b>	<b>24 329 495 190</b>	<b>39%</b>

Source: ICF

As of 31.12.2017 the total amount of protected clients' assets is 15% more than the end of 2016. On an annual basis, in all groups of intermediaries there is an increase in the amount of the FI. In absolute value the greatest increase is reported by II - BGN 150 million or 35%. The FI reported by AMC<sup>15</sup> increased from BGN 31.5 million as of 31.12.2016 to BGN 84.2 million

as of the end of 2017. In the case of B-II, FI increased by 5%, in absolute terms the increase is about BGN 62 million. Unlike FI, on an annual basis, MFs reported a decrease both in II and AMC. The decrease of MFs is more significant for AMC - 57% or BGN 3.5 million. II report 3% less MFs, which in absolute value is about BGN 2.9 million.

<sup>15</sup> Only 4 AMC declare protected clients' assets.



A significant increase of unprotected clients' assets is also reported, reaching BGN 33.7 billion, or this amount is with 39% more compared to the previous year. For all groups of intermediaries there is an increase in the amount of unprotected FI and MFs, except of MFs in AMC (they are 68% less). The largest increase is reported in FI held by II. They declared twice as much FI compared to the end of 2016. A significant increase of FI held by AMC is also reported - 66% (BGN 22.8 million in absolute values). For B-II, FI increase by 15%, or BGN 2.7 billion in absolute value. MFs held by II that are not eligible to compensation increased by 59%.

In 2017, B-II continue to manage the greatest amount of clients' assets, although they only declare FI of their clients. The total amount of clients' assets held by B-II is BGN 22 billion<sup>16</sup>, i. e. about BGN 2.7 billion more on an annual basis. The main reason for this is the increase in the amount of unprotected FI - from BGN 18.09 billion as of 31.12.2016 to BGN 20.78 billion as of 31.12.2017.

The amount of clients' assets, protected and unprotected, managed by II, has doubled to BGN 13.52 billion against BGN 6.69 billion at the end of 2016.

The total amount of the clients' assets held by AMC is BGN 155 million, of which the protected ones are about BGN 87 million and the unprotected ones - BGN 68 million.

The resources of the Fund are formed by the initial and annual contributions of II, B-II and AMC, as well as of investment income. As of 31.12.2017 the accumulated resources by the Fund

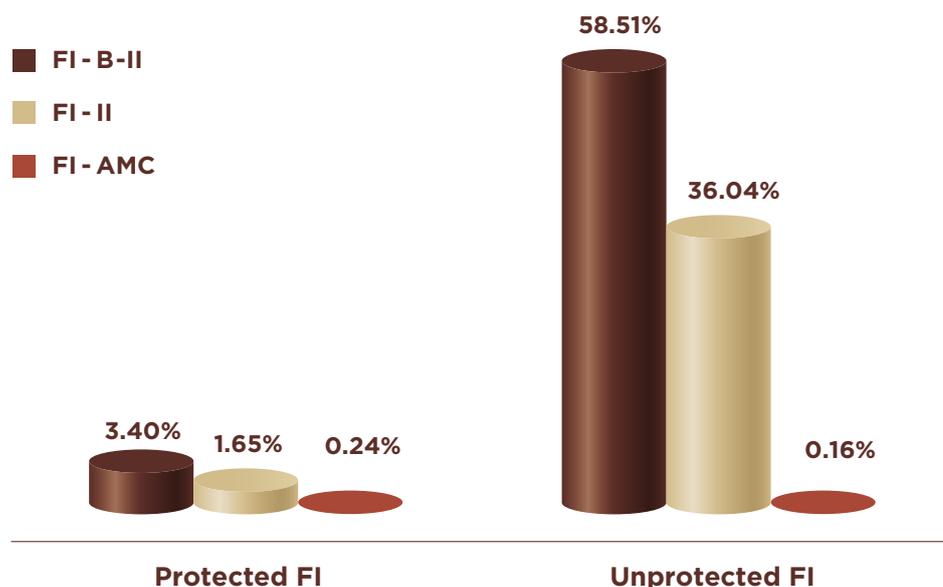
amount to BGN 15.23 million and their share in the amount of protected clients' assets (BGN 1.96 billion) is 0.8%. According to Art. 77, para. 1 of LPOS, when ICF's resources exceed 5% of the total amount of the clients' assets in all intermediaries, the MB of the Fund may decide to temporarily suspend the collection of contributions by the participants. As of 31.12.2017 5% of the protected clients' assets amounted to BGN 98 million (5% of BGN 1.96 billion).

Figure 7 shows the distribution of protected and unprotected FI by groups of intermediaries. The total amount of all FI, eligible and not eligible to compensation, is BGN 35.51 billion. The share of the protected FI in the total amount of protected and unprotected assets as of 31.12.2017 is around 5.3% against 6.15% as of 31.12.2016 r.

<sup>16</sup> Banks do not declare MFs to the Fund, as they are treated as deposits and are covered by BDIF protection.



**FIG. 7 DISTRIBUTION OF FI BY GROUPS OF INTERMEDIARIES,  
AS OF DECEMBER 31<sup>ST</sup> 2017**



The largest share of protected FI is held by B-II - 3.40% of all FI, against 4.43% as of 31.12.2016. B-II continue to hold the largest share of unprotected FI - 58.51%. The share of protected FI held by II is 1.65% against 1.68% as of 31.12.2016. Unprotected FI held by II increase from 23.73% in the previous year to 36.04% as of 31.12.2017. There is a slight increase in the share of protected FI held by AMC - from 0.03% as of 31.12.2016 to 0.24% by the end of 2017.

Table 3 presents information on protected FI for three specific periods, respectively the highest reported value - in February 2014 - BGN 2.62 billion, the lowest - in February 2009 - BGN 918 million and for December 2017, when participants declared around BGN 1.88 billion FI, eligible to compensation. An increase of FI is reported at the end of 2017 compared to their value as of 31.12.2016 when they were BGN 1.59 billion. Despite the increase, however, the protected FI were 28% less than the peak value reported in February 2014.

**TABLE 3 - PROTECTED CLIENT ASSETS**

<i>Clients' FI</i>	<i>Date</i>	<i>Peak Value</i>	<i>Minimum</i>	<i>Current Value</i>
	February, 2014	2 624 521 486		
	February, 2009		917 667 292	
	December, 2017			1 878 572 934
<i>% of the peak value</i>		<b>100%</b>	<b>-65%</b>	<b>-28%</b>

Source: ICF



The lowest amount of protected FI for the whole of 2017 was reported in January – BGN 1.68 billion, after which their amount started to increase and in November reached the highest level of BGN 1.89 billion.

Figure 8 shows the average monthly amount of protected clients' assets by years and by groups of participants. Average monthly amount of protected FI and MFs increased in all groups of participants. The average monthly amount of protected FI for all intermediaries increased from BGN 1.46 billion in 2016 to BGN 1.81 billion in 2017. The average monthly amount of protected MFs also increased to BGN 95.6 million in 2017 against BGN 75 million in 2016. In the case of B-II, the average monthly amount of protected FI increased by BGN 225 million and by the end of 2017 amounted to BGN 1.23 billion. For II the increase was by BGN 102 million and as of 31.12.2017 on

a monthly average basis the protected FI in the group amounted to a total of BGN 517 million. The average monthly amount of MFs reported by II continues to increase and as of the end of 2017 it is BGN 92 million. This is also the highest reported value since the establishment of the Fund. The average monthly amount of FI and MFs serve as a basis to determine the annual contribution participants are required to pay to the Fund.

Figure 8 does not include calculations for AMC because of the small amount of clients' assets they manage. The average monthly amount of the protected FI held by AMC increases from BGN 38.2 million in 2016 to BGN 61.5 million in 2017. Unlike the FI, the average monthly amount of MFs eligible to compensation, held by AMC decreases from 4.8 million for 2016 to 3.6 million for 2017.

**FIG. 8 AVERAGE MONTHLY AMOUNT OF PROTECTED CLIENTS' ASSETS FOR II AND B-II**

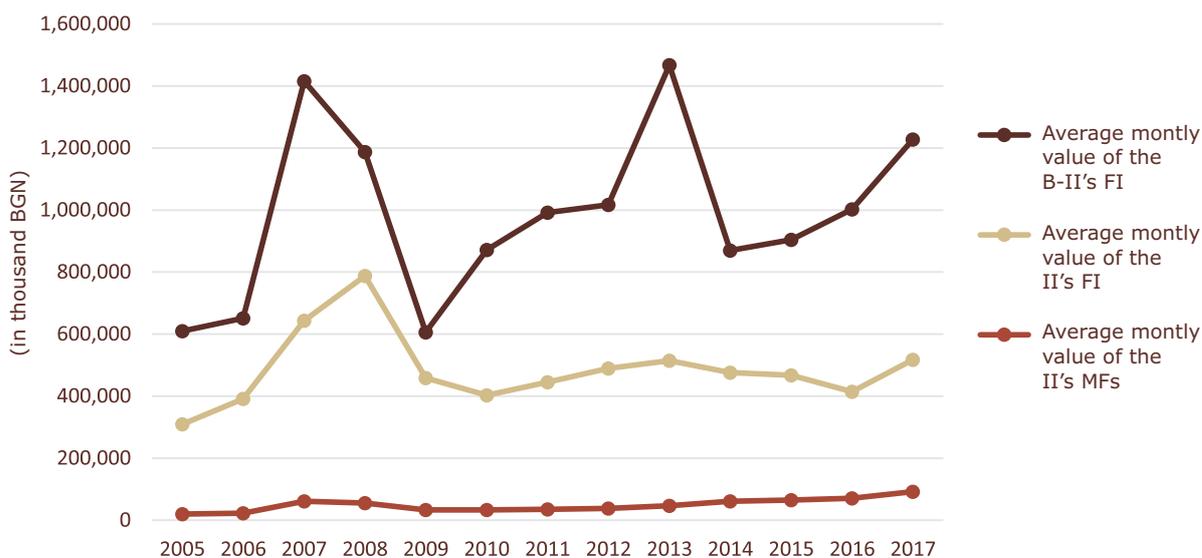




Table 4 presents the protected clients' assets, the stock exchange capitalization and GDP as of December, 31<sup>st</sup> of the respective year.

As of 31.12.2017 BSE capitalization registered a significant increase of nearly 144% reaching BGN 23.62 billion. This is also the reason for the decrease of the share of protected clients' assets

in the amount of the stock exchange capitalization from 17% by the end of 2016 to 8% as of 31.12.2017. Stock Exchange Capitalization/GDP ratio is increasing and by 31 December 2017 it is 24.08% at 10.9% at the end of 2016.

A more detailed overview of the capital market in 2017 is presented in Appendix 3.

**TABLE 4. CLIENTS' ASSETS, THE STOCK EXCHANGE CAPITALIZATION AND GDP, AS OF DECEMBER, 31<sup>ST</sup>**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<i>Clients' assets eligible to compensation (million BGN)</i>	1 314	1 259	1 322	1 612	2 091	2 325	1 579	1 435	1 677	1 964
<i>Stock exchange capitalization (million BGN)</i>	12 461	11 796	10 754	12 436	9 828	9 961	9 756	8 587	9 683	23 621
<i>Clients' assets to stock exchange capitalization ratio</i>	11,00%	11,00%	12,00%	12,96%	21,28%	23%	16%	17%	17%	8%
<i>GDP (million BGN)</i>	69 295	68 322	70 474	75 265	77 323	79 454	78 722	84 236	88 939	98 105
<i>Stock exchange capitalization to GDP ratio</i>	18,00%	17,00%	15,00%	16,52%	12,71%	12,5%	12,4%	10,2%	10,9%	24,08%

Source: website of BSE, ICF

## 5. EXPOSURE TO THE PARTICIPANTS

Every six months, participants in the Fund submit information on the number of protected clients, distributed into groups according to the assets they own. This information is the basis for assessing the exposure of the Fund to the participants. This makes it possible to assess the extent to which resources available in the Fund are sufficient in case of compensation payments and what amounts would be paid to the clients of each participant.

Figure 9 shows the number of investors eligible for compensation as of 31 December distributed by groups of intermediaries for the period from 2006 to 2017, inclusive.

As of 31.12.2017 the total number of protected clients for all participants is 76 731, i. e. 7 490 more clients compared to 31.12.2016.

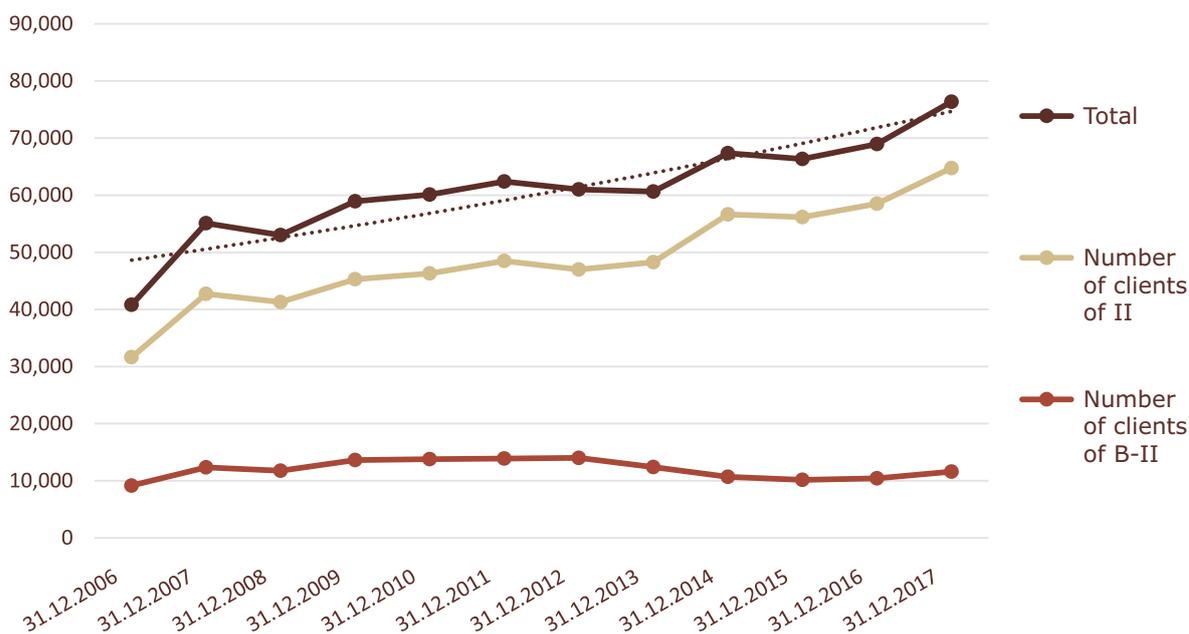


As of the end of 2017, the number of protected clients in the II group was 64 775 compared to 58 533 at the end of 2016, i. e. 6 242 investors more. Protected clients declared by B-II for 2017 are 11 601 or 1 191 more clients than the previous year. B-II declare almost six times fewer clients than II, while the protected clients' assets managed by them are twice as high -

at an absolute value of BGN 1.2 billion against BGN 668 million for II.

The active AMC in the Fund are only 4, respectively they declare the lowest number of protected clients, and therefore they are not included in Fig. 9. As of 31.12.2017 the number of AMC clients is 355.

**FIG. 9 NUMBER OF CLIENTS BY GROUPS OF INTERMEDIARIES**



Due to the higher number of clients, declared by the participants in the Fund, the amount of the calculated maximum compensation<sup>17</sup> also increases significantly. As of 31.12.2017 the calculated maximum compensation for all participants in the Fund is BGN 284,34 million compared to BGN 238,04 million as of 31 December 2016, i. e. an increase of BGN 46,3 million.

The Fund's exposure to the II group is the largest - BGN 193 million, of which

BGN 170 million is the exposure of the Fund to an II with a full license. The calculated maximum compensation for B-II's clients is BGN 84.67 million, and for AMC clients - BGN 6.9 million.

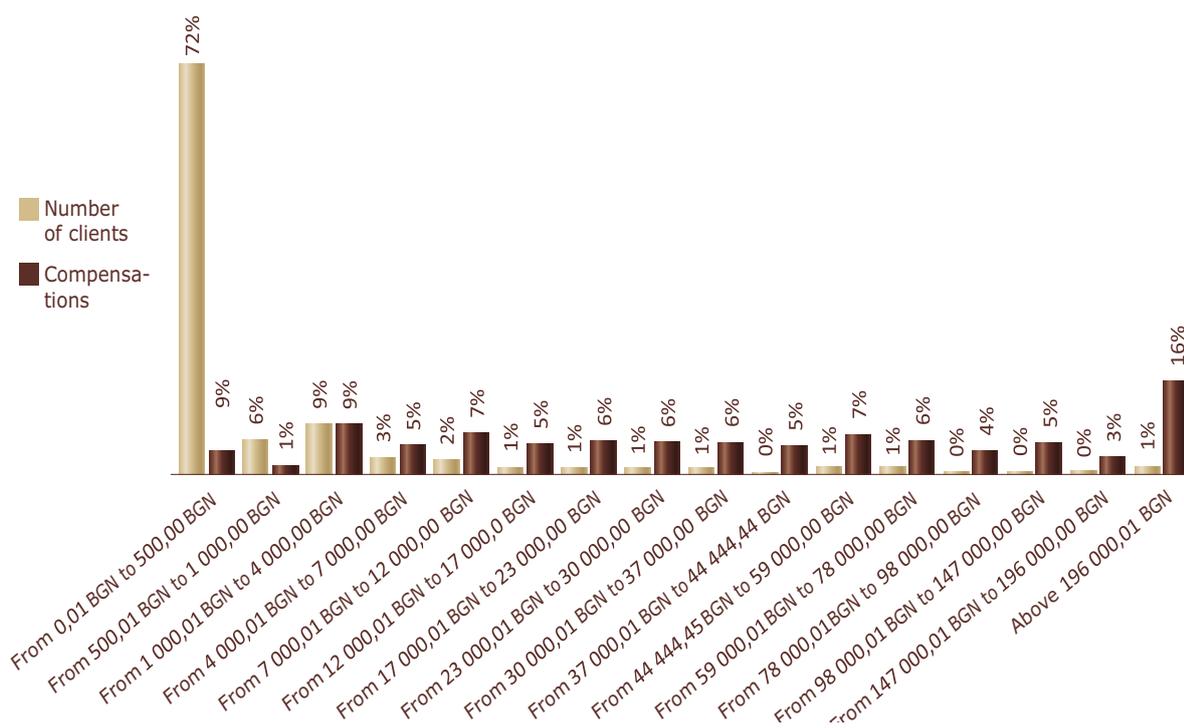
Figure 10 presents a distribution of the number of protected clients and the calculated maximum compensation by groups of clients' assets.

<sup>17</sup> The possible compensation to the clients of an intermediary is calculated as 90% of the amount of the client's assets, but not more than BGN 40,000 per investor. The calculations are based on the information provided by the intermediaries as of December 31, 2017. Due to the

assumption that the clients have assets amounting to the upper limit of the interval they fall, the maximum compensation thus obtained is increased.



**FIG. 10 DISTRIBUTION OF MAXIMUM COMPENSATION AND NUMBER OF CLIENTS, BY GROUPS OF CLIENTS' ASSETS**

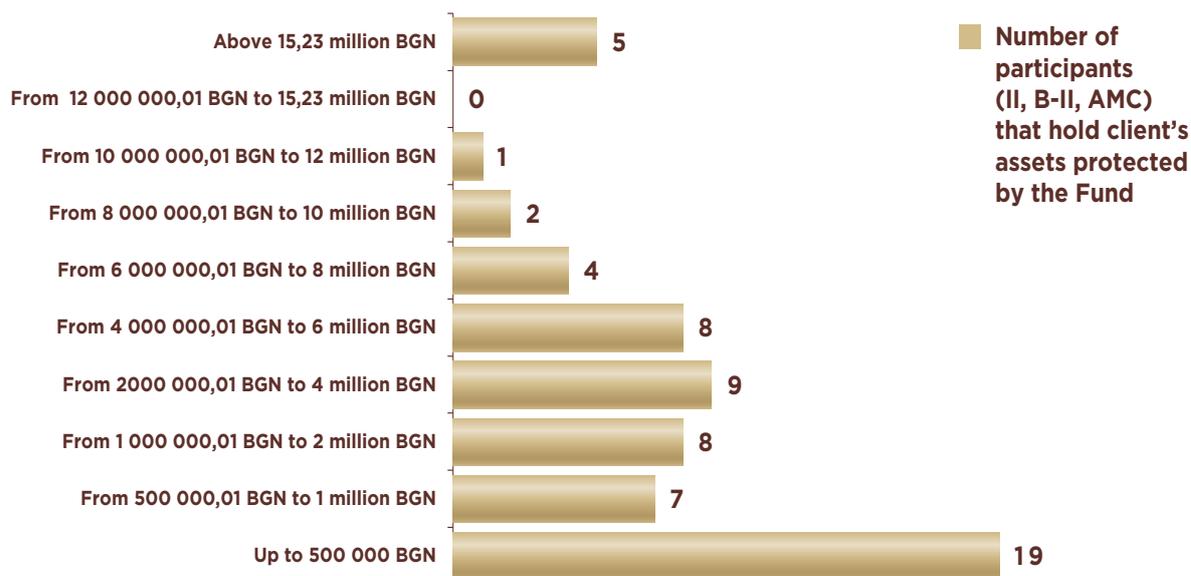


The highest number of investors (72%) belongs in the first interval, with the amount of assets up to BGN 500, but the compensation calculated for them is only 9% of all compensations or 25 million BGN. The Fund's biggest exposure is to clients with assets over BGN 196 thousand (1% of all protected investors) – the compensation calculated for them is 16% of the total compensations or BGN 45 million in absolute value.

As of 31.12.2017 the accumulated resources in the ICF are 5.36% of the amount of calculated compensation for all participants. (BGN 15.23 million/BGN 284.34 million).

Figure 11 presents the distribution of participants according to amount of compensation and by ranges up to the available resources in the Fund (BGN 15.23 million) as of 31.12.2017. The figure includes 4 AMC, so the total number of active participants in the Fund is 63.

**FIG. 11 NUMBER OF PARTICIPANTS ACCORDING TO THE FUND'S EXPOSURE TO THEIR CLIENTS**



The biggest number of intermediaries is in the range with compensations up to 500 thousand BGN - 19, of which 11 II, 7 B-II and 1 AMC. It is followed by the range up to BGN 4 million, which has 9 participants - 5 II and 4 B-II. There is an equal number of intermediaries (8 each) in the ranges with compensation up to 2 and 6 million BGN. There are 7 intermediaries in the range up to BGN 1 million. For 5 intermediaries (3 II and 2 B-II) the Fund's resources would be insufficient in case of a failure. In those cases, the Fund could be forced to collect additional resources for covering the shortage, according to LPOS. In the same time the Fund's resources would be enough to compensate clients of several intermediaries at once, to which the potential compensations would be in smaller amounts.

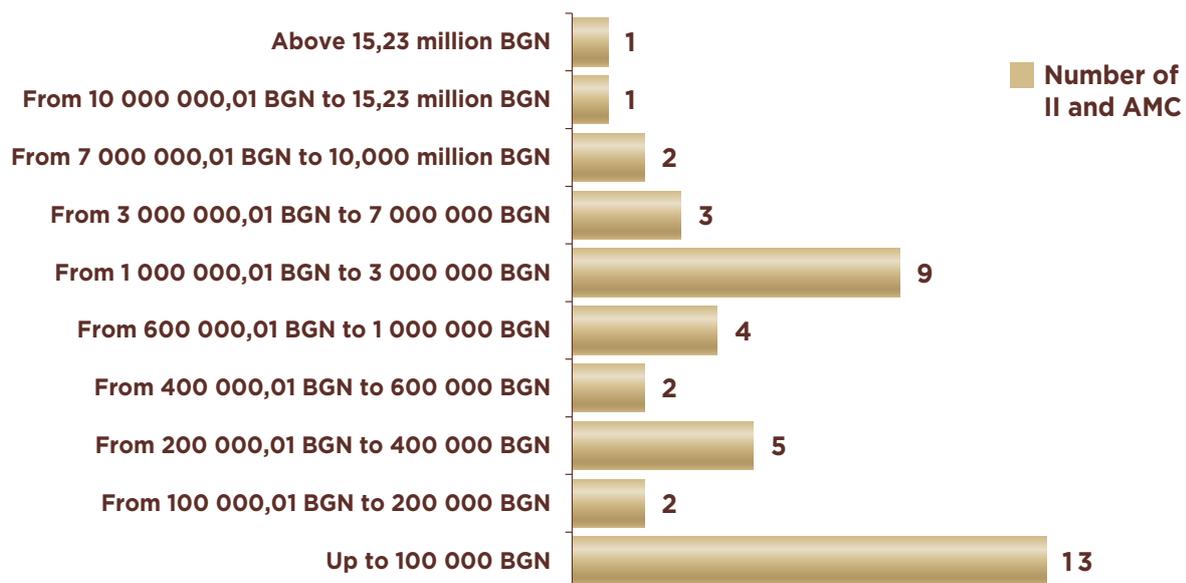
Appendix 4 shows the distribution of the number of clients eligible to compensation by groups of client assets for II and B-II.

Figure 12 presents the distribution of II and AMC according to the protected MFs held by them.

The figure shows that the biggest number of participants (13) hold clients' MFs up to 100 thousand BGN - they represent 31% of all participant. The number of participants in the range up to BGN 3 million is 9, up to 400 thousand BGN - 5, up to 1 million BGN - 4 and up to BGN 7 million - 3. An equal number of participants (two) hold MFs in the ranges up to BGN 200 thousand, BGN 600 thousand and BGN 10 million. One participant manages clients' MFs exceeding the Fund's available resources.



**FIG. 12 AMOUNT OF MFS AT II AND AMC AS OF 31.12.2017**





## 6. INTERNATIONAL ACTIVITY

In 2017, the international activity of the Fund consisted of the participation of its representatives in international meetings, working groups and conferences. In March 2017, representatives of the Fund participated in a meeting of an investors compensation schemes working group of the European Forum of Deposit Insurers (EFDI), which took place in Prague. At the meeting, the Deputy Chair of the Fund held a presentation on the recovery and resolution of investment companies under the new legislation. In May 2017, an extraordinary meeting of the EFDI General Assembly was held in Brussels, which adopted changes to the organization's articles that affect associated members, such as the ICF. The changes are aimed at extending the scope of cooperation between the institutions, extending the powers of the associated members by choosing an observer to participate in the board meetings of the organization, and to be able to express and vote on the issues regarding investor compensation schemes. A change in the amount of the annual EFDI membership fee was also discussed.

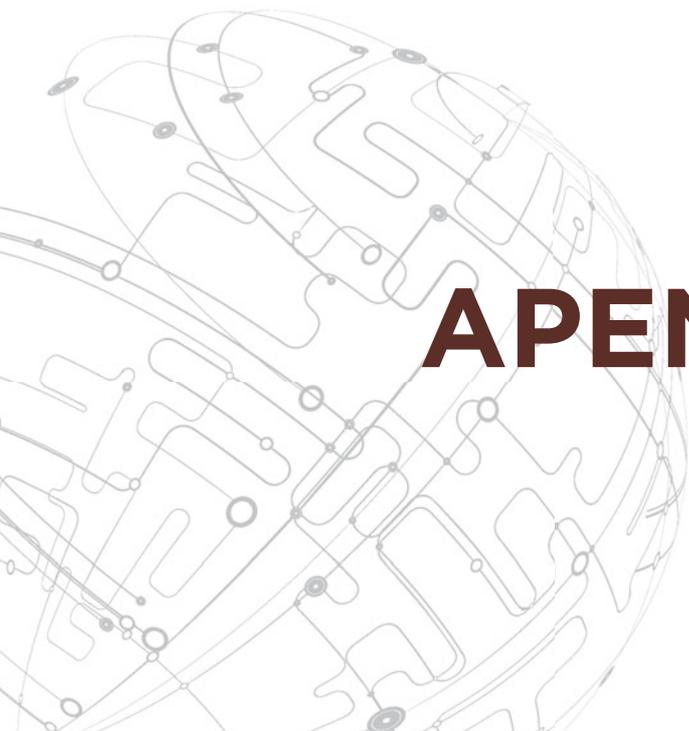
In September 2017, the EFDI Annual Meeting was held in Oslo, Norway. Main issues related to the resolution and recovery of banks and investment firms and the challenges in this regard to depositors and investor protection schemes were discussed. An international meeting of investor protection schemes, as well as a traditional EFDI annual conference,

took place within the forum. At the conference, a representative of the Fund make a presentation on the role of investor compensation schemes in the resolution process.

Given the specific nature of the Fund's activities, international cooperation with other investor compensation schemes as well as other members of EFDI is of a great importance as the exchange of experience helps developing the Bulgarian investor protection scheme.



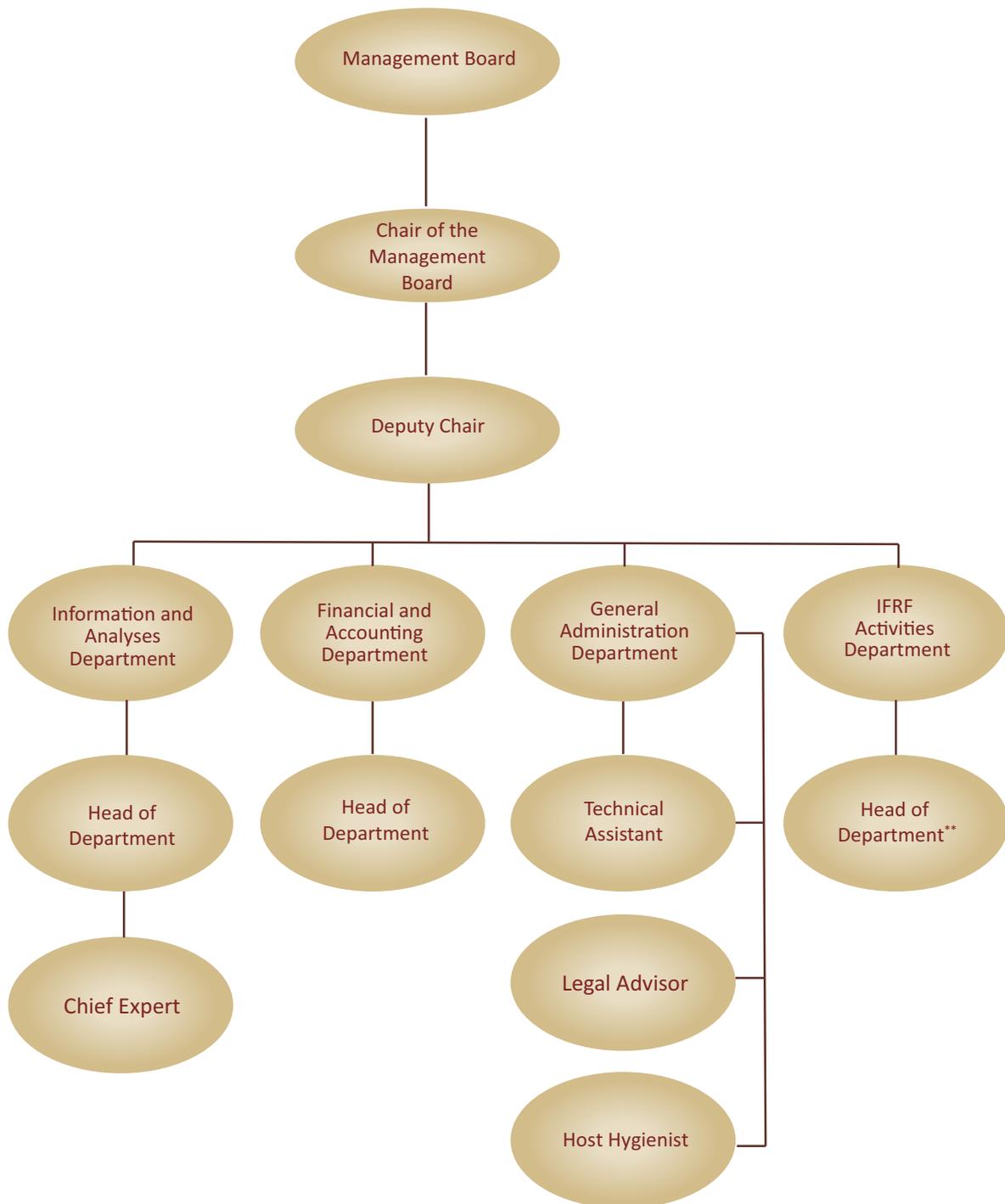
**INVESTOR  
COMPENSATION  
FUND**



**APENDICIES**



## ORGANIZATIONAL STRUCTURE



\* A new establishment plan was agreed at the beginning of 2018, whereby the Technical Assistant and the Host Hygienist dropped out and a new "Chief Expert" position was created.

\*\* A new position from 01.01.2018.



# APPENDIX №2

## INVESTMENT INTERMEDIARIES

1	ABC FINANCE EAD	21	EURO-FINANCE AD
2	ABV-INVESTMENTS EOOD	22	FACTORY AD
3	ADAMANT CAPITAL PARTNERS AD	23	FAVORIT AD
4	ALARIC SECURITIES OOD	24	FINEX
5	AVAL IN AD	25	FIRST FINANCIAL BROKERAGE HOUSE OOD
6	BALKAN CONSULTING COMPANY EAD	26	FH-EVER AD
7	BENCHMARK FINANCE AD	27	FOCAL POINT INVESTMENTS AD
8	BETA CORP AD	28	INTERCAPITAL MARKETS AD
9	BMFN EAD	29	KAROL AD
10	BULBROKERS EAD	30	LENNO GLOBAL ADVISORY AD
11	CAPITAL INVEST EAD	31	MATADOR PRIME OOD
12	CAPITAL MARKETS AD	32	REAL FINANCE AD
13	CAPMAN AD	33	SOFIA INTERNATIONAL SECURITIES AD
14	D.I.S.L. SECURITIES AD	34	TRADING 212 LTD
15	DE NOVO EAD	35	UG MARKET AD
16	DEALING FINANCIAL COMPANY AD	36	UPTREND OOD
17	DELTASTOCK AD	37	VARCHEV FINANCE EOOD
18	DV INVEST EAD	38	ZAGORA FINACORP AD
19	ELANA TRADING AD		
20	EUROPEAN BROKERAGE HOUSE OOD		



## BANKS- INVESTMENT INTERMEDIARIES

1. ALLIANZ BANK BULGARIA AD
2. BULGARIAN-AMERICAN CREDIT BANK AD
3. BULGARIAN DEVELOPMENT BANK AD
4. CENTRAL COOPERATIVE BANK AD
5. CIBANK AD
6. COMMERCIAL BANK VICTORIA EAD
7. D COMMERCIAL BANK
8. DSK BANK EAD
9. EUROBANK BULGARIA AD
10. FIRST INVESTMENT BANK AD
11. INTERNATIONAL ASSET BANK AD
12. INVESTBANK AD
13. MUNICIPAL BANK AD
14. PIRAEUS BANK BULGARIA AD
15. RAIFFEISENBANK (BULGARIA) AD
16. SOCIETE GENERALE EXPRESSBANK AD
17. TBI BANK EAD
18. TEXIM BANK AD
19. TOKUDA BANK AD
20. UNICREDIT BULBANK AD
21. UNITED BULGARIAN BANK AD



## ASSET MANAGEMENT COMPANIES

1	ACTIVA ASSET MANAGEMENT AD	17	INVEST FUND MANAGEMENT AD
2	ALARIC CAPITAL AD	18	INVEST CAPITAL EAD
3	ALFA ASSET MANAGEMENT COMPANY EAD	19	KAROL CAPITAL MANAGEMENT EAD
4	ARKUS ASSET MANAGEMENT AD	20	MUNICIPAL BANK ASSET MANAGEMENT EAD
5	ASTRA ASSET MANAGEMENT AD	21	RAIFFEISEN ASSET MANAGEMENT (BULGARIA) EAD
6	CAPMAN ASSET MANAGEMENT AD	22	REAL FINANCE ASSET MANAGEMENT AD
7	CCB ASSET MANAGEMENT AD	23	SELECT ASSET MANAGEMENT EAD
8	COMPASS INVEST AD	24	SKY ASSET MANAGEMENT AD
9	CONCORD ASSET MANAGEMENT AD	25	STRATEGIA ASSET MANAGEMENT AD
10	DELTASTOCK ASSET MANAGEMENT EAD	26	TEXIM ASSET MANAGEMENT EAD
11	DSK ASSET MANAGEMENT AD	27	TREND ASSET MANAGEMENT AD
12	DV ASSET MANAGEMENT EAD	28	UBB ASSET MANAGEMENT AD
13	EF ASSET MANAGEMENT AD	29	UG MARKET FUND MANAGEMENT AD
14	ELANA FUND MANAGEMENT AD	30	VARCHEV MANAGING COMPANY EAD
15	EXPAT ASSET MANAGEMENT AD	31	ZLATEN LEV CAPITAL AD
16	FIRST FINANCIAL BROKERAGE HOUSE ASSET MANAGEMENT AD		



## REVIEW OF THE CAPITAL MARKET IN BULGARIA<sup>18</sup>

In 2017 the increase of most indicators on the capital market in Bulgaria continues. The market capitalization of the Bulgarian Stock Exchange for 2017 increased by 144%, reaching a record BGN 23.6 billion. The increase was mainly due to a new public company and a listing of warrants with over 2.1 billion instruments and a deal at a price of more than six BGN per instrument. This also leads to an increase in the relative weight of the capital market volume to GDP to 24%, from close to 11% in 2016.

The BSE indices registered a growth in 2017. BG TR30 registered the largest increase - by 21%, followed by BGBX 40 with 19% and SOFIX by 15%. Lowest growth was recorded by BG REIT index - 7%.

The number of new issues on the BSE increases significantly compared to 2016 - from 23 to 43 in 2017.

Shares and bonds trading on the BSE in 2017 marks a significant increase compared to 2016. The trade turnover on an annual basis marks an increase of 69%.

The turnover of exchange traded products decreased by 10%, and by compensatory instruments - by 25%.

A major instrument of the Bulgarian capital market continues to be government bonds, which are traded mainly outside the regulated market, and in 2017 they were listed on the BSE. Three government securities transactions were registered for a total amount of BGN 665 thousand. This was one of the measures set out in the Capital Market Development Roadmap established by the Capital Market Development Council.

According to data from the Ministry of Finance, in 2017 the volume of the secondary market of government securities in Bulgaria is approximately BGN 18.7 billion.<sup>19</sup> The interest in this type of investment, regardless of the decreasing yield, is mainly due to the security they carry, also on the available liquidity of many financial institutions with regulatory constraints on their portfolios.

Another measure set in the Capital Market Development Strategy was a change in the regulatory framework. In 2017 amendments to the LPOS were introduced in this direction. Some of the changes transpose the requirements of European regulations. One of the objectives of the changes was to reduce the administrative burden and shorten the response times from the Financial Supervision

<sup>18</sup> The appendix is based on data from BSE, MF and FSC.

<sup>19</sup> [www.minfin.bg](http://www.minfin.bg) - Volume of the secondary market for the purposes of implementation under item 2 of the criteria for the selection of primary dealers of government securities for the period 01.01.2017 - 31.12.2017.



Commission, thereby facilitating the work of the sector.

Other changes introduced new reporting requirements, incl. the issue of personal identification codes (i. e. LEI codes) to market participants. Changes were made to the regulation of the primary public offering of bonds and their admission to trading on a regulated market, as well as on public companies.

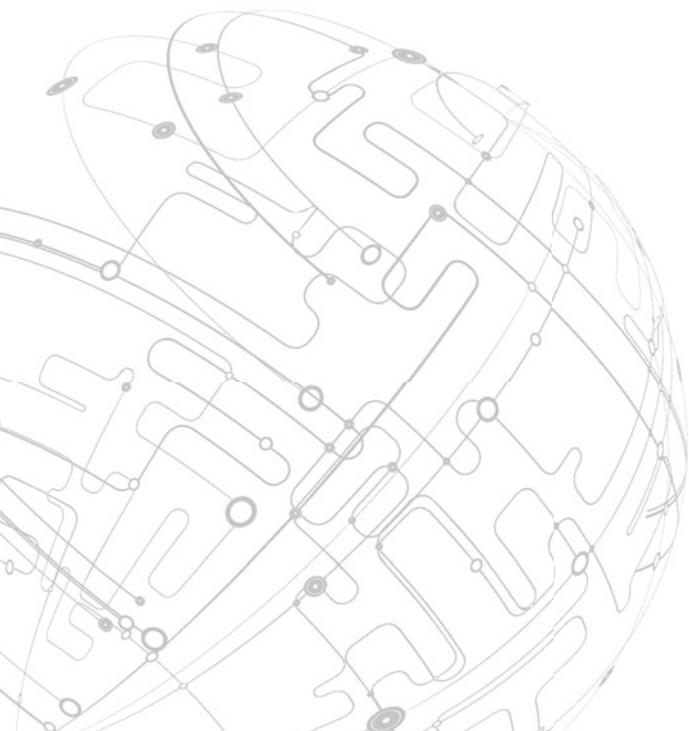
Given the entry into force of a number of European requirements in 2018, a change in the pattern of trading on the capital market is expected, with the aim of achieving greater transparency and greater investor protection.

## Distribution of number of protected clients and potential compensation by groups of client's assets as of 31.12.2017

Groups of client's assets	Number of clients of II with a min. capital of BGN 250 thousand	Compensation for II clients with a min. capital of BGN 250 thousand (in BGN)	Number of clients of II with a min capital of BGN 1.5 million	Compensation for II clients with a min. capital of BGN 1.5 million (in BGN)	Number of clients of B-II	Compensation for B-II clients (in BGN)	Total number of clients	Total compensation (in BGN)	
From 0,01 BGN to 500,00 BGN	2 472	1 112 400	47 196	21 238 200	5 398	2 429 100	55 066	24 779 700	
From 500,01 BGN to 1 000,00 BGN	238	214 200	2 872	2 584 800	1 468	1 321 200	4 578	4 120 200	
From 1 000,01 BGN to 4 000,00 BGN	368	1 324 800	4 649	16 736 400	1 687	6 073 200	6 704	24 134 400	
From 4 000,01 BGN to 7 000,00 BGN	124	781 200	1 493	9 405 900	578	3 641 400	2 195	13 828 500	
From 7 000,01 BGN to 12 000,00 BGN	103	1 112 400	1 245	13 446 000	494	5 335 200	1 842	19 893 600	
From 12 000,01 BGN to 17 000,00 BGN	78	1 193 400	627	9 593 100	247	3 779 100	952	14 565 600	
From 17 000,01 BGN to 23 000,00 BGN	56	1 159 200	524	10 846 800	194	4 015 800	774	16 021 800	
From 23 000,01 BGN to 30 000,00 BGN	41	1 107 000	345	9 315 000	184	4 968 000	570	15 390 000	
From 30 000,01 BGN to 37 000,00 BGN	38	1 265 400	287	9 557 100	139	4 628 700	464	15 451 200	
From 37 000,01 BGN to 44 444,44 BGN	26	1 040 000	219	8 759 999	97	3 880 000	342	13 679 999	
From 44 444,45 BGN to 59 000,00 BGN	42	1 680 000	299	11 959 999	143	5 719 999	484	19 359 998	
From 59 000,01 BGN to 78 000,00 BGN	44	1 760 000	250	9 999 999	116	4 640 000	410	16 399 998	
From 78 000,01 BGN to 98 000,00 BGN	30	1 200 000	169	6 759 999	85	3 400 000	284	11 359 999	
From 98 000,01 BGN to 147 000,00 BGN	53	2 120 000	226	9 039 999	100	4 000 000	379	15 159 998	
From 147 000,01 BGN to 196 000,00 BGN	14	560 000	111	4 440 000	80	3 200 000	205	8 200 000	
Above 196 000,01 BGN	118	4 720 000	418	16 719 998	591	23 639 998	1 127	45 079 995	
<b>3 845</b>	<b>100%</b>	<b>22 349 999</b>	<b>100%</b>	<b>170 403 293</b>	<b>11 601</b>	<b>100%</b>	<b>84 671 695</b>	<b>100%</b>	<b>277 424 987</b>



**INVESTOR  
COMPENSATION  
FUND**



**FINANCIAL  
STATEMENTS  
2017**



# CONTENT:

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## **INDEPENDENT AUDITOR'S REPORT**

TO THE MANAGEMENT BOARD OF INVESTOR COMPENSATION FUND, SOFIA

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### **Report on financial statements**

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#### ***Opinion***

We have audited the accompanying financial statements of the INVESTOR COMPENSATION FUND, Sofia, which comprise statement of financial position as of December 31 st , 2017, statement of profit or loss and other comprehensive income, the statement of changes in reserves, the statement of cash flows, as well as notes comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the INVESTOR COMPENSATION FUND, as of December 31 st , 2017, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards, accepted by the European Union.

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#### ***Reasons for expressing an opinion***

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are further described in the section of our report Auditor's Responsibilities for the Audit of the Financial Statements.

We are independent of the INVESTOR COMPENSATION FUND in accordance with the Ethics Code of Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code) along with the ethical requirements applicable to our audit of the financial statements in the Republic of Bulgaria. We have also met our other ethical responsibilities in line with these requirements and the IESBA Code.

We believe that the audit evidence we have received is sufficient and relevant to warrant our opinion.

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### **Report on Other Legal and Regulatory Requirements - Annual Activity Report**

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In addition to our responsibilities and reporting under ISAs, in relation to the activity report, we have also implemented the procedures added to the ISAs required. These procedures concern verification of the existence and verification of the form and content of such other information in order to assist us in formulating an opinion as to whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria.

---

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

Based on our procedures, our opinion is that:

- The information included in the activity report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- The activity report is prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

---

### ***Other information different than the financial statements and the auditor's report***

The management is responsible for the other information. The other information consists of an activity report prepared by the management under Chapter Seven of the Accountancy Act but does not include the financial statements and our audit report on it.

Our opinion on the financial statements does not cover the other information and we do not express any form of security conclusion about it unless expressly stated in our report and to the extent that it is stated.

In connection with our audit of the financial statements, our responsibility is to read the other information and thus to assess whether this other information is in material inconsistency with the financial statements or with our knowledge acquired during the audit or otherwise way appears to contain substantial misstatement. If, on the basis of the work we have done, we come to the conclusion that there is a minor misstatement in this other information, we are required to report this fact.

We have nothing to report on this.

---

### **Management's responsibilities for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Accounting Standards adopted by the European Union and for such internal control system as the management deems necessary to ensure the preparation of financial statements that do not contain material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern by disclosing, where applicable, matters relating to the going concern assumption and using the entity's accounting treatment on a going concern basis unless the management does not intend to liquidate the INVESTOR COMPENSATION FUND or to suspend its activities, or if the management has virtually no other alternative than to do that.

Those charged with general management are responsible for overseeing the fund's financial reporting process.

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## Responsibilities of the auditor to audit the financial statements

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Our goals are to obtain a reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an audit report that includes our opinion. A reasonable degree of security is a high level of security, but it is not a guarantee that an audit performed in accordance with ISAs will always reveal a material deviation when it exists. Deviations may arise as a result of fraud or error and are considered material if it could reasonably be expected that they will, individually or as a whole, affect the economic decisions of users made on the basis of these financial statements.

Further details on our responsibility are set out in the Appendix to this report.

Nikolay Polinchev

Certified Auditor

Date: 09-05-2018

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## APPENDIX to Independent auditor's report on the Financial Statements of the Investor Compensation Fund for 2017

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### *Responsibilities of the auditor to audit the financial statements*

As part of the audit in accordance with ISA, we use professional judgment and retain professional skepticism throughout the audit.

We also:

- We identify and measure the risks of material misstatement of the financial statements, whether due to fraud or error, we develop and perform audit procedures in response to those risks and we obtain audit evidence that is appropriate to warrant our opinion. The risk of not disclosing a material departure resulting from fraud is higher than the risk of a material misstatement resulting from an error, as fraud may involve covert collusion, forgery, deliberate omissions, statements of auditor introduction as well as neglecting or circumventing internal control.
- We have an understanding of internal control relevant to the audit in order to develop audit procedures that are appropriate in the circumstances, but not in order to express an opinion on the effectiveness of the Fund's internal control.
- We assess the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by the management.
- We conclude on the appropriateness of the management's use of the accounting base on the basis of the going concern assumption and, on the basis of the audit evidence obtained, whether there is significant uncertainty about events or conditions that might give rise significant doubts about the ability of the Fund to continue to operate as a going concern. If we come to the conclusion that there is significant uncertainty, we are required to draw attention in our audit report to the disclosures in the financial statements relating to that uncertainty or, in the event that disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence we have received by the date of our audit report. However, future events or conditions may cause the Fund to cease operating as a going concern.
- We evaluate the overall presentation, structure and content of the financial report, including disclosures, and whether the financial statements present the underlying transactions and events in a manner that delivers credible performance

We communicate with those charged with governance, along with other issues, the scope and timing of the audit, and the material audit findings, including significant internal control deficiencies that we identify during our audit.



# I. STATEMENT OF FINANCIAL POSITION

For the year ended on December 31<sup>st</sup>, 2017

In thousands BGN

	Notes	December 31 <sup>st</sup> 2017	December 31 <sup>st</sup> 2016
<b>ASSETS</b>			
<i>Non-current tangible assets</i>	4	1	1
<i>Non-current intangible assets</i>	5	1	2
<i>Non-current Government bonds measured at fair value</i>	3; 6	5 536	7 642
<i>Non-current Government bonds measured at amortized cost</i>	6	9 801	4 294
<i>Receivables</i>	7	491	529
<i>Prepaid expenses</i>	8	4	4
<i>Cash equivalents</i>	6	-	2 237
<i>Cash</i>	9	73	214
<b>Total Assets:</b>		<b>15 907</b>	<b>14 923</b>
<b>RESERVES</b>			
	10		
<i>Reserve for compensations</i>		15 815	14 807
<i>Result for the period</i>		76	93
<b>Total Reserves:</b>		<b>15 891</b>	<b>14 900</b>
<b>LIABILITIES</b>			
<i>Employees liabilities</i>		10	4
<i>Other liabilities</i>	11, 17	6	19
<b>Total liabilities:</b>		<b>16</b>	<b>23</b>
<b>Total reserves and liabilities:</b>		<b>15 907</b>	<b>14 923</b>



## II. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended on December 31<sup>st</sup>, 2017

In thousands BGN

	Notes	December 31 <sup>st</sup> 2017	December 31 <sup>st</sup> 2016
<i>Financial revenues /(expenses)</i>	12	416	454
<i>Proceeds/(expenses) of government bonds revaluation</i>	12	93	34
<i>Proceeds/(expenses) of amortization of premium on government bonds held to maturity</i>		(70)	(14)
<i>Purchases of materials</i>	13	(5)	(7)
<i>Expenses for external services</i>	14	(82)	(81)
<i>Depreciation expenses</i>		(2)	(1)
<i>Employees expenses</i>	15	(262)	(280)
<i>Other expenses</i>		(12)	(12)
<i>Result before taxation</i>		76	93
<b><i>Result for the period</i></b>		<b>76</b>	<b>93</b>
<i>Other comprehensive income</i>			
<i>Initial and annual contributions</i>		1 008	1 024
<b><i>Other comprehensive income for the year, after tax</i></b>		<b>1 008</b>	<b>1 024</b>
<b><i>Total comprehensive income for the year</i></b>		<b>1 084</b>	<b>1 117</b>



### III. STATEMENT OF CHANGES IN RESERVES

For the year ended on December, 31<sup>st</sup> 2017

In thousands BGN

	<i>Reserve for compensations</i>	<i>Financial result</i>	<i>Total reserves</i>
<b>Balance as of December 31<sup>st</sup>, 2015</b>	<b>14 708</b>	<b>(934)</b>	<b>13 774</b>
<i>Changes in reserves in 2016</i>			
<i>Transfer of the accumulated earnings from previous years as a reserve for compensations</i>	<i>(934)</i>	<i>934</i>	<i>0</i>
<i>Initial and annual contributions</i>	<i>787</i>		<i>787</i>
<i>Non-submitted fourth part of annual contributions for 2016</i>	<i>246</i>		<i>246</i>
<i>Financial result</i>		<i>93</i>	<i>93</i>
<b>Balance as of December 31<sup>st</sup>, 2016</b>	<b>14 807</b>	<b>93</b>	<b>14 900</b>
<i>Changes in reserves in 2017</i>			
<i>Transfer of the accumulated earnings from previous years as a reserve for compensations</i>	<i>93</i>	<i>(93)</i>	<i>0</i>
<i>Initial and annual contributions</i>	<i>707</i>		<i>707</i>
<i>Non-submitted fourth part of annual contributions for 2017</i>	<i>208</i>		<i>208</i>
<i>Financial result</i>		<i>76</i>	<i>76</i>
<b>Balance as of December 31<sup>st</sup>, 2017</b>	<b>15 815</b>	<b>76</b>	<b>15 891</b>



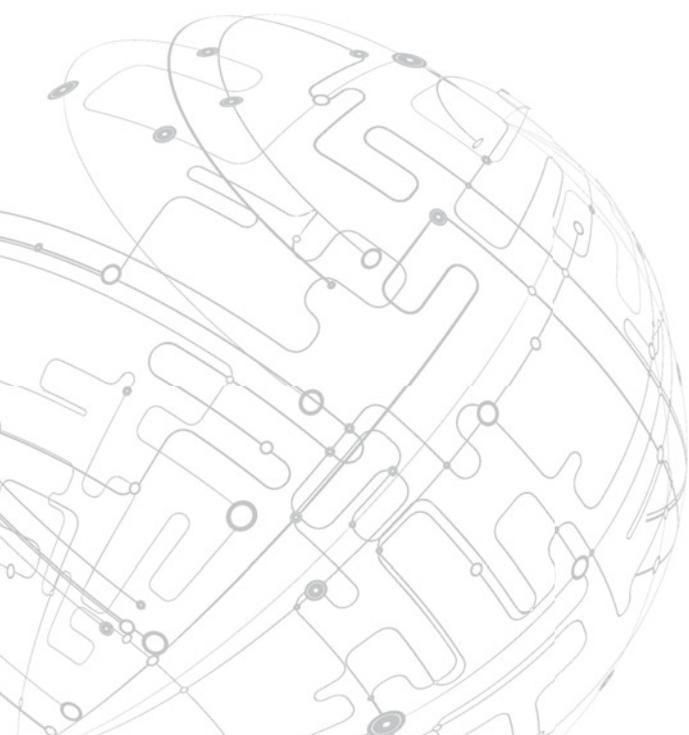
## IV. STATEMENT OF CASH FLOWS

For the year ended on December, 31<sup>st</sup> 2017

In thousands BGN

	Notes	December, 31 <sup>st</sup> 2017	December, 31 <sup>st</sup> 2016
<b>Operating cash flows:</b>			
<i>Initial and annual contribution receipts from investment intermediaries</i>		946	1 034
<i>Cash payments to suppliers</i>		(96)	(95)
<i>Cash payments to employees</i>		(264)	(285)
<i>Cash payments to the budget</i>		(1)	(2)
<b>Net cash flows from operating activities:</b>		<b>585</b>	<b>652</b>
<b>Cash flows from investing activities:</b>			
<i>Cash payments to acquire tangible assets</i>		(1)	
<b>Net cash flow used in investing activities:</b>		<b>(1)</b>	
<b>Net cash flow from financial activities:</b>			
<i>Proceeds from matured Government bonds</i>		2 237	2 694
<i>Cash payments related to Government bonds</i>		(3 403)	(4 246)
<i>Proceeds against coupons on Government bonds</i>		461	496
<i>Cash coupon payments related to the purchase of government bonds</i>		(20)	(52)
<i>Received interest on deposits</i>		0	1
<b>Net cash flow used in financial activities:</b>		<b>(725)</b>	<b>(1 107)</b>
<i>Net increase/(decrease) of cash and cash equivalents:</i>		<i>(141)</i>	<i>(455)</i>
<i>Cash and cash equivalents in the beginning of the period</i>		214	669
<b>Cash in the end of the period:</b>	<b>9</b>	<b>73</b>	<b>214</b>

**INVESTMENT  
FIRMS  
RESOLUTION  
FUND**



**ANNUAL  
REPORT  
2017**



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# REPORT ON IFRF'S ACTIVITY IN 2017

## ACTIVITY DESCRIPTION

The Investment Firms Resolution Fund (IFRF) was established on the grounds of Art. 135 of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF), adopted on August 14, 2015. According to the regulatory requirements, IFRF started to perform its functions from January 2017. The main objective of IFRF is to finance the implementation of the restructuring instruments in respect of investment intermediaries licensed to operate by the Financial Supervision Commission (The Commission /FSC) under Art. 5, para. 2, items 3 and 6 and under Art. 5, para. 3, item 1 of the Law on Markets in Financial Instruments Act (LMFI). By decision of FSC, as of 31.12.2017, the total number of participants in the IFRF is 19. These are the investment intermediaries holding a full license to provide investment services.

IFRF is managed by the Investor Compensation Fund (ICF) Management Board and the costs associated with the management of this fund are part of the ICF overall administrative costs.

IFRF resources are derived from annual and extraordinary contributions from investment firms, income from investing IFRF resources, interest on arrears and other sources. The FSC is a restructuring body for investment firms covered by the LRRCIIF and as such should determine by 31 March of each calendar year the total amount of the annual contributions for the relevant

year, taking into account the economic cycle and the corresponding impact on the financial position of investment firms. By May 1 of each calendar year, the FSC determines the amount of the individual annual contributions of the investment intermediaries obliged by the LRRCIIF and notifies them. The individual annual IFRF contribution is proportional to the relative share of the liabilities of the third country investment intermediary or branch (excluding own capital) vis-à-vis the total liabilities of all third-country investment firms and branches (excluding own capital). The amount of the contribution shall also take account of the risk profile of the investment firm or of the branch and shall be calculated in accordance with the rules laid down in the Delegated Regulation (EU) 2015/63.

At its meeting held on 19 April 2017, the FSC assigned an individual annual contribution to IFRF for 2017 to each of the intermediaries covered by the LRRCIIF. All investment intermediaries have fulfilled their obligations and as of December 31, 2017, IFRF has BGN 37 160.

The Commission, as a restructuring body, decides to use IFRF funds only in accordance with the restructuring plan and instructs the ICF Managing Board to implement this decision.

The funds of IFRF shall be invested in compliance with the principles established in the LRRCIIF in accordance with the requirements set out in this law and in accordance with



the rules for investing the funds set out in the IFRF investment policy, adopted by the Fund's Management Board.

IFRF resources can be invested in financial instruments as follows: deposits in BGN and EUR and other financial instruments offered by the BNB; Euro deposits with foreign banks that have one of the three highest credit ratings issued by two credit rating agencies; debt instruments denominated in euro, no embedded options issued by foreign countries, foreign banks, foreign financial institutions, international financial organizations, foreign agencies or other foreign companies, which instruments or issuers have one of the three highest credit ratings issued by two agencies for a credit rating.

IFRF has the right to make repurchase agreements in euro with foreign banks, foreign financial institutions or international financial organizations that have one of the three highest credit ratings issued by two credit rating agencies and provide in a loan against equivalent collateral, the debt instruments of foreign banks, foreign financial institutions or international financial institutions that hold one of the three highest credit ratings issued by two credit rating agencies.

In the course of the year, the collected funds in IFRF are held in a separate account in the BNB in the name of the ICF, as the legal status of IFRF does not allow it to have its own account.

In 2018, the MB will continue to collect and invest its funds in accordance with the requirements laid down in the Fund's regulations and internal rules.

## **IFRF MANAGEMENT**

IFRF is managed by the MB of the Investor Compensation Fund. The Management Board is responsible for collecting and investing IFRF funds, as well as for concluding loan agreements and other loan support and lending contracts under the terms and procedures of the LRRCIIF. Decisions on the use of IFRF funds are taken by the FSC, and their execution is assigned to the ICF Management Board.

Within the ICF structure has been assigned a separate and independent unit (IFRF Activities Department) to assist the Managing Board in IFRF management and functions. As of 31.12.2017 there is no employee assigned to this department as the current activity is carried out by the administration in the other departments of the ICF. From 2018, an employee is scheduled to work in the IFRF Activities Department.

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## **INDEPENDENT AUDITOR'S REPORT**

TO THE MANAGEMENT BOARD OF INVESTOR COMPENSATION FUND SOFIA

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### **Report on financial statements**

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#### ***Opinion:***

We have audited the financial statements of the Investment Firms Resolution Fund consisting of the statement of financial position as of 31 December 2017 and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year as well as explanatory notes to the financial statements, including the summary disclosure of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of 31 December 2017, its financial performance and its cash flows for the year in accordance with International Accounting Standards, adopted by the European Union.

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#### ***Reasons for expressing an opinion***

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are further described in the section of our report Auditor's Responsibilities for the Audit of the Financial Statements.

We are independent of the INVESTMENT FIRMS RESOLUTION FUND in accordance with the Ethics Code of Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code) along with the ethical requirements applicable to our audit of the financial statements in the Republic of Bulgaria, we have also met our other ethical responsibilities in line with these requirements and the IESBA Code.

We believe that the audit evidence we have received is sufficient and relevant to warrant our opinion.

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#### ***Other matters***

The financial statement of the INVESTMENT FIRMS RESOLUTION FUND for the year that ended on 31 December 2017 is the first audited report.

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## Report on Other Legal and Regulatory Requirements - Annual Activity Report

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In addition to our responsibilities and reporting under ISAs, in relation to the activity report, we have also implemented the procedures added to the ISAs required. These procedures concern verification of the existence and verification of the form and content of such other information in order to assist us in formulating an opinion as to whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria.

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

Based on our procedures, our opinion is that:

- The information included in the activity report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- The activity report is prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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### *Other information different than the financial statements and the auditor's report*

The management is responsible for the other information. The other information consists of an activity report prepared by the management under Chapter Seven of the Accountancy Act but does not include the financial statements and our audit report on it.

Our opinion on the financial statements does not cover the other information and we do not express any form of security conclusion about it unless expressly stated in our report and to the extent that it is stated.

In connection with our audit of the financial statements, our responsibility is to read the other information and thus to assess whether this other information is in material inconsistency with the financial statements or with our knowledge acquired during the audit or otherwise way appears to contain substantial misstatement. If, on the basis of the work we have done, we come to the conclusion that there is a minor misstatement in this other information, we are required to report this fact.

We have nothing to report on this.

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## Management's responsibilities for the financial statements

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Accounting Standards adopted by the European Union and for such internal control system as the management deems necessary to ensure the preparation of financial statements that do not contain material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern by disclosing, where applicable, matters relating to the going concern assumption and using the entity's accounting treatment on a going concern basis unless the management does not intend to liquidate the INVESTMENT FIRMS RESOLUTION FUND or to suspend its activities, or if the management has virtually no other alternative than to do that.

Those charged with general management are responsible for overseeing the fund's financial reporting process.

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## **Responsibilities of the auditor to audit the financial statements**

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Our goals are to obtain a reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an audit report that includes our opinion. A reasonable degree of security is a high level of security, but it is not a guarantee that an audit performed in accordance with ISA will always reveal a material deviation when it exists. Deviations may arise as a result of fraud or error and are considered material if it could reasonably be expected that they will, individually or as a whole, affect the economic decisions of users made on the basis of these financial statements.

Further details on our responsibility are set out in the Appendix to this report.

Nikolay Polinchev

Certified Auditor

Date: 08-03-2018

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## **APPENDIX to Independent auditor's report on the Financial Statements of the Investment Firms Resolution Fund for 2017**

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### ***Responsibilities of the auditor to audit the financial statements***

As part of the audit in accordance with ISA, we use professional judgment and retain professional skepticism throughout the audit.

We also:

- We identify and measure the risks of material misstatement of the financial statements, whether due to fraud or error, we develop and perform audit procedures in response to those risks and we obtain audit evidence that is appropriate to warrant our opinion. The risk of not disclosing a material departure resulting from fraud is higher than the risk of a material misstatement resulting from an error, as fraud may involve covert collusion, forgery, deliberate omissions, statements of auditor introduction as well as neglecting or circumventing internal control.
- We have an understanding of internal control relevant to the audit in order to develop audit procedures that are appropriate in the circumstances, but not in order to express an opinion on the effectiveness of the Fund's internal control.
- We assess the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by the management.
- We conclude on the appropriateness of the management's use of the accounting base on the basis of the going concern assumption and, on the basis of the audit evidence obtained, whether there is significant uncertainty about events or conditions that might give rise significant doubts about the ability of the Fund to continue to operate as a going concern. If we come to the conclusion that there is significant uncertainty, we are required to draw attention in our audit report to the disclosures in the financial statements relating to that uncertainty or, in the event that disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence we have received by the date of our audit report. However, future events or conditions may cause the Fund to cease operating as a going concern.
- We evaluate the overall presentation, structure and content of the financial report, including disclosures, and whether the financial statements present the underlying transactions and events in a manner that delivers credible performance.

We communicate with those charged with governance, along with other issues, the scope and timing of the audit, and the material audit findings, including significant internal control deficiencies that we identify during our audit.

**INVESTMENT  
FIRMS  
RESOLUTION  
FUND**



**FINANCIAL  
STATEMENTS  
2017**



# I. STATEMENT OF FINANCIAL POSITION

For the year ended on December 31<sup>st</sup>, 2017

In thousands BGN

	<i>Notes</i>	<i>December 31<sup>st</sup> 2017</i>
<b>ASSETS</b>		
<i>Monetary Funds</i>		<i>37</i>
<b>Total Assets:</b>		<b>37</b>
<b>RESERVES</b>		
<i>Reserve for resolution</i>		<i>37</i>
<b>Total Reserves:</b>		<b>37</b>
<b>Total Reserves:</b>		<b>37</b>



## II. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended on December, 31<sup>st</sup> 2017

In thousands BGN

	<i>Notes</i>	<i>December, 31<sup>st</sup> 2017</i>
<i>Other comprehensive income</i>		
<i>Annual contributions</i>		<b>37</b>
<i>Other comprehensive income for the year, after tax</i>		<b>37</b>
<i>Total comprehensive income for the year</i>		<b>37</b>



### III. STATEMENT OF CHANGES IN RESERVES

For the year ended on December, 31<sup>st</sup> 2017

In thousands BGN

	<i>Reserve for Resolution</i>	<i>Financial result</i>	<i>Total reserves</i>
<i>Changes in reserves in 2017</i>			
<i>Annual contributions</i>	<i>37</i>		<i>37</i>
<i>Balance as of December 31<sup>st</sup>, 2017</i>	<i>37</i>		<i>37</i>

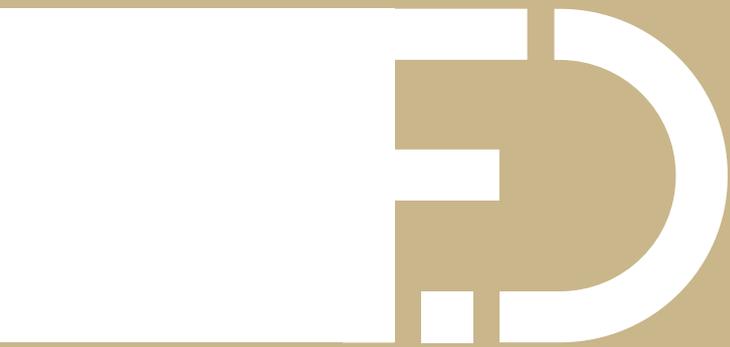


## IV. STATEMENT OF CASH FLOWS

For the year ended on December, 31<sup>st</sup> 2017

In thousands BGN

	<i>Notes</i>	<i>December, 31<sup>st</sup> 2017</i>	<i>December, 31<sup>st</sup> 2016</i>
<b><i>Operating cash flows:</i></b>			
<i>Annual contribution receipts from investment intermediaries</i>			<i>37</i>
<b><i>Net cash flows from operating activities:</i></b>			<i>37</i>
<i>Net increase/(decrease) of monetary funds:</i>			<i>37</i>
<i>Monetary funds in the beginning of the period</i>			<i>0</i>
<b><i>Monetary funds in the end of the period:</i></b>		<i>9</i>	<i>37</i>



**INVESTOR  
COMPENSATION  
FUND**

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