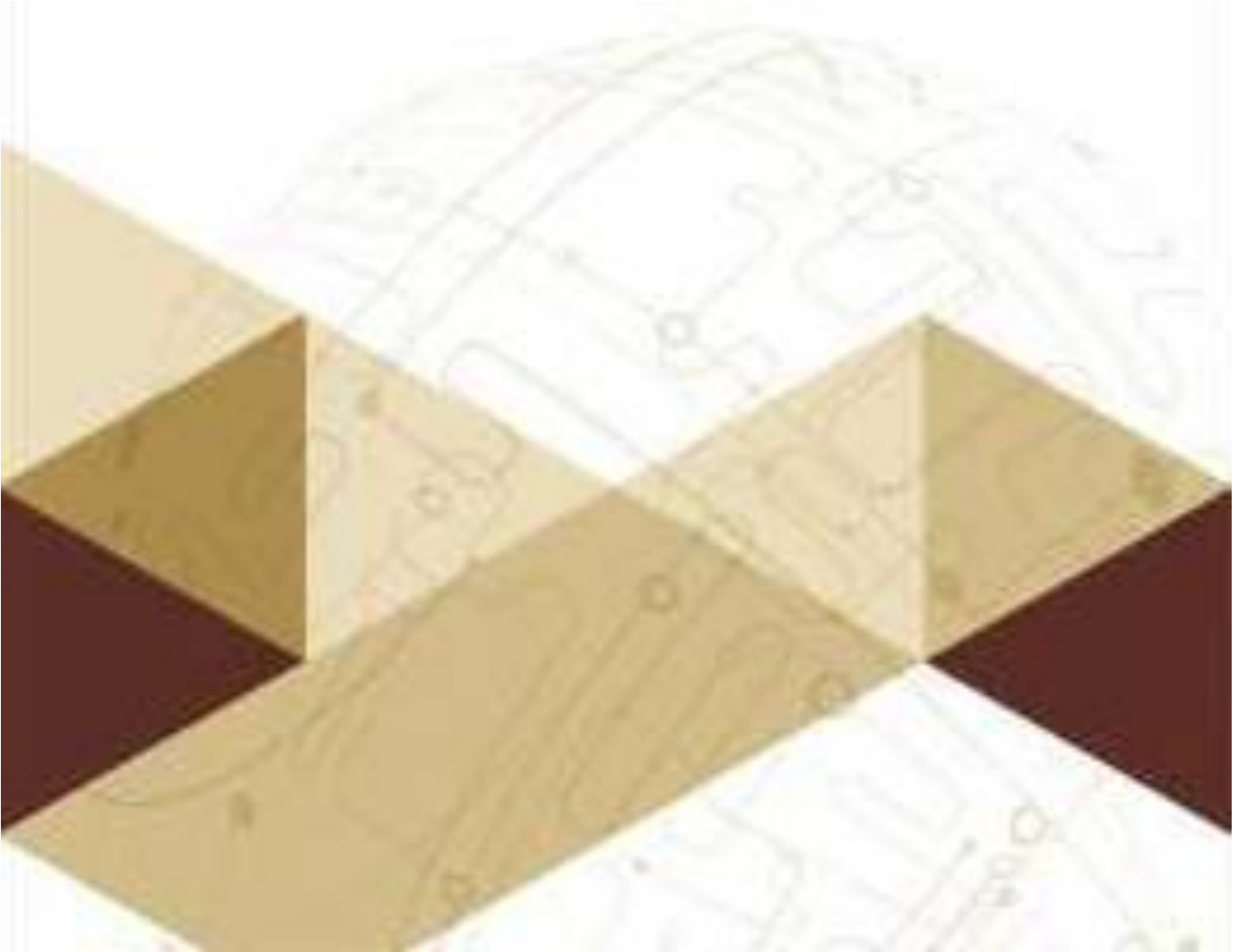




**INVESTOR
COMPENSATION
FUND**



ANNUAL REPORT | 2018

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ICF ANNUAL REPORT 2018

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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:

Chair of the management board: Teodora Yakimova – Drenska

Deputy Chair: Diyana Miteva – Boncheva

Members: Irina Martzeva

Radoslava Maslarska

Toma Kavroshilov

Management Board (until October 2018):

Chair of the management board: Teodora Yakimova – Drenska

Deputy Chair: Diyana Miteva – Boncheva

Members: Irina Martzeva

Mihaela Koleva

Radoslava Maslarska

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 2018

In 2018, the Fund's activity was focused mainly on the fulfillment of its obligations in relation with the Financial Supervision Comissions's withdrawal of the license of investment intermediary Positiva AD on 23.06.2017, and the initiation of the procedure for payment of compensation to the intermediary's clients. A compensation of BGN 40,000 was paid to one client of the intermediary. The one-year deadline for filing compensation claims from clients of Positiva AD expired on July 3, 2018. In 2018, the Fund received four claims for payment of compensation, one after the statutory one-year deadline. Three of the claims were considered unfounded. Pursuant to Art. 77t, para. 2 of the LPOS, the MB decided to consider the fourth claim, which was submitted after the statutory deadline. In section 3.1. detailed information was provided on the cases that led to the Fund's activation.

Along with the implementation of the procedure for payment of compensation to clients of Positiva AD, the activity of the Fund was aimed at collecting the contributions due from the participants within the time limit established by the law; management of the Fund's resources; collecting and analyzing information on client assets managed by participants in the scheme; evaluation of the Fund's exposure, as well as other issues concerning the Fund.

The Fund is managed by a Management Board (MB), which discusses and decides on all matters within its competence. The Chair of the MB is responsible for the operational management of the Fund and organizes and manages the administrative staff. As of December 31, 2018, the administrative staff of the Fund consists of five employees. (The organizational structure of the Fund is given in Annex 1).

At the end of the year, the MB of the Fund decided to keep the annual contribution for 2019 at the level of 0.05% for the protected financial instruments (at a maximum rate of 0.1%) and 0.25% for the monetary funds (at a maximum rate 0.5%), determined on an average monthly basis for 2018. Thus, for the third consecutive year, participants in the Fund will pay a lower MFs contribution, and the amount of the FI contribution will remain unchanged for the tenth consecutive year.

At the beginning of the year, the amendments proposed by the Fund to the Regulation of Operation and Organization of Investor Compensation Fund were adopted. The proposed changes affect the order and manner of determining the remuneration of

the MB and synchronize the Regulation with the amendments, which were made in the LPOS in 2017, effective from January 1, 2018.

During the year the MB also adopted some changes in the internal regulations for the Fund's activity, as well as new ones.

An important point in the Fund's activity in 2018 was the international activity - the participation of representatives of the Fund in several international events - working groups, conferences and meetings. In addition, the Fund maintained contacts and exchanged information with other investor compensation schemes from EU Member States.

During the year the Fund successfully cooperated with various national institutions and organizations such as FSC, BNB, Ministry of Finance, ABB, BALII, BAAMC, as well as with the participants in the Fund, which contributes to the effective implementation of its activities.

2. RESOURCES

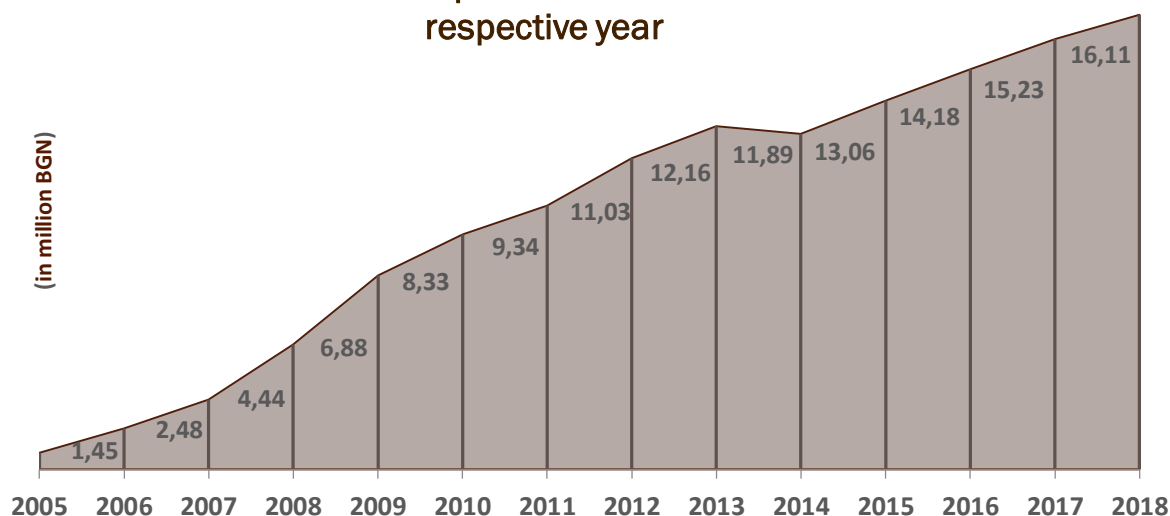
The collection, investment and spending of the Fund's resources is carried out in compliance with the provisions of LPOS, ROOICF and ICF's internal rules and the supervision of these activities is carried out by the Bulgarian National Audit Office (BNAO) and the FSC. The resources of the Fund are formed by the initial and annual contributions of the II, B-II and AMC¹ as well as of investment's revenues.

Figure 1 shows the investment portfolio of the Fund since its establishment to present, as of December 31st of the respective year. As of December 31, 2018, the Fund's investment portfolio is BGN 16,11² million or BGN 0,88 million more than at the end of 2017.

¹ AMC do not pay initial contribution.

² The Fund's investment portfolio includes government securities at amortized cost and revalued amount (excluding accrued interest), cash and current accounts. The revalued and amortized amount for government securities is as of December 31, 2018. With accrued but not received interest for the period, the total amount of the Fund's investment portfolio is BGN 16,295 million.

Fig. 1
The Fund's investment portfolio as of December 31 of the respective year



The administrative activity of the Fund is financed by the proceeds from the investment of its funds. The administrative expenses of the Fund for 2018 are BGN 404 thousand, that is, a savings of 3% of the originally budgeted expenses.

2.1. CONTRIBUTIONS

All participants in the Fund make initial and annual contributions. The entry/initial instalment is paid once by the investment intermediaries upon their inclusion in the scheme and is equal to 1% of the minimum capital required for the licensing of intermediaries³. During the year, a new intermediary joined the scheme, which paid an initial contribution of BGN 2 500.

All participants in the Fund who declare client assets, eligible to compensation, make annual contributions. They are transferred in four equal instalments. The amount of the annual contribution is determined each year by ICF's MB and for 2018 it was as follows:

- 0,25% of the average monthly amount of the protected MFs for 2017 and
- 0,05% of the average monthly amount of the rest of the clients' assets, eligible to compensation in 2017.

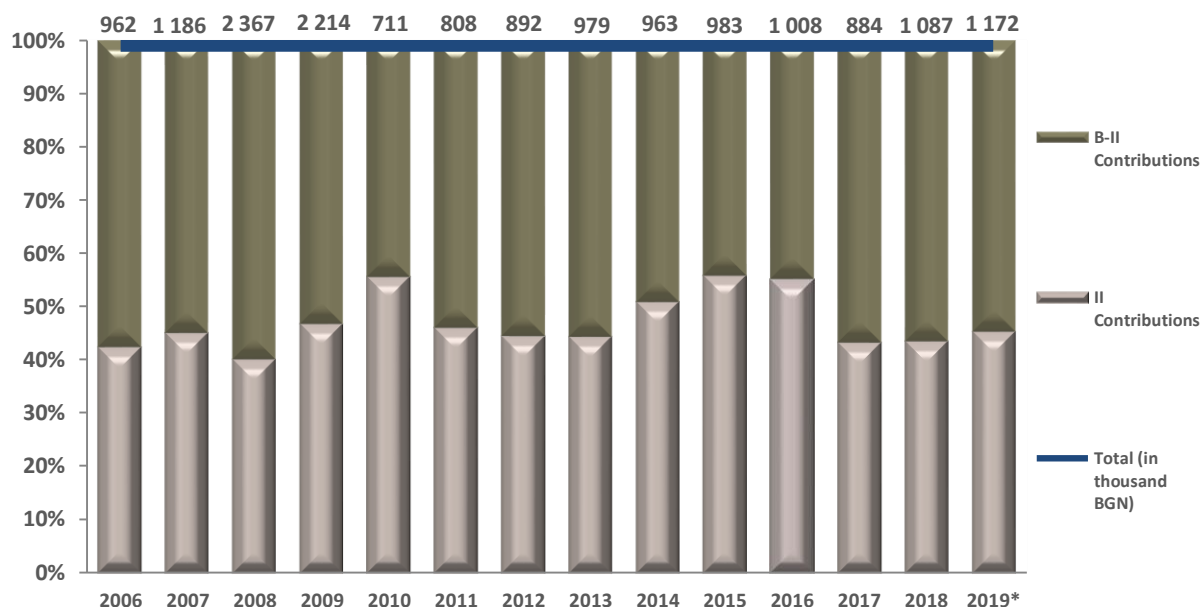
The revenues from the participants' contributions (annual and initial) in 2018 amount to BGN 1,074 million⁴, compared to BGN 946 thousand in 2017. Figure 2 shows

³ II with a limited license do not participate in the Fund.

⁴ In 2018 one quarter of the annual contributions due for 2017 was paid until 30.01.2018 and three quarters for the annual contributions due for 2018.

the annual contribution of banks – investment intermediaries (B-II) and II, determined for each year.

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



* Data for 2019 is preliminary

Source: ICF⁴

The annual contribution for 2018 of II and B-II is BGN 1,087 million⁵ compared to BGN 884 thousand in 2017, i.e. an increase of 23%. The increase is due to an increase on the basis on which the contributions are calculated. As shown on Fig. 2 in 2018, the share of B-II contributions to the Fund remains at almost the same level as in 2017 - about 56% of the total contribution. Estimates indicate that in 2019 the B-II will again pay a higher contribution than the II.⁵

The estimated contribution for 2019 is BGN 1,172 million⁶, i.e. by about BGN 85 thousand more than the annual contribution for 2018. The increase is due to the higher average monthly amount of client assets in 2018.

⁵ The amount includes all four quarters of the annual contribution for 2018. This amount differs from actual revenues during the year, since in 2018 one quarter of the annual contributions due for 2017 was paid until 30.01.2018 and three quarters for the annual contributions due for 2018

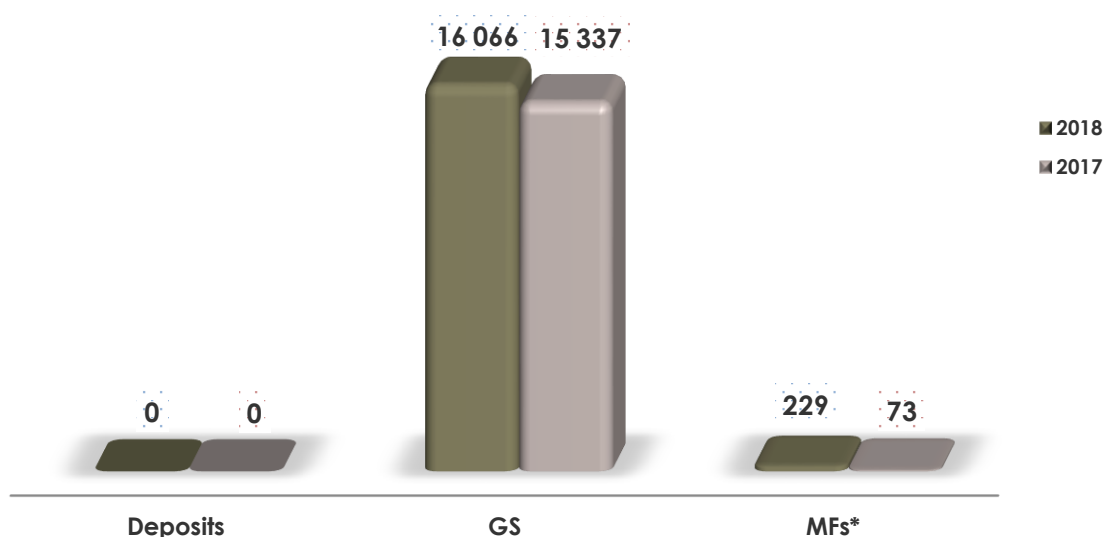
⁶ The amount does not include the annual contribution of the AMC which for 2019 amounts to BGN 41.2 thousand.

2.2. INVESTMENTS

The Fund invests the accumulated resources in accordance with the provisions of LPOS and the “ICF’s Investment Policy” adopted by the Management Board. Security and liquidity requirements have a priority in taking of investment decisions of the ICF and the Fund can invest its funds in financial instruments issued or guaranteed by the state, short-term deposits in commercial banks and deposits in BNB.

Figure 3 shows the structure of the investment portfolio of the Fund, as of the end of 2017 and 2018.

FIG. 3
INVESTMENT PORTFOLIO STRUCTURE IN THOUSANDS BGN

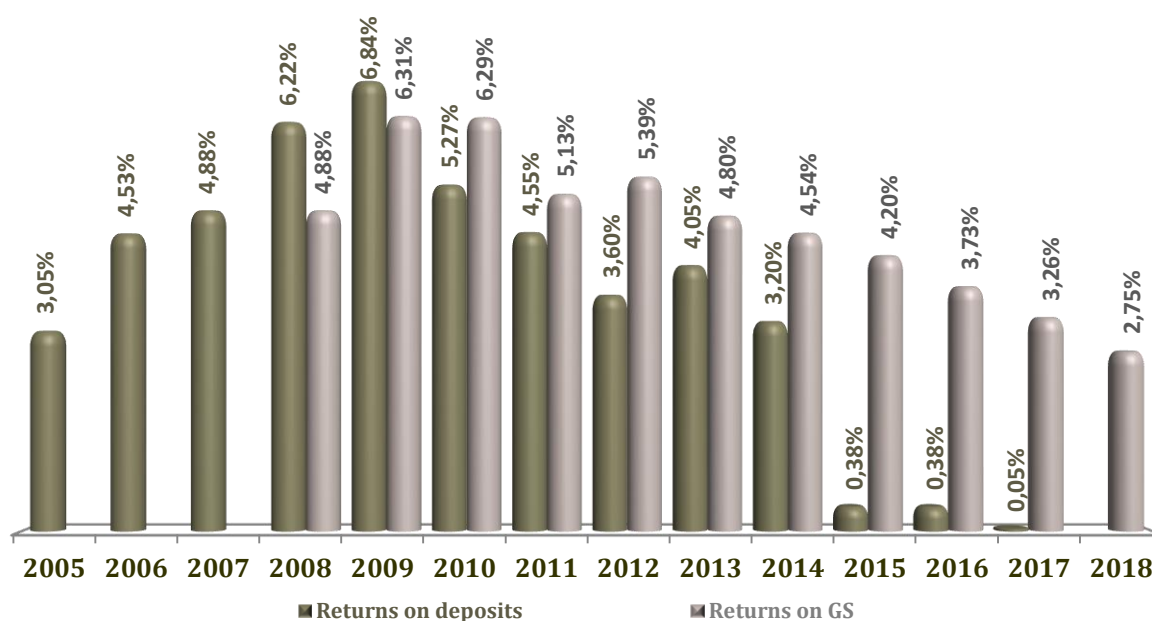


* MFs – in cash and in current accounts

The majority of the Fund's resources are invested in government securities (GS), as of 31.12.2018 their share is 98,6%, compared to 99,5% at the end of 2017. This decrease in the share of government securities in the portfolio is at the expense of the funds in BNB and CA, which increased from BGN 73 thousand as of December 31, 2017 to BGN 229 thousand as of December 31, 2018.

Figure 4 shows the accomplished average yield from deposit interest and GS for the period 2005-2018.

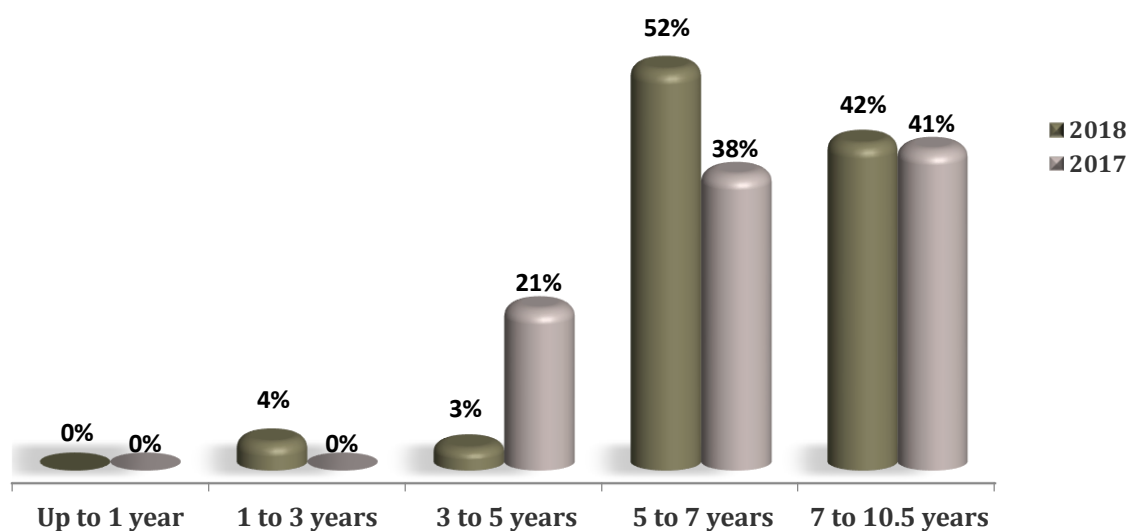
FIG. 4
AVERAGE YIELD ON INVESTMENTS



In 2018, the average yield on GS coupons was 2,75% versus 3,26% in 2017. The decrease in the average yield on GS coupons on an annual basis is due to the lower coupon rates on newly purchased issues. In 2018, the Fund has no investment in deposits.

Figure 5 shows the maturity structure of GS as of 31.12.2018 and 31.12.2017.

FIG. 5
MATURITY STRUCTURE OF GS

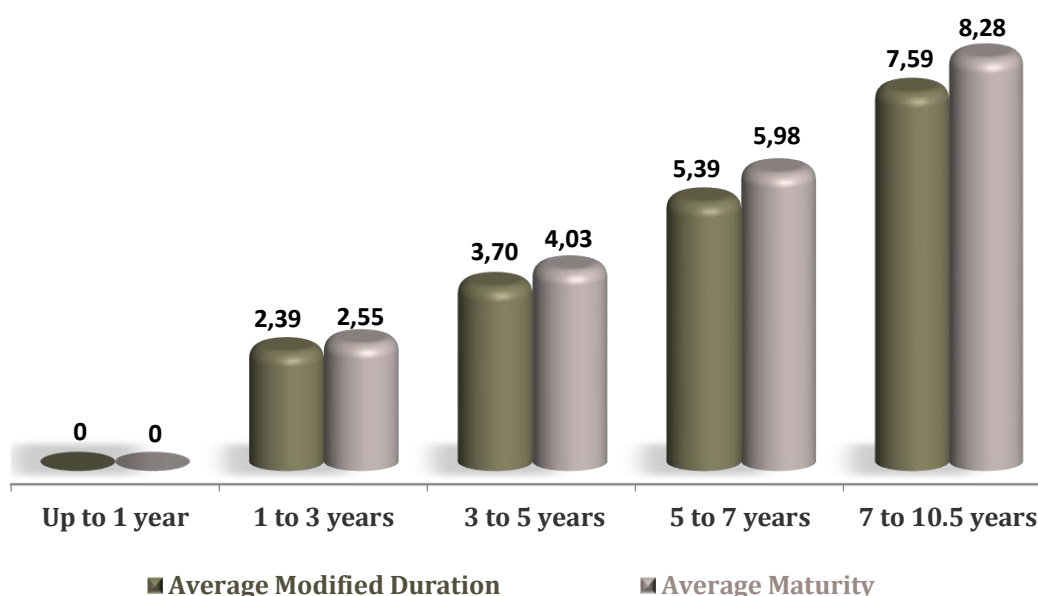


As shown on the figure, just over 90% of the investments are with a maturity of 5 to 10.5 years, which is due to the sales of some of the issues and the purchase of new ones.

There is a decrease in the share of investments with a term from 3 to 5 years /from 21% as of 31.12.2017 to 3% by the end of 2018 /, which is mainly due to an increase in the share of investments with a term of 5 to 7 years. The share of investments with a term of 7 to 10.5 years remains almost unchanged.

The modified duration and the average remaining maturity of the investments in GS, according to their maturity structure as of 31.12.2018, are presented on Fig.6.

FIG. 6
MODIFIED DURATION AND AVERAGE MATURITY IN GS



The average modified duration of the GS portfolio as of 31.12.2018 is 6,16 years against 6,46 years at the end of 2017. The average residual maturity of investments in GS also decreased - from 7,09 years as of 31.12.2017 to 6.77 years at the end of 2018.⁷

3. PARTICIPANTS

2018 was a dynamic year for participants in the Fund. A new partial-licensed intermediary has joined the scheme. On the other hand, the Financial Supervision Commission revoked the licenses of two intermediaries. These are IP Beta Corp AD with full license and Matador Prime OOD with partial license. In the case of IP Beta Corp AD, the appointed quaestor managed to settle the intermediary's relations with the clients and to recover their client assets, respectively no compensation were paid from the Fund. Unlike

⁷ 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 31.12.2018.

IP Beta Corp AD, the revocation of the license of Matador Prime Ltd to perform activity as an investment intermediary led to the activation of the scheme /Decision № 102-II of FSC of 24.01.2019 /.

Two bank merger cases were also finalized in 2018. On 5 February 2018, CIBANK EAD was merged into United Bulgarian Bank AD, and on 21 November 2018, the merger between TB Victoria EAD and Investbank AD was entered in the Commercial Register. Thus, as of December 31, 2018, the total number of participants in the Fund is 87, of which 37 are investment intermediaries (II), 19 banks-investment intermediaries (B-II) and 31 asset management companies (AMC). Only four AMC hold client assets protected by the Fund, respectively, the active participants in the ICF as of December 31, 2018 are 60 in total (A list of Fund participants is given in Appendix 2).

Table 1 shows the number of dropped out II, B-II and AMC for the period 2009-2018. The total number of participants that dropped out of the scheme for the respective period is 51.

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total:
II	3	9	5	4	3	3	4	1	1	2	35
AMC	-	6	1	4	0	0	0	0	0	0	11
B-II	0	0	0	0	0	3	0	0	0	2	5

In 2018, Bulgarian intermediaries eligible to operate and provide services on the territory of EU Member States under the conditions of free provision of services are 18, two more compared to the end of 2017.⁸ As of 31.12.2018 there is only one intermediary with an established branch abroad - in Poland. For comparison, as of December 31, 2017, there were two Bulgarian intermediaries with branches abroad, with the closure of one intermediary branch in March 2018.

The number of investment intermediaries from EU Member States that can provide investment services on the territory of the country through both a branch and a free

⁸ 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.

provision of services as of the end of 2018 is over 1 800, of which 4 have established branches.⁹

3.1. CASES OF ACTIVATION OF THE SCHEME

3.1.1 POSITIVA AD

By Decision № 901-ИП of 23.06.2017, the Financial Supervision Commission revoked the license of Positiva AD to perform activity as an investment intermediary. In this decision, after an inspection by the FSC, 9 individuals are listed, for which it was established that the intermediary have committed violations with instruments owned by them..

Of the 9 persons mentioned in the FSC's Decision, 3 persons submitted claims for compensation payment from the Fund, two of them in 2017 and one in 2018. At the first claim, the sum was paid in full by the Positiva AD quaestors. At the second claim, on April 18, 2018, compensation was paid by ICF in the amount of BGN 40,000, since at the time of the receipt of the claim and the decision for payment of compensation there was no appointed quaestor, liquidator or assignee/receiver, to bemanaging the accounts of the company.

The third claim from a person appearing in the FSC's Decision came after the one-year statutory deadline (the deadline was 3rd of July 2018). After the evidence presented by the person, about the presence of unforeseen circumstances, due to which he had missed the deadline, the Management Board of the Fund decided to process the claim.

During the consideration process of the claim, on October 16, 2018, a liquidator of Positiva AD was appointed. In November 2018, the Fund received a notification from the person that it had been filed a claim to the already appointed liquidator of Positiva AD. The Fund requested a statement from the liquidator of the company on the merits of the claim. On March 28, 2019, after receiving a letter from the liquidator of Positiva AD, which assured us that there are sufficient funds in the account of the intermediary to satisfy the claim, the ICF MB decided to suspend the proceedings for consideration of the file initiated on the submitted claim for payment of compensation pending payment of the liquidator's claim, in accordance with legal provisions.

In 2018, a total of three claims for compensation payment were received by persons not included in the FSC's Decision. The Fund's MB considered each claim

⁹ According to FSC.

separately, for each of them additional information was collected from FSC, as well as from the persons who filed the claims. Based on the evidence collected, the Fund's MB considered the claims to be unfounded and that there were no receivables from the persons subject to compensation by the Fund. In respect of the three claims, signals were sent to the Sofia District Prosecutor's Office, given the suspicion of a crime against these persons.

3.1.2 MATADOR PRIME OOD

By Decision № 954-ИП of 11.10.2018, the Financial Supervision Commission revoked the license to perform activity as an investment intermediary of Matador Prime OOD and appointed a company quaestor for a period of three months. On the basis of the results of the quaesture on 24.01.2019, the FSC has taken Decision № 102-ИП, which establishes that circumstances under Art. 77b, para. 1, item 3 of the LPOS for payment of compensations from Fund to the intermediary's clients are present. In this regard, and in compliance with the legal requirements, the Fund's Management Board selected a servicing bank through which payments of compensations to Matador Prime OOD's clients would be paid.

The clients of Matador Prime OOD can apply for payment of compensation from the Fund within one year from the date of publication of the announcement for the selection of a servicing bank, i.e. from 01.02.2019.¹⁰

4. CLIENTS' ASSETS MANAGED BY THE PARTICIPANTS

Investment intermediaries that hold and manage assets of their clients are required to submit monthly reports on client assets to the Fund. Participants submit information about both the client's assets protected by the Fund and 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 2018 is BGN 2,42 billion, and the unprotected assets - BGN 38,55 billion.

¹⁰ By mid-April 2019, the Fund had received eight claims for payment of compensation, as well as several inquiries regarding the procedure for payment of compensation by the Fund.

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

By groups:	Protected clients' assets as of 31.12.2018	Protected clients' assets as of 31.12.2017	Change on an annual basis	Unprotected clients' assets as of 31.12.2018	Unprotected clients' assets as of 31.12.2017	Change on an annual basis
	(1)	(2)	[3= (1-2)/2]	(4)	(5)	[6= (4-5)/5]
FI - B-II	1 307 332 825	1 208 278 015	8%	19 454 136 572	20 777 854 238	-6%
FI - II	985 022 172	586 088 862	68%	18 969 087 735	12 798 462 992	48%
MFs - II	61 752 359	82 546 590	-25%	73 516 695	56 325 818	31%
FI - AMC	58 215 720	84 206 057	-31%	44 795 982	57 466 629	-22%
MFs - AMC	3 492 124	2 666 588	31%	5 938 708	10 926 125	-46%
TOTAL:	2 415 815 200	1 963 786 112	23%	38 547 475 693	33 701 035 801	14%

Source: ICF

As of the end of 2018, protected client assets increased by 23% compared to the end of 2017. The largest increase in FI is at the II - 68%, which in an absolute value is a BGN 399 million increase. There is also an increase in protected FI in the B-II group - by 8%, which is BGN 99 million more. Only at AMC¹¹, protected FI decreased by 31% compared to the end of 2017. Unlike FIs, MFs managed by II decreased from BGN 82,5 million as of December 31, 2017 to BGN 61,75 million at the end of 2018, i.e. by 25%. The AMC has an increase of 31% in the amount of the MFs by the end of 2018, which is BGN 3,5 million compared to BGN 2,67 million a year earlier.

Unprotected client assets also grew, reaching BGN 38,5 billion, or 14% more than the previous year. This increase is due to an increase in client assets in the II. In this group, FI are up 48% compared to December 31, 2017, and MFs have increased by 31%. For all other intermediary groups, unprotected client assets are decreasing. Unprotected MFs at AMC decreased by almost half, with 46%, and FI reported a decline of 22%. For B-II, the reduction in unprotected assets is 6% (BGN 1,32 billion).

As of the end of 2018, the total amount of financial instruments managed by the B-II is BGN 20,76 billion¹², of which BGN 1,31 billion is the amount of the protected FI and BGN 19,45 billion is the amount of unprotected FI. The share of protected FIs in the total amount of FIs /eligible and not eligible to compensation by the Fund/ in the group is 6%, compared to 5% as of 31.12.2017.

¹¹ Only 4 AMC declare protected clients' assets.

¹² Banks do not declare MFs to the Fund, as they are treated as deposits and are covered by BDIF protection.

The reason is the reported decrease in the amount of unprotected FIs and, at the same time, an increase in protected FIs.

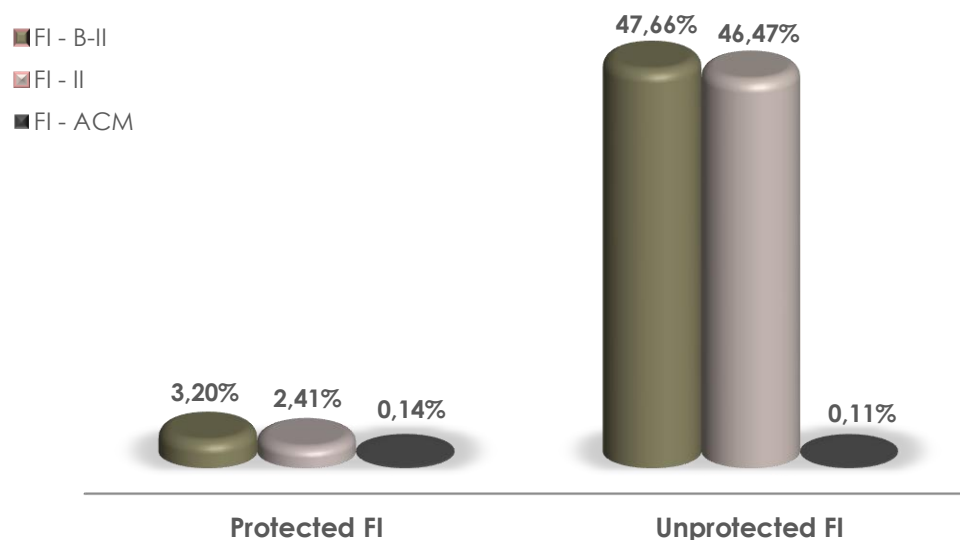
As of December 31, 2018, IIs manage client assets, protected and unprotected, to the amount of BGN 20,09 billion, of which FIs are BGN 19,95 billion and MFs - BGN 135 million. On an annual basis FIs, protected and unprotected, increased by 49%, and MFs, protected and unprotected, decreased by 3%. Out of BGN 20,09 billion of client assets in this group, only 5% are eligible to compensation by the Fund, in absolute terms the amount is BGN 1,05 billion.

The total amount of client assets held by AMC is BGN 112 million, i. e. by 28% less compared to 31.12.2017, when they were BGN 155 million. As of December 31, 2018 the client assets (FIs and MFs) that the AMC manage which are eligible to compensation are BGN 61,7 million, compared to nearly BGN 87 million as of 31.12.2017. Assets that are not eligible to compensation amounted to BGN 50,7 million, compared to BGN 68,4 million at the end of 2017.

As of December 31, 2018, the resources collected in the Fund, formed by the initial and annual contributions of II, B-II and AMC, as well as from the Fund's investment income, amount to BGN 16,295 million, i. e. they represent 0,7% of the amount of protected client assets (BGN 2,42 billion). According to Art. 77r, para. 1 of the LPOS, where the Fund's resources exceed 5% of the total amount of clients' assets for all intermediaries, the Fund's MB may decide to suspend the collection of contributions from participants. 5% of the protected client assets as of December 31, 2018 amount to nearly BGN 121 million (5% of BGN 2,42 billion).

Figure 7 shows the distribution of protected and unprotected FI by groups of intermediaries. As of 31.12.2018 the total amount of all FI, eligible and not eligible to compensation, is BGN 40,82 billion. The share of the protected FI in the total amount of protected and unprotected assets as of 31.12.2018 is around 5.8% against 5.3% as of 31.12.2017.

FIG. 7
DISTRIBUTION OF FI BY GROUPS OF INTERMEDIARIES, AS OF
DECEMBER 31ST 2018



The B-II group manages the most protected FI - 3,20%. B-IIs also continue to hold the largest share of unprotected FI – 47,66%. The share of protected FIs at the II increased from 1.65% as of 31.12.2017 to 2.41% as of 31.12.2018. Unprotected FIs at the II also increased from 36,04% for the previous year to 46,47% as of the end of 2018. For AMCs there is a decline in the share of both protected FI /from 0,24% in 2017 to 0,14% in 2018/ and unprotected /from 0,16% in 2017 to 0,11% for 2018 /.

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 current value as of December 2018 - around BGN 2,35 billion. As of December 31, 2018, the value of protected FIs is approaching the peak value reported in February 2014 - only 10% less.

For 2018 at least FIs were reported in May - BGN 1,9 billion. In the second half of the year the value of FIs increased and in November the highest values were reported - BGN 2,42 billion.

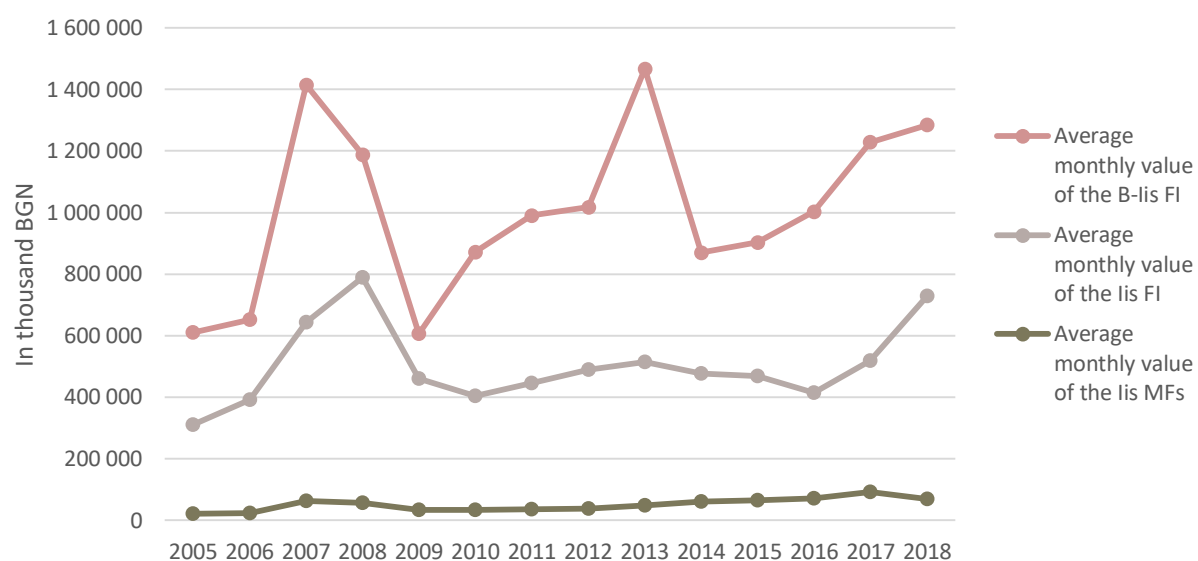
TABLE 3 - PROTECTED CLIENT ASSETS

Clients' FI	Date	Peak Value	Minimum	Current Value
	February, 2014	2 624 521 486		
	February, 2009		917 667 292	
	December, 2018			2 350 570 717
% of the peak value		100%	-65%	-10%

Source: ICF

The average monthly amount of protected client assets is the basis for determining the annual contribution that participants make to the Fund. Fig. 8 presents the average monthly amount of protected client assets by years and by groups of participants.

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



The average monthly amount of protected FI in all intermediaries in 2018 increased to BGN 2,08 billion compared to BGN 1,81 billion in 2017. In contrast to the amount of FI, the average monthly amount of protected MFs in 2018 decreased to BGN 71,86 million compared to BGN 95,6 million in 2017. On a monthly average basis, B-IIs manage protected FIs in the amount of BGN 1,28 billion. This amount is about BGN 56 million more than in 2017. The increase in the average monthly amount of protected FIs at the II is greater. In 2018, the average FI in this group is BGN 729 million, compared to BGN 517

million in 2017. The average monthly amount of FI in the II almost reaches the maximum value reported since the foundation of the Fund so far - BGN 787 million in 2008. At the II, the average monthly value of the MFs for 2018 is BGN 69 million. This value is BGN 23 million less than the amount reported in 2017 amounting to BGN 92 million, which in fact was also the highest MFs value recorded.

The calculations for AMC are not included in Fig. 8, as the client assets they manage are of small amount. On a monthly basis, the AMCs managed FIs protected by the Fund, amount to BGN 67,6 million, which is BGN 6 million more than the amount reported in 2017. The average monthly amount of the protected assets at the AMCs decreased from BGN 3,6 million for 2017 to BGN 2.9 million in 2018.

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

The stock exchange capitalization as of 31.12.2018 is BGN 26,76 billion and reports an increase of 13% compared to 31.12.2017. The ratio of protected client assets/stock exchange capitalization at the end of 2018 is 9%, compared to 8% in the previous year. As of December 31, 2018, the stock exchange capitalization/GDP ratio was 24,8%, compared to 23,38% at the end of 2017.

A more detailed overview of the capital market in 2018 is presented in Appendix 3.

TABLE 4. CLIENTS' ASSETS, THE STOCK EXCHANGE CAPITALIZATION AND GDP, AS OF DECEMBER, 31ST

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Clients' assets eligible to compensation (million BGN)	1,314	1,259	1,322	1,612	2,091	2,325	1,579	1,435	1,677	1,964	2,416
Stock exchange capitalization (million BGN)	12,461	11,796	10,754	12,436	9,828	9,961	9,756	8,587	9,683	23,621	26,765
Clients' assets to stock exchange capitalization ratio	11.00%	11.00%	12.00%	12.96%	21.28%	23%	16%	17%	17%	8%	9%
GDP (million BGN)	69,295	68,322	70,474	75,265	77,323	79,454	78,722	84,236	88,939	101,043	107,925
Stock exchange capitalization to GDP ratio	18.00%	17.00%	15.00%	16.52%	12.71%	12.5%	12.4%	10.2%	10.9%	23.38%	24.8%

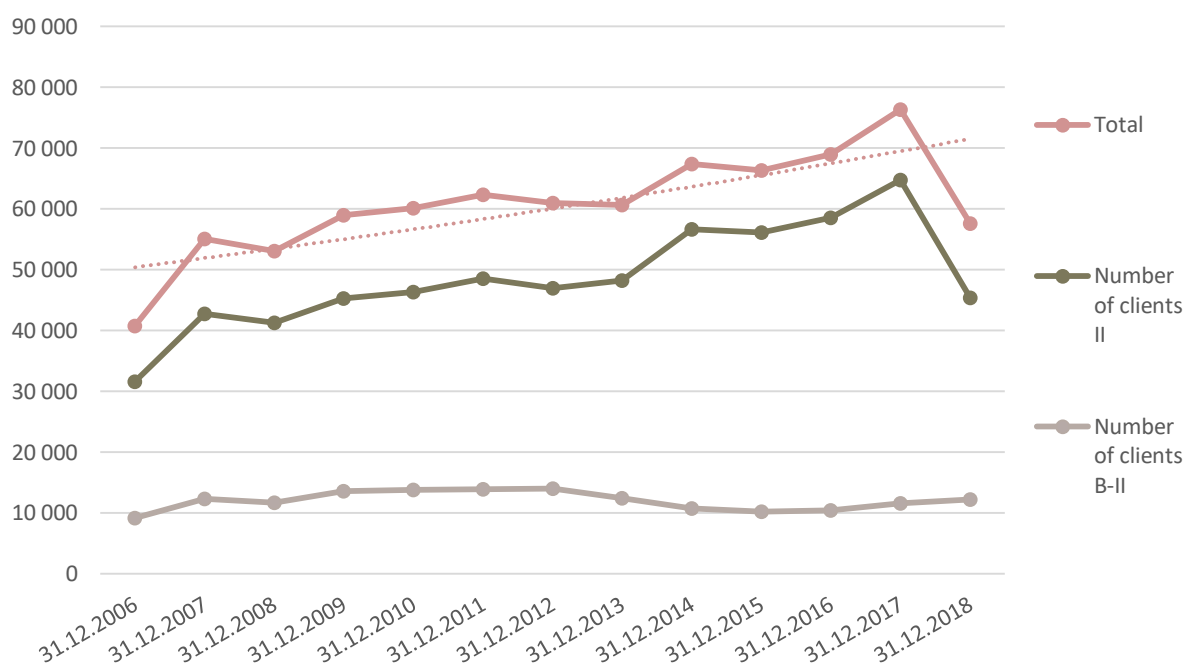
Source: website of BSE, ICF

5. EXPOSURE TO THE PARTICIPANTS

Every six months intermediaries submit to the Fund information on the number of protected clients, broken down by intervals, according to the assets, they hold. This information makes it possible to evaluate the Fund's exposure to participants and the extent to which the resources available in the Fund would be sufficient to pay off compensation in the event of a bankruptcy of an intermediary.

Fig. 9 presents the number of protected clients by group of intermediaries as of December 31, for the period 2006 to 2018, inclusive.

FIG. 9
NUMBER OF PROTECTED CLIENTS BY GROUPS OF INTERMEDIARIES



The number of protected clients for all participants as of 31.12.2018 is a total of 57 964. There is a dramatic decrease in clients compared to 31.12.2017 when their total number is 76 731, i. e. by 18 767 clients more.

In 2018 a total of 19 380 protected clients dropped out of the II group. As of December 31, 2018, the number of clients in the group is 45 395 compared to 64 775 at the end of 2017. With B-II the protected clients are 12 238, i. e. with 637 clients more than in the previous year. The client assets that B-II manage - for four times less protected clients compared to the II group - are BGN 1,3 billion. The managed client assets by the II

are BGN 1,05 billion, in this group there is a significant increase in the amount of protected Fls, despite the smaller number of clients being declared.

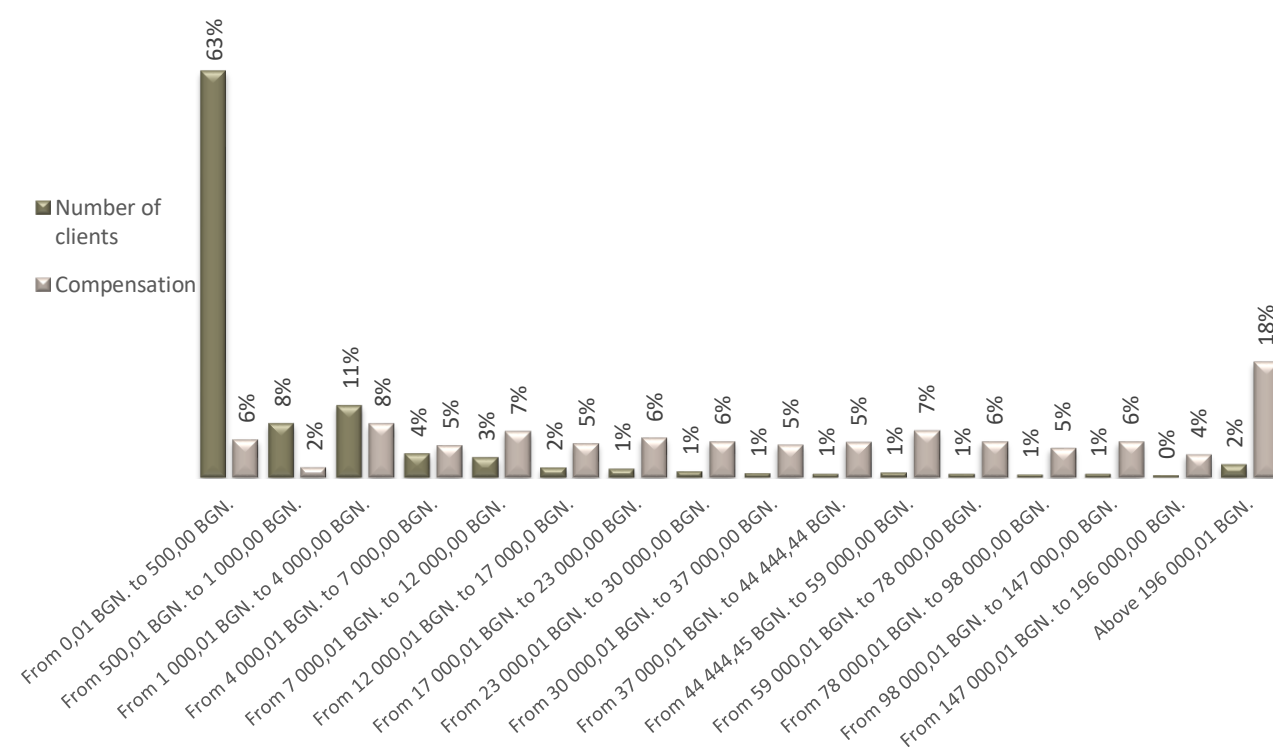
In Fig. 9 does not include the number of clients declaring AMC's, since the active AMC's in the Fund are only 4. These clients are a total of 331.

As of December 31, 2018, the Fund's exposure to its participants is BGN 282,48 million against BGN 284.34 million as of December 31, 2017¹³. The decrease of BGN 1,87 million is due to the smallest number of protected clients in the II group.

The largest exposure of the Fund is to the II group - BGN 187 million, of which BGN 161 million are the liabilities of the Fund to II with full license. The maximum compensation calculated for the clients of B-II is BGN 89,35 million and for the clients of the AMC's - BGN 5,96 million.

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

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



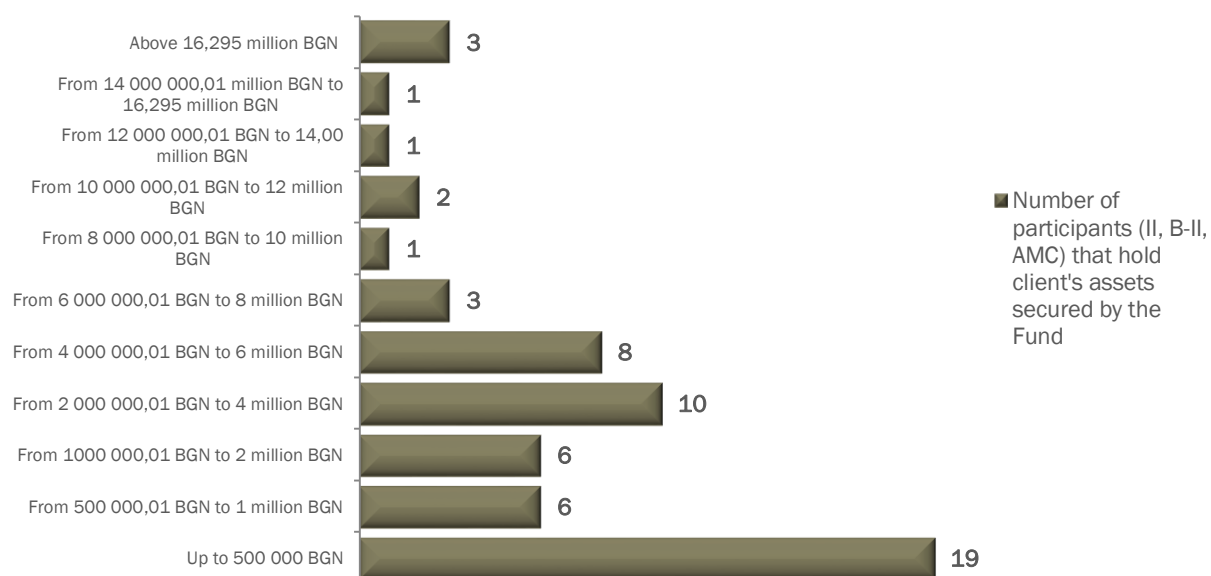
¹³ The potential compensation to the clients of one intermediary is calculated as 90% of the amount of client assets, but not more than BGN 40 000 per investor. The calculations are based on the information provided by the intermediaries as of 31.12.2018. Due to the assumption that clients have assets at an amount equal to the upper limit of the interval at which they fall, the maximum compensation thus obtained is increased.

The largest compensation that the Fund would pay is for investors with assets over BGN 196 thousand, representing 2% of all investors. In absolute value, the compensation calculated for them is BGN 49 million or 18% of all compensation. Most clients have within the range of client assets up to BGN 500 - 63%, and the compensation calculated for them is only 6% of all compensation, in absolute value it is BGN 16 million.

As of December 31, 2018, the resources raised in the Fund amount to BGN 16,295 million and represent 5,77% of the amount of the compensation calculated for all participants (BGN 16,295 million / BGN 282,48 million).

Fig. 11 presents the distribution of participants according to amount of compensation and by ranges up to the available resources in the Fund (BGN 16.295 million) as of 31.12.2018. The figure includes 4 AMC, so the total number of active participants in the Fund is 60.

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



The largest number of intermediaries, 19 in total, is in the range of compensations *up to BGN 500 thousand*, of which 14 are IIs, 4 are B-IIs and 1 is AMC. In the interval *up to BGN 4 million* there are 10 participants, of which 4 II, 4 B-II and 2 AMC. The following is the interval with compensation *up to BGN 6 million*, in which there are 8 participants - 7 IIs and 1 B-II. There are equal number of intermediaries, 6 each, in the intervals *up to BGN 1 million* and *up to BGN 2 million*. For one intermediary, the calculated real compensation

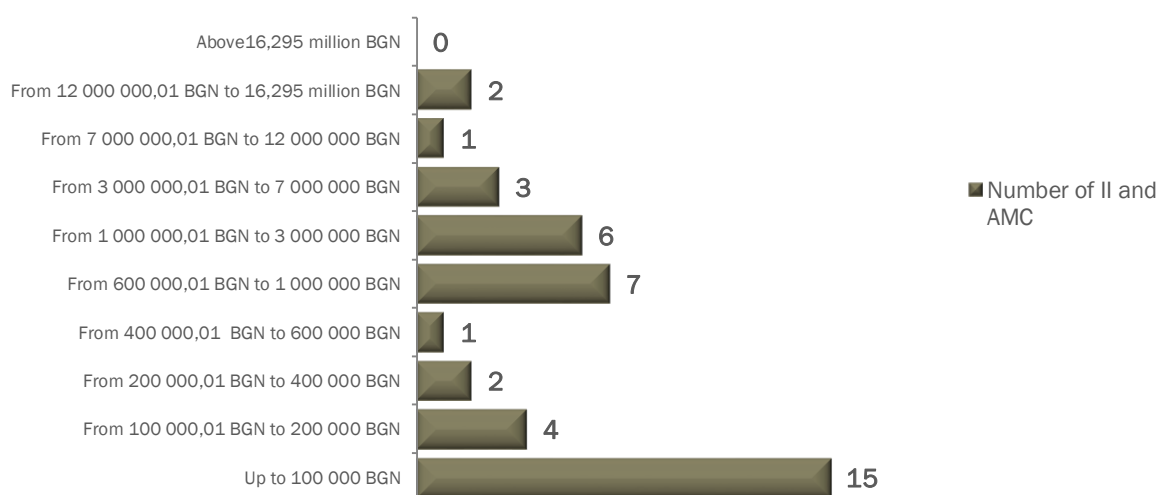
is in the interval up to the resources available in the Fund. For three participants, the calculated real compensation is above the resources available in the Fund, of which 2 IIs and 1 B-II. If the Fund is triggered for any of them, it may be necessary to collect additional funds for payment of compensation in accordance with the provisions of Art. 77q of the LPOS. At the same time, the Fund's resources would be sufficient to compensate the clients of several intermediaries at the same time, where the potential compensation is for 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.

A total of 37% of all participants, or 15 intermediaries, hold clients' MFs for an amount *up to BGN 100 thousand*. This is followed by an interval with a MFs amount *up to BGN 1 million*, in which the number of intermediaries is 7 and, in the range, *up to 3 million* the number of participants is 6. In the interval *up to BGN 200 thousand*, the intermediaries are 4, with 3 participants MFs are in the range *up to 7 million BGN*. Two intermediaries manages clients' MFs up to the Fund's available resources. There is no participant to manage the MFs for an amount above the funds available in the Fund.

FIG. 12
AMOUNT OF MFS AT II AND AMC AS OF 31.12.2018



6. INTERNATIONAL ACTIVITY

In 2018, the Fund's international activity was mainly due to the Fund's associate membership in the European Forum of Deposit Insurers (EFDI) and its various working groups, as well as to participation in other international events.

In March 2018, a conference of the International Association of Deposit Insurers (IADI) was held in Naples, Italy, and it was attended by the Chair of the Fund. During the conference, the challenges to the financial sector and the risks to the banks were discussed.

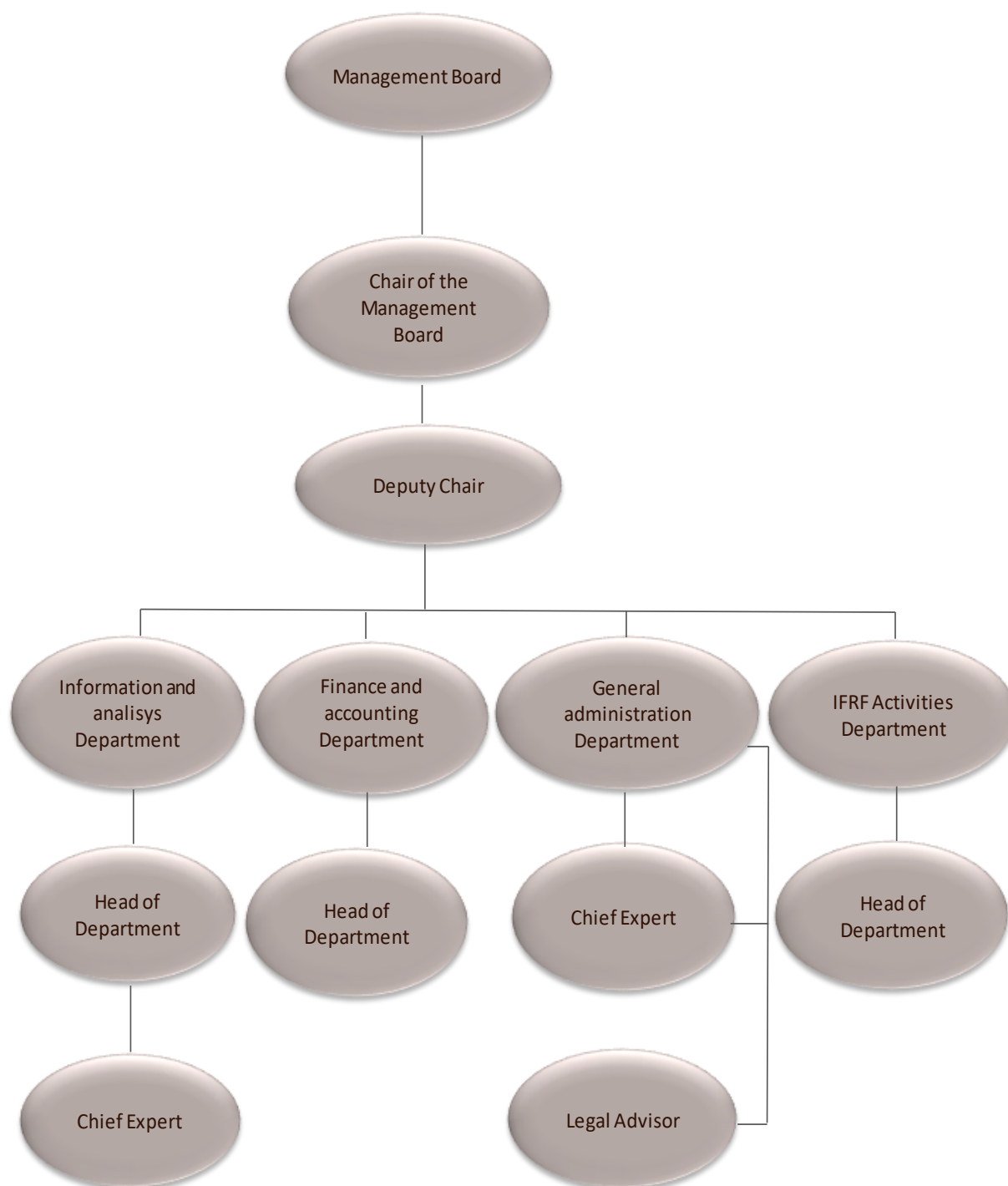
In May 2018, representatives of the Fund participated in an international meeting of investor compensation schemes in Budapest, and a round table was held at the meeting, at which each scheme presented new points in its activities. Following the international meeting, a meeting of the EFDI Investor Compensation Scheme Working Group was held.

The EFDI Annual Meeting was held in Vienna, Austria in September 2018, which also includes the traditional EFDI Annual Conference. Issues related to the recovery and liquidation of financial institutions were discussed during the conference. The Forum also hosted an international meeting of investor protection schemes and a meeting of the EFDI Investor Compensation Scheme Working Group.

In addition to participating in various forums, during the year the Fund maintained contacts and exchanged information with most of the European schemes on various issues related to the payment of compensation.

International cooperation, including the exchange of information with other investor compensation schemes, is important for the operation of the Bulgarian scheme.

ORGANIZATIONAL STRUCTURE



INVESTMENT INTERMEDIARIES

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

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. D COMMERCIAL BANK
6. DSK BANK EAD
7. EUROBANK BULGARIA AD
8. EXPRESSBANK AD
9. FIRST INVESTMENT BANK AD
10. INTERNATIONAL ASSET BANK AD
11. INVESTBANK AD
12. MUNICIPAL BANK AD
13. PIRAEUS BANK BULGARIA AD
14. RAIFFEISENBANK (BULGARIA) AD
15. TBI BANK EAD
16. TEXIM BANK AD
17. TOKUDA BANK AD
18. UNICREDIT BULBANK AD
19. 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 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	

THE CAPITAL MARKET IN BULGARIA IN 2018

In 2018 the BSE indices and turnovers decreased compared to 2017. The SOFIX and BGBX40 indexes recorded a 12% decrease on an annual basis. BSE turnover reported a decrease of 22% in 2018 compared to 2017, mainly due to a decrease in stock turnover, but also due to a decrease in bond turnover, which decreases by 34% on an annual basis. There was an increase in government securities turnover (by BGN 48 million) and other financial instruments. The number of BSE deals also reported a decline of 32% compared to 2017. In total, there were 41 new issues of financial instruments in 2018, and there were 44 in 2017. Bonds and exchange-traded funds saw a major increase in new issues, with the latter having 10 new issues at 0 in 2017.

Despite the fall in indices and turnover, the market capitalization of BSE for 2018 increased by 13% compared to the end of 2017 and reached BGN 26,8 billion or 24.8% of Bulgaria's GDP.

In 2018, government securities trading remains leading in terms of volume of transactions. According to the data of the Ministry of Finance for the period 1.1-31.12.2018, the volume of the secondary market of government securities in Bulgaria is BGN 23,6 billion and it is increasing compared to 2017, although the yield on government securities is still decreasing¹⁴. The long-term interest rate for estimating the degree of convergence, determined on the basis of the yield to maturity of the secondary market for long-term government securities in BGN as of December 2018, is 0,72% compared to 1,02% a year earlier¹⁵. The tendency for negative interest rates on the interbank deposit market continues, with the Leonia Plus index at the end of 2018 is 0.50%.

One of the measures, taken to support and develop the capital market in 2018 is for small and medium-sized enterprises (SMEs). At the end of 2018 BSE received approval from FSC for the creation of a new SME Growth Market (BEAM-Bulgarian Enterprise Accelerator Market). Through it, small and medium-sized companies will have access to capital under more relaxed conditions regarding the scope and periodicity of the information disclosed by them and on the basis of the publication of a prospectus in a

¹⁴ See Ministry of Finance: Volume of the secondary market for the purposes of implementation under item 2 of the criteria for selection of primary dealers of government securities for the period 01.01.2018 - 31.12.2018.

¹⁵ See BNB Statistics: Government Securities Yield and Long-Term Interest Rate for Convergence Rate.

simplified form and context, with the possibility of raising capital up to EUR 1 million without a prospectus. This aims at reducing the administrative burden for SMEs, which will have easier access to the capital market.

At the same time, investors in SME growth companies will have adequate protection, which is guaranteed by European law (Market Abuse Regulation, Prospectus Regulation, MiFID II.) As part of this policy, an SME support voucher programme will be launched in 2018 aimed at facilitating access to finance through the capital market. These measures are important, given that SMEs have a significant share of the economy.

Since the beginning of 2018, the new Markets in Financial Instruments Act has come into force. The law regulates a number of new provisions regarding the activities of related agents, the requirements for algorithmic trading, the markets organized by investment firms, including an organized trading system, a market for growth and more. Part of the goals of the new Markets in Financial Instruments Act are to: increase transparency in the market for financial instruments; increasing investor protection; improving the quality of services provided by investment firms; facilitating SMEs' access to the capital market, etc.

As of 3 January 2018, the guidelines of the European Securities Markets Authority (ESMA) regarding the implementation of the MiFID II are also in force. The main objective of the guidelines is to improve investor protection by making specific recommendations to the markets and products offered by intermediaries, as well as to the treatment of professional investors. In pursuit of a policy to provide greater investor protection in 2018, ESMA banned trading in binary options and placed restrictions on trading contracts for differences, with respect to specific limits, requirements for standardized customer information, and more.

Distribution of number of protected clients and potential compensation by groups of client's assets as of 31.12.2018

Groups of clients' assets	Number of clients of II		Compensation to II clients (in BGN)		Number of clients of B-II		Compensation to B-II clients (in BGN)		Total number of clients		Total compensation (in BGN)	
<i>From 0,01 BGN to 500,00 BGN</i>	30,138	66%	13,562,100	7%	5,398	47%	2,429,100	3%	35,536	62%	15,991,200	5.88%
<i>From 500,01 BGN to 1 000,00 BGN</i>	3,450	8%	3,105,000	2%	1,468	13%	1,321,200	2%	4,918	9%	4,426,200	1.63%
<i>From 1 000,01 BGN to 4 000,00 BGN</i>	4,807	11%	17,305,200	9%	1,687	15%	6,073,200	7%	6,494	11%	23,378,400	8.60%
<i>From 4 000,01 BGN to 7 000,00 BGN</i>	1,557	3%	9,809,100	5%	578	5%	3,641,400	4%	2,135	4%	13,450,500	4.95%
<i>From 7 000,01 BGN to 12 000,00 BGN</i>	1,314	3%	14,191,200	8%	494	4%	5,335,200	6%	1,808	3%	19,526,400	7.18%
<i>From 12 000,01 BGN to 17 000,0 BGN</i>	693	2%	10,602,900	6%	247	2%	3,779,100	4%	940	2%	14,382,000	5.29%
<i>From 17 000,01 BGN to 23 000,00 BGN</i>	590	1%	12,213,000	7%	194	2%	4,015,800	5%	784	1%	16,228,800	5.97%
<i>From 23 000,01 BGN to 30 000,00 BGN</i>	414	1%	11,178,000	6%	184	2%	4,968,000	6%	598	1%	16,146,000	5.94%
<i>From 30 000,01 BGN to 37 000,00 BGN</i>	310	1%	10,323,000	6%	139	1%	4,628,700	5%	449	1%	14,951,700	5.50%
<i>From 37 000,01 BGN to 44 444,44 BGN</i>	270	1%	10,799,999	6%	97	1%	3,880,000	5%	367	0.6%	14,679,999	5.40%
<i>From 44 444,45 BGN to 59 000,00 BGN</i>	342	1%	13,679,999	7%	143	1%	5,719,999	7%	485	1%	19,399,998	7.14%
<i>From 59 000,01 BGN to 78 000,00 BGN</i>	294	1%	11,759,999	6%	116	1%	4,640,000	5%	410	0.7%	16,399,998	6.03%
<i>From 78 000,01 BGN to 98 000,00 BGN</i>	216	0%	8,639,999	5%	85	1%	3,400,000	4%	301	0.5%	12,039,999	4.43%
<i>From 98 000,01 BGN to 147 000,00 BGN</i>	276	1%	11,039,999	6%	100	1%	4,000,000	5%	376	0.7%	15,039,998	5.53%
<i>From 147 000,01 BGN to 196 000,00 BGN</i>	147	0.3%	5,879,999	3%	80	1%	3,200,000	4%	227	0.4%	9,079,999	3.34%
<i>Above 196 000,01 BGN</i>	577	1%	23,079,998	12%	591	5%	23,639,998	28%	1,168	2%	46,719,995	17.19%
TOTAL:	45,395	100%	187,169,492	100%	11,601	100%	84,671,695	100%	56,996	100%	271,841,187	100%



**INVESTOR
COMPENSATION
FUND**



FINANCIAL STATEMENT | 2018

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INDEPENDENT AUDITOR'S REPORT

TO THE MANAGEMENT BOARD OF INVESTOR COMPENSATION FUND

Report on financial statements

Opinion

We have audited the financial statements of the INVESTOR COMPENSATION FUND, consisting of the statement of financial position as of December 31, 2018 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ending that date, as well as the 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 2018, its financial results and cash flows for the year ending that date, in accordance with International Accounting Standards, accepted by the European Union.

Reasons for expressing an opinion

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

We are independent of the Investor Compensation Fund in accordance with the Ethical Code of Professional Accountants of the International Ethical Standards Board for Accountants (IESBA Code), together with the ethical requirements applicable to our audit of the financial statements in the Republic of Bulgaria, we have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Other Legal and Regulatory Requirements - Annual Activity Report

In addition to our responsibilities and reporting under the ISAs, with respect to the activity report, we have also implemented the procedures added to those required under the ISAs. These procedures include checks on the availability, as well as checks on the form and content of this other information in order to assist us in formulating an opinion on whether the other information includes the disclosures and reports provided for in Chapter Seven of the Accounting Act applicable in Bulgaria.

Opinion in connection with Art. 37, para. 6 of the 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.

Responsibilities of the auditor to audit the financial statements

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.

Certified Auditor

Nikolay Polinchev

Date: 17-05-2019

APPENDIX to Independent auditor's report on the Financial Statements of the Investor Compensation Fund for 2018

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 scepticism 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 31st, 2018

In thousands BGN

	Notes	December 31 st 2018	December 31 st 2017
ASSETS			
Non-current tangible assets	5,14	5	1
Non-current intangible assets	6,15	4	1
Non-current Government bonds measured at fair value	3.1		5 536
Non-current Government bonds, measured at fair value through other comprehensive income	16	6 837	
Non-current Government bonds measured at amortized cost	3.1		9 801
Non-current Government bonds valued at amortized cost	16	9 229	
Receivables	17	555	491
Prepaid expenses	18	4	4
Cash	19	229	73
Total Assets:		16 863	15 907
RESERVES	20		
Reserve for compensations	20	16 988	15 815
Reserve from revaluation at fair value through other comprehensive income		(170)	
Coupon payment reserve		177	
Result for the period		(148)	76
Total Reserves:		16 847	15 891
LIABILITIES			
Employees liabilities		8	10
Suppliers liabilities	21	8	6
Total liabilities:		16	16
Total reserves and liabilities:		16 863	15 907

II. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year, ended on December 31st, 2018

		In thousands BGN	
	Notes	December 31 st 2018	December 31 st 2017
Financial revenues /(expenses)	22	248	416
Proceeds/(expenses) of Government bonds sale	22	82	
Proceeds/(expenses) of amortization of premium on Government bonds held to maturity		(84)	(70)
Purchases of materials	23	(5)	(5)
Expenses for external services	24	(89)	(82)
Depreciation expenses		(3)	(2)
Employees expenses	25	(280)	(262)
Other expenses		(17)	(12)
Result before taxation		(148)	76
Result for the period		(148)	76
Other comprehensive income			
Income from change in fair value of financial assets in other comprehensive income, which will subsequently be reclassified to the profit/loss		(170)	
Coupon payment income that will subsequently be reported in profit/loss		177	
Other comprehensive income for the year, after tax		7	
Total comprehensive income for the year		(141)	76

III. STATEMENT OF CHANGES IN RESERVES

For the year, ended on December 31st, 2018

	In thousands BGN				
	Reserve for compensations	Revaluation reserve	Coupon payment reserve	Financi al result	Total reserves
Balance as of December 31st, 2016	14 807			93	14 900
<i>Changes in reserves in 2017</i>					
Transfer of the accumulated earnings/(loss) from previous years as a reserve for compensations	93			(93)	0
Initial and annual contributions	707				707
Non-submitted fourth part of annual contributions for 2017	208				208
Financial result				76	76
Balance as of December 31st, 2017	15 815	-	-	76	15 891
<i>Changes in reserves in 2018</i>					
Transfer of the accumulated earnings/(loss) from previous years as a reserve for compensations	76			(76)	0
Initial and annual contributions for 2018	1 074				1 074
Net effect from non- submitted/ submitted contributions 2017/2018	63				63
Effect from IFRS 9		129			129
Financial result				(148)	(148)
<i>Other comprehensive income</i>					
- Compensations paid to clients of an investment intermediary	(40)				(40)
- Reserve from revaluation at fair value through other comprehensive income, which will subsequently be transferred to profit/loss		(299)			(299)
- Coupon payment reserve, which will subsequently be transferred to profit/loss			177		177
Total comprehensive income	1 173	(170)	177	(224)	956
Balance as of December 31st, 2018	16 988	(170)	177	(148)	16 847

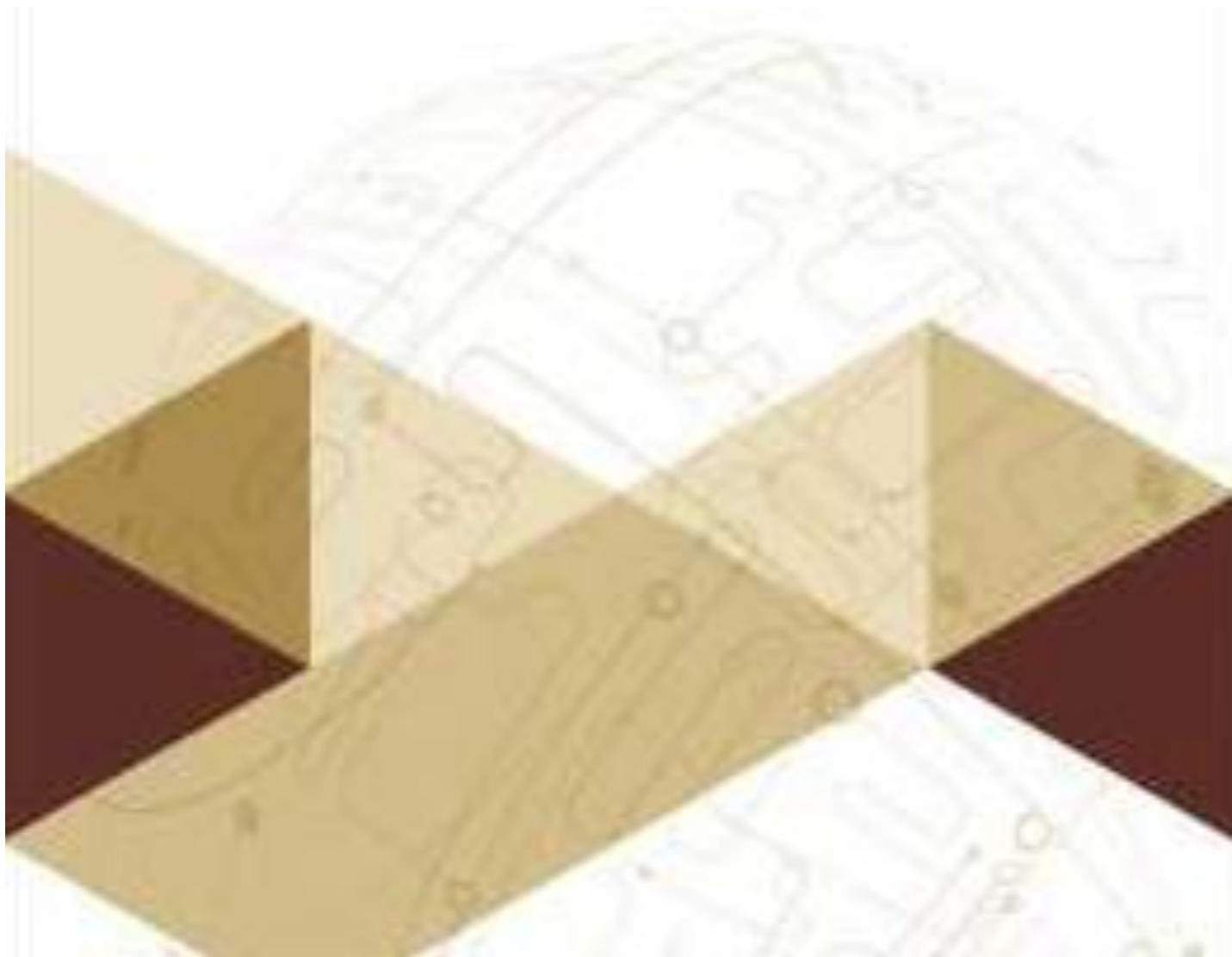
IV. STATEMENT OF CASH FLOWS

For the year, ended on December 31st, 2018

In thousands BGN

	Notes	December 31 st 2018	December 31 st 2017
Operating cash flows:			
Initial and annual contribution receipts from investment intermediaries		1 074	946
Compensations paid to clients of investment intermediaries		(40)	
Cash payments to suppliers		(100)	(96)
Cash payments to employees		(290)	(264)
Cash payments to the budget		(1)	(1)
Net cash flows from operating activities:		643	585
Cash flows from investing activities:			
Cash payments to acquire tangible assets		(10)	(1)
Net cash flow used in investing activities:		(10)	(1)
Cash flow from financial activities:			
Proceeds from matured/ sale of Government bonds		2 418	2 237
Cash payments related to Government bonds		(3 315)	(3 403)
Cash payments for bank fees and commissions		(5)	
Proceeds against coupons on Government bonds		431	461
Cash coupon payments related to the purchase of government bonds		(6)	(20)
Net cash flow used in financial activities:		(477)	(725)
Net increase/(decrease) of cash and cash equivalents:		156	(141)
Cash and cash equivalents in the beginning of the period		73	214
Cash in the end of the period:	9	229	73

Investment Firms Resolution Fund



**ANNUAL
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Abbreviations:

IFRF – Investment Firms Resolution Fund

ICF – Investor Compensation Fund

FSC – Financial Supervision Commission

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

LPOS – Law on Public Offering of Securities

IAS – International Accounting Standard

IFRS - International Financial Reporting Standard

GS – Government Securities

REPORT ON IFRF's ACTIVITIES IN 2018

Activity overview

The Investment Firms Resolution Fund (IFRF) began to perform its functions as of January 2017, its status being determined by the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF). The IFRF's main activity is to fund the implementation of the instruments provided for in the LRRCIIF for the rescue and restructuring of troubled investment intermediaries, thereby helping to maintain the stability of the capital market. According to the regulatory requirements, IFRF's participants are investment intermediaries, whose license includes performing activities under Art. 6, para. 2, items 3 and 6 and under Art. 6, para. 3, item 1 of the Markets in Financial Instruments Act (MFIA), that is, companies holding a full license to provide investment services. As of December 31, 2018, the total number of IFRF's participants was 17, with two fewer than at the end of 2017. The reason for the termination of one of the intermediaries was the withdrawal of his license from FSC due to established violations. The second broker's license was transformed from full to partial.

Funds of IFRF are formed mainly from annual contributions of participants in the Fund, the amount of which is determined each calendar year by the FSC as its restructuring body in respect of investment intermediaries. In accordance with legal requirements, the FSC should determine the total amount of annual contributions for the respective year by March 31, taking into account the economic cycle phase and the corresponding impact on the financial position of investment intermediaries. The amount of the individual annual contributions of the investment intermediaries obliged under the LRRCIIF should be determined by the FSC by 1 May each year, subject to the requirements of Commission Delegated Regulation (EU) 2015/63. The FSC individually notifies each investment intermediary of the due annual contribution to the IFRF, and within 30 days from the date of notification the investment intermediary shall submit the contribution to the IFRF. In addition to annual contributions, the Fund's resources are formed by the proceeds from investing the resources raised in the Fund, interest on arrears and other sources.

In accordance with the requirements of the LRRCIIF in April 2018, the FSC has determined the annual contributions for 2018 to the IFRF of the investment intermediaries covered by the LRRCIIF in the total amount of BGN 37 161 / as it was in 2017/. All investment

intermediaries fulfilled their obligations to IFRF, with one of them transferring the contribution after the statutory deadline and charging interest on late payment.

Thus, as of December 31, 2018, the funds raised in IFRF amounted to BGN 74 374.

The FSC, in its capacity as a resolution authority, shall decide to use the IFRF funds solely in accordance with the objectives of the restructuring and entrust the ICF's MB with the implementation of that decision.

The Fund's resources are invested in accordance with the provisions of the LRRCIIF, the adopted by the ICF's MB "Investment Policy of IFRF" and the decisions of the MB of ICF. Investment decisions are consistent with the requirements of security, liquidity and diversification of funds. In accordance with the established internal procedures, the MB makes a periodic review of the IFRF Investment Policy and, if necessary, changes it. In 2018, such changes were made.

According to the regulations, the resources raised in the Fund may be invested in BGN and EUR deposits and other financial instruments offered by the BNB; deposits in euro with foreign banks which have one of the three highest credit ratings awarded by two credit rating agencies; debt instruments denominated in euro, not embedded options, issued by foreign countries, foreign banks, foreign financial institutions, international financial institutions, foreign agencies or other foreign companies, which instruments or issuers have one of the three highest credit ratings awarded by two agencies for credit rating.

IFRF is also entitled to do repo deals / repurchase transactions / in EUR with foreign banks, foreign financial institutions or international financial organizations that have one of the three highest credit ratings awarded by two credit rating agencies and lends against an equivalent collateral the debt instruments held by foreign banks, foreign financial institutions or international financial institutions that have one of the three highest credit ratings awarded by two credit rating agencies. The IFRF's resources may also be assigned to the BNB for remuneration, subject to legal requirements.

In accordance with the requirements of the LRRCIIF and in compliance with the rules laid down in the IFRF Investment Policy, the Fund's MB decided during the year to buy foreign Government Securities (GS) denominated in euro, using the resources of the IFRF. Thus, as of December 31, 2018, about 99% of the IFRF funds were invested in GS.

In early 2019, an intermediary increased its license from partial to full and joined IFRF. In 2019, the ICF's MB will continue to collect and invest the resources of the IFRF in accordance with the requirements laid down in the regulations and internal rules of the Fund.

MANAGEMENT OF IFRF

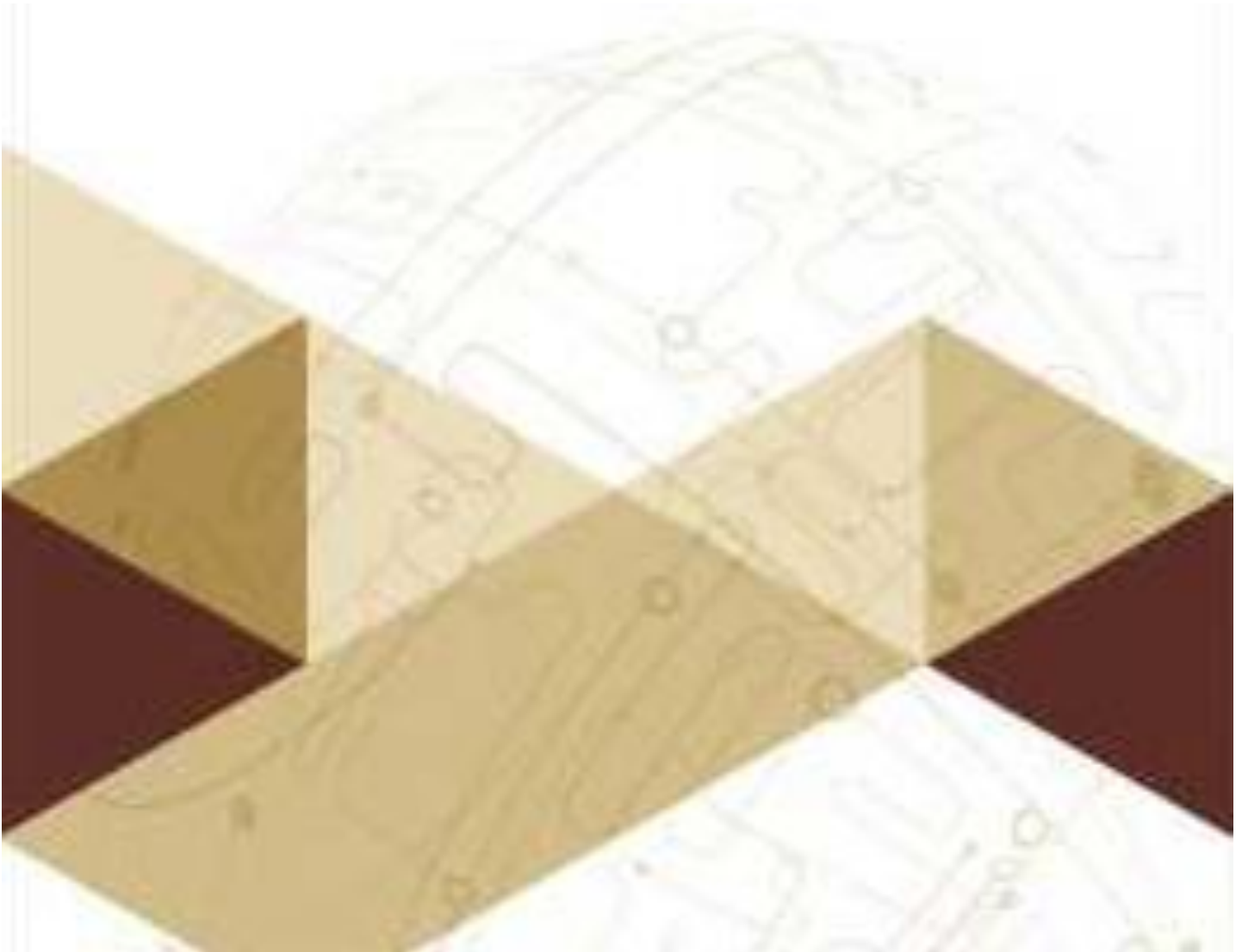
IFRF is not an independent legal entity and is managed by the MB of the Investor Compensation Fund, and the costs associated with the management of this fund are part of the ICF's overall administrative expenses.

The ICF's MB is responsible for collecting and investing IFRF funds, as well as for concluding loan agreements and other forms of support and lending under the terms and conditions of the LRRCIIF. In addition, the ICF's MB is responsible for the implementation of the FSC's decisions regarding the application of the restructuring instruments. Depending on the instrument chosen by the FSC, different responsibilities and actions arise for the IFRF.

In 2018, no investment intermediaries restructuring procedures were initiated and no funds from IFRF were used.

The IFRF Activities Department, which was established within the ICF structure in 2017, assists the MB in the performance of its functions under the LRRCIIF, including in the management of the IFRF funds. As of December 31, 2018, there was one employee assigned to this department.

Investment Firms Resolution Fund



FINANCIAL STATEMENTS | 2018

INDEPENDENT AUDITOR'S REPORT

TO THE MANAGEMENT BOARD OF INVESTOR COMPENSATION FUND SOFIA

Report on financial statements

Opinion:

We have audited the financial statements of the Investment Firms Restructuring Fund consisting of the statement of financial position as of 31 December 2018 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 2018, its financial performance and its cash flows for the year in accordance with International Accounting Standards, adopted by the European Union.

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 RESTRUCTURING FUND in accordance with the Ethical Code of Professional Accountants of the International Ethical 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.

Report on Other Legal and Regulatory Requirements - Annual Activity Report

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 INVESTMENT FIRMS RESTRUCTURING 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.

Responsibilities of the auditor to audit the financial statements

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.

Certified Auditor:

Nikolay Polinchev

Date: 28-02-2019

APPENDIX to Independent auditor's report on the Financial Statements of the Investment Firms Resolution Fund for 2018

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 scepticism 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 31st, 2018

Thousand BGN

	<i>Explanatory annexes</i>	31.12.2018	31.12.2017
ASSETS			
<i>Non-current government securities carried at amortized cost</i>		74	-
<i>Cash</i>		0	37
Total Assets:		74	37
RESERVES			
<i>Reserve for restructuring</i>		74	37
Total Reserves:		74	37
Total Reserves:		74	37

II. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year, ended on December 31st, 2018

		Thousand BGN	
	<i>Notes</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
<i>Other comprehensive income</i>			
<i>Annual contributions</i>		<i>37</i>	<i>37</i>
<i>Total other comprehensive income for the year, net of taxes</i>		<i>37</i>	<i>37</i>
<i>Total other comprehensive income for the year</i>		<i>37</i>	<i>37</i>

III. STATEMENT OF CHANGES IN RESERVES

For the year, ended on December 31st, 2018

	Thousand BGN		
	<i>Reserve for restructuring</i>	<i>Result for the period</i>	<i>Total reserve</i>
<i>Changes in reserves for 2017</i>			
<i>Annual contributions</i>	37		37
<i>Balance as at December 31, 2017</i>	37		37
<i>Changes in reserves for 2018</i>			
<i>Annual contributions</i>	37		37
<i>Balance as at December 31, 2018</i>	74		74

IV. STATEMENT OF CASH FLOWS

For the year, ended on December 31st, 2018

		Thousand BGN	
	Notes	31.12.2018	31.12.2017
Cash flow from operational activities:			
Proceeds from annual contributions from investment intermediaries		37	37
Net flow generated by operational activities:		37	37
Cash flow from investment activities:			
Government securities cash payments		(74)	-
Government securities coupon proceeds		0	-
Cash payments for coupons related to government securities purchase		0	-
Net flow used in financial activities:		(74)	
Net increase / (decrease) of cash:		(37)	37
Cash at the beginning of the period		37	0
Cash at the end of the period	9	0	37