



**INVESTOR
COMPENSATION
FUND**



**ANNUAL
REPORT 2019**



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ICF ANNUAL REPORT 2019

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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

BDIF – Bulgarian Deposit Insurance Fund

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

MF – 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

Members: Radoslava Maslarska

Toma Kavroshilov*

Irina Kazanjieva-Yordanova**

Headquarters: 1000 Sofia, 31 Tsar Shishman Str., Floor 2

* In office from 10th of January 2019

** In office from 2nd of July 2019; In office until 1st of July 2019 – Irina Martzeva



MISSION OF THE INVESTOR COMPENSATION FUND

The Fund contributes to the stability and confidence in the capital market, by providing compensation for the receivables of investors in financial instruments in the cases determined by the law

MANDATE

The Investor Compensation Fund is an independent legal entity, established in 2005 due to transposition of 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 deposits in BNB.

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 tools for investment intermediaries that fall within the scope of the law.



1. KEY MOMENTS IN THE ACTIVITY OF THE FUND IN 2019

2019 was a very dynamic year for the Fund, in which its activity was focused mainly on the execution of its obligations in connection with the activation of the procedure for payment of compensation to the clients of Matador Prime OOD. The procedure for payment of compensations to the clients of the intermediary was initiated after on 11.10.2018 the Financial Supervision Commission (FSC) revoked Matador Prime OOD license to perform activity as an investment intermediary and appointed a conservator of the company for a period of three months. Based on the results of the conservatorship, on 24.01.2019 the FSC took Decision № 102-II, which establishes that in respect of Matador Prime OOD the circumstances for payment of compensations from the Fund to the clients of the intermediary are present due to the impossibility of the investment intermediary to fulfil its obligations to the clients for reasons directly related to its financial condition. Pursuant to the legal requirements, the Management Board of the Fund selected a servicing bank through which to make compensation payments from the Fund to the clients of the intermediary. The compensation which the Fund pays to each client of II amounts to 90% of the value of the receivable, but not more than BGN 40,000.

By the end of 2019, the Fund received 78 claims for payment of compensations from clients of Matador Prime OOD, whereas the statutory deadline for submitting claims from clients of the intermediary expired on 01.02.2020. In 2020, the Fund received another 68 claims for payment of compensations (all within the statutory term), so their total number for 2019 and 2020 is 146. Almost all claims for payment of compensations are from Spanish citizens. In 2019, the Management Board of the Fund took in total 29 decisions on received claims. The decisions are for refusal to pay compensation due to reasons detailed in the motives of the decisions.

In 2020 (until the end of April), the Management Board of the Fund took another 46 decisions on received claims for payment of compensations from clients of Matador Prime OOD. On 9 of them the ICF decided compensation to be paid in the total amount of BGN 98.8 thousand. Respectively, 35 of the decisions were for refusal to pay compensation and 2 for leaving the claims without consideration due to incompleteness and irregularities that have not been eliminated by the persons within the set deadline. The Management Board of ICF is yet to make decisions on the rest claims.



Along with the execution of the procedure for payment of compensations to clients of Matador Prime OOD, the activity of the Fund was also focused at collecting the due contributions from the participants within the term established by law; management of the Fund's resources; gathering and analysis of the information on client assets managed by the participants in the scheme; assessment of the Fund's exposure, as well as to other issues related to the functioning of the Fund.

At the end of the year, by a decision of the Management Board, the annual contribution for 2020 was kept at the level of 0.05% on protected financial instruments and 0.25% on monetary funds determined on an average monthly basis for 2019. Thus, for the 11th consecutive year, the participants in the Fund will pay half of the maximum allowable contribution by law on financial instruments and for the fourth consecutive year will make a lower contribution on monetary funds.

During the year, the amendments to Ordinance № 46 of the FSC of 11 April 2012 on the procedure and manner of payment of compensations by the Investor Compensation Fund, proposed by the Fund, were adopted. The proposed changes synchronise the Ordinance with the amendments that were made to the LPOS in 2018. The Management Board also adopted some changes in the internal rules for the activity of the Fund.

In 2019, the Fund continued to successfully cooperate with various national institutions and organizations such as the FSC, ABB, BALII, as well as with the participants in the Fund. In addition, the Fund maintained contacts and exchanged information with other investor compensation schemes from EU member states, as part of its international activity, which was also conditioned by the participation of representatives of the Fund in several international events.

The Fund is managed by a Management Board, which discusses and makes decisions on all issues concerning the Fund. The operational management of the Fund is carried out by the Chair of the MB, who manages the administrative staff and organises the activity of the Fund. As of December 31, 2019, the administrative staff of the Fund consists of five employees. (The organisational structure is given in Appendix 1).



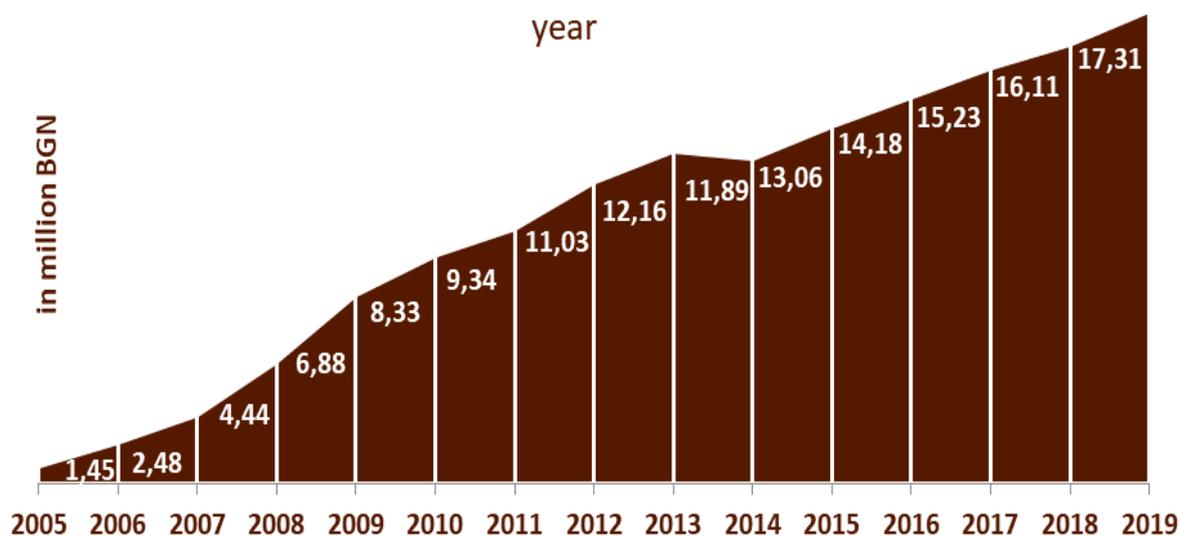
2. RESOURCES

The resources of the Fund are formed by the initial and annual contributions received by the investment intermediaries (II), bank-investment intermediaries (B-II) and Asset Management Companies (AMC)¹ as well as by investment 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 31st of the respective year. As of December 31, 2019, the investment portfolio of the Fund is BGN 17.31 million², as compared to a year earlier it has increased by BGN 1.2 million. As can be seen from the figure after 2014, the investment portfolio of the Fund is increasing with a constant rate - on average about 7.8% on an annual basis, while in the first few years of the Fund's establishment this rate was much higher, but then the contribution was at the maximum allowable level.

Fig. 1

The investment portfolio as of December 31 of the respective year



¹ AMC do not pay initial contribution.

² Fund's investment portfolio includes government securities at amortized and revalued amount (excluding accrued interest), cash on hand and current accounts. The revalued and amortized amount of government securities is as of December 31, 2019.



The administrative expenses of the Fund for 2019 (calculated on a cash basis) are BGN 456 thousand, as savings of 2.4% of the budgeted expenses have been realised.

2.1. CONTRIBUTIONS

The contributions made by participants in the Fund are initial and annual. The initial contribution is paid once by the II and B-II upon their inclusion in the scheme and is equal to 1% of the minimum capital required for the licensing of intermediaries.³

All participants in the Fund which hold, administer and manage client assets eligible to compensation make annual contributions. They are transferred in four equal instalments, where the level of the annual contribution is determined each year by ICF's MB and for 2019 it was as follows:

- 0,25% of the average monthly amount of the protected MF for 2018 and
- 0,05% of the average monthly amount of the rest of the clients' assets, eligible to compensation in 2018.

The cash flow from annual and initial contributions of participants in 2019⁴ amount to BGN 1.203 million, of which BGN 12,500⁵ are initial. In comparison the revenues from contributions in 2018 were BGN 1.074 million.

Fig. 2 presents the annual contributions of the banks - investment intermediaries (B-II) and II, for the period 2008 - 2020. It is based on the average monthly values of FI and MF, declared by the participants for the previous year.

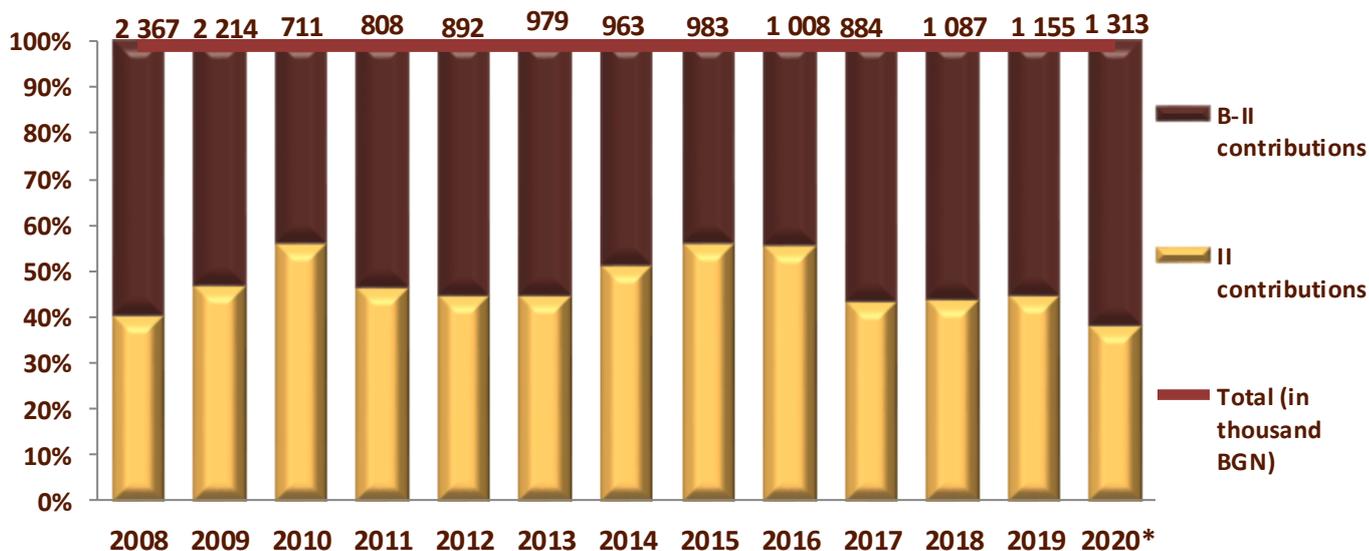
³ II with a limited license do not participate in the Fund. AMC do not make initial contribution.

⁴ In 2019, the Fund's account received one quarter of the due annual contribution for 2018, which is made by January 30, 2019, and three quarters of the due contribution for 2019.

⁵ The initial contribution is paid by a participant in the Fund, who in early 2019 increased his license from BGN 250,000 to BGN 1.5 million.



Fig. 2
Distribution of contributions of II and B-II



* Data for 2020 is preliminary

Source: ICF

The annual contribution for 2019 of the II and B-II is BGN 1.155 million⁶ against BGN 1.087 million in 2018, i.e. there is an increase of 6%, which is due to an increase in the basis on which the contributions are calculated. As it can be seen from Fig. 2 the share of the annual contribution paid by B-II to the Fund for 2019 is higher than that of the II - about 56% of the total amount of the contribution. Preliminary calculations show that the annual contribution for 2020 of the B-II will also be higher than the one of the II, and their share in the formation of the total contribution is expected to increase to 62%.

It is expected that the annual contribution for 2020 of the II and B-IP will be about BGN 158 thousand higher than for 2019 or a total of BGN 1.313 million⁷. The increase is due to the higher average monthly amount of client assets in 2019, which serve as a basis for calculating the annual contribution for 2020. In 2019 the participants in the Fund report the highest average monthly amount of client assets since the establishment of Fund. However, the contribution is still below its maximum values, which were reported in 2008. This is due to the decrease in the level of the contribution, both in financial instruments (FI) and in monetary funds (MF).

⁶ The amount includes all four quarters of the annual contribution for 2019. This amount differs from actual revenues during the year, since in 2019 one quarter of the annual contribution due for 2018 was paid until 30.01.2019 and three quarters for the annual contribution due for 2019.

⁷ The amount does not include the annual contribution of the AMC, which for 2019 is BGN 38.6 thousand.

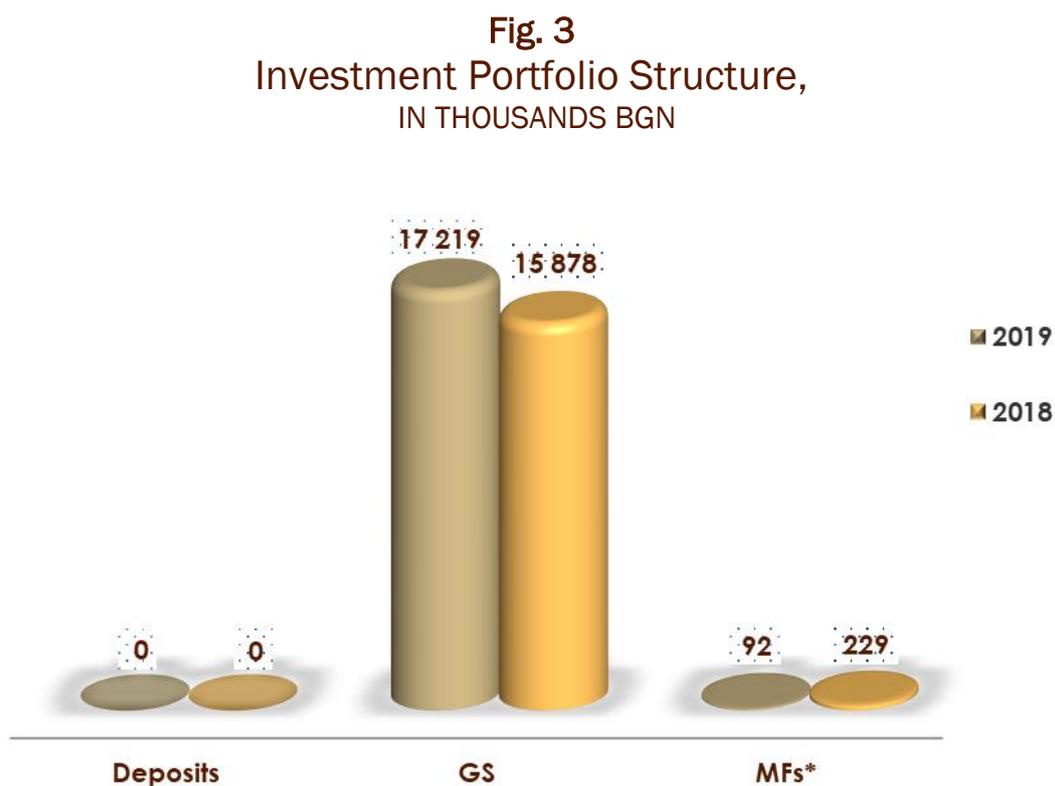


2.2. INVESTMENTS

In accordance with the provisions of LPOS and the “Investment Policy of the ICF”, the accumulated resources in 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.

During the year, an amendment was made in the “Fund's Investment Policy”, by removing the restriction for the maturity of government securities in which the Fund can invest. Prior to the change, the Fund could have invested in government securities with a residual maturity of up to 10.5 years. The main reason for dropping this restriction was the low and even negative yield on government securities with shorter maturities.

Fig. 3 shows the structure of the investment portfolio⁸ of the Fund, as of the end of 2018 and 2019.



* MFs –cash in hand and in current accounts

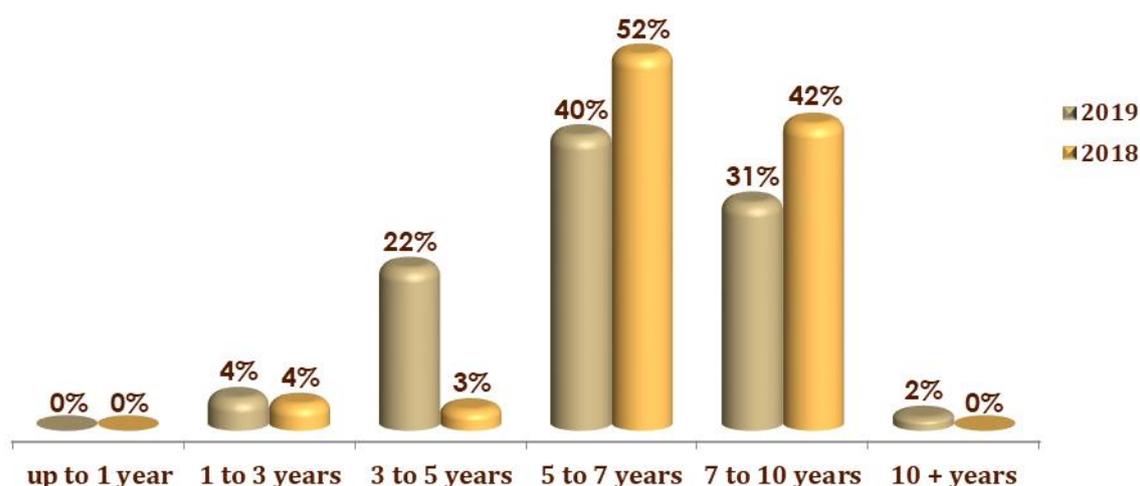
⁸ The value of government securities does not include accrued interest.



Investments in government securities represent a major part of the Fund's portfolio (which includes cash and investments in government securities, excluding accrued interest on them), as of December 31, 2019 their share is 99.5% compared to 98.6% at the end of 2018. The increase of government securities in the portfolio is at the expense of funds on current accounts (CA) and in cash, which decrease from BGN 229 thousand as of 31.12.2018 to BGN 92 thousand as of 31.12.2019. For another year the Fund has no investments in deposits due to the low and even zero return on deposits. Negative interest rates of the BNB also affect the structure of the Fund's portfolio.

Fig. 4 presents the maturity structure of government securities as of 31.12.2019 and as of 31.12.2018.

Fig. 4
Maturity structure of GS

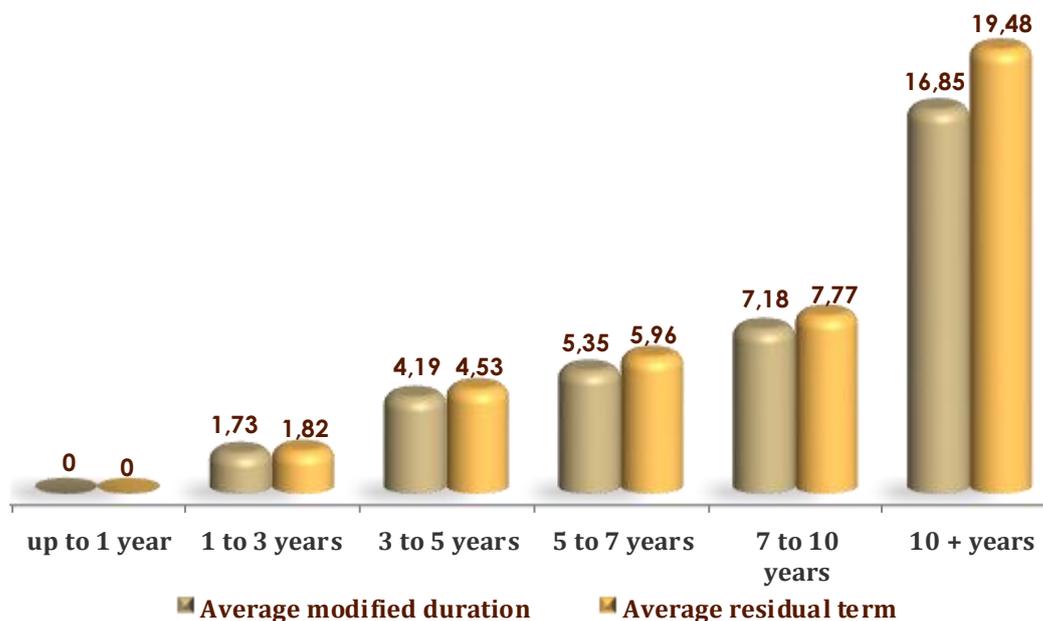


As it can be seen on the figure, the share of investments with a maturity of 5 to 7 years and 7 to 10 years is declining due to an increase in the share of investments with a maturity of 3 to 5 years. The share of investments in the first two intervals remains almost unchanged. The share of investments with a maturity of more than 10 years is minimal - only 2%.

The modified duration and the average residual maturity on the investments in government securities, according to their maturity structure as of 31.12.2019, are presented in Fig. 5.



Fig. 5
Modified duration and average residual term in GS



The weighted average modified duration of the government securities portfolio as of December 31, 2019 is 5.7 years against 6.16 years as of the end of 2018. The average residual term of government securities investments also marked a decline - from 6.77 years as of December 31, 2018 to 6.26 at the end of 2019.⁹

3. PARTICIPANTS

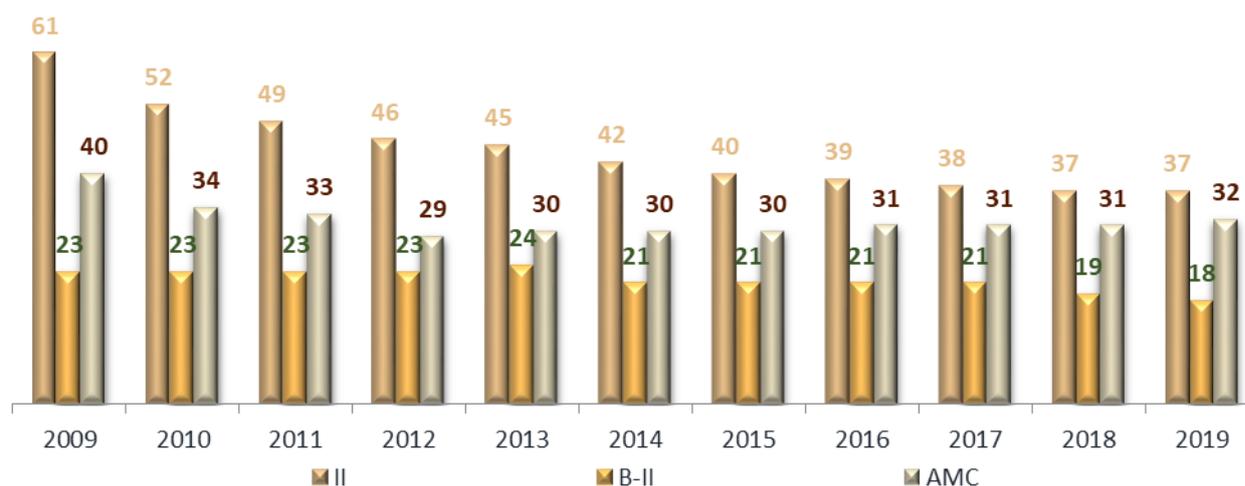
As of 31 December 2019, the active participants in the Fund are intotal of 59, of which 37 investment intermediaries (II), 18 banks-investment intermediary (B-II) and 4 asset management companies (out of a total of 32), which hold client assets protected by the Fund. A list of participants in the Fund is given in Appendix 2. During the year Piraeus Bank Bulgaria AD merged into Eurobank Bulgaria AD, and for this reason as of 31.12.2019 B-II are 18, compared to 19 as of 31.12.2018. In the group of II, two intermediaries changed their licenses, one intermediary reduced its license from full to partial, while the other intermediary increased it to a full one.

⁹ The weighted average maturity of the portfolio is calculated as the sum of the terms of all investments, weighted by the share of the respective investment in the total amount of the funds invested in government securities as of 31.12.2019.



Fig. 6 shows the number of participants in the Fund for the period 2009 - 2019. Over the years the number of B-II and AMC is relatively the same, while the number of licensed II has decreased significantly.

Fig 6.
Number of participants in the investor compensation scheme



For 2019, the investment intermediaries from the Republic of Bulgaria that have the right to perform services and activities on the territory of Member States under the conditions of free provision of services are a total of 20¹⁰ or two more compared to the end of 2018. One intermediary operates through an established branch in Poland.

Intermediaries from EU Member States, which can provide investment services in the country, both through a branch and through the free provision of services, are over 1900, of which 4 are with an established branch¹¹.

4. CLIENTS' ASSETS MANAGED BY THE PARTICIPANTS

According to the legal requirements, the investment intermediaries submit to the Fund monthly reports on the client assets of their clients, which they hold, administer and manage. The information they submit is both for the client assets protected by the Fund and for those that are not subject to compensation.

Table. 1 presents the protected and unprotected client assets of all participants (II, B-II and AMC) as of December 31 of the respective year.

¹⁰ According to a list of II entitled to perform investment services and activities on the territory of other EU Member States published on the FSC website.

¹¹ According to FSC.



As of December 31, 2019, the amount of all client assets is BGN 49.5 billion compared to BGN 40.07 billion a year earlier. The amount of protected client assets reported by the participants is BGN 2.26 billion. The amount of unprotected assets as of this date is BGN 47.24 billion.

Table. 1 Client assets managed by the participants as of December 31st of the respective year

By groups:	Protected clients' assets as of 31.12.2019	Protected clients' assets as of 31.12.2018	Change on an annual basis	Unprotected clients' assets as of 31.12.2019	Unprotected clients' assets as of 31.12.2018	Change on an annual basis
	(1)	(2)	[3=(1-2)/2]	(4)	(5)	[6=(4-5)/5]
FI – B-II	1 616 969 544	1 307 332 825	24%	28 260 466 527	19 454 136 572	45%
FI - II¹²	516 234 021	775 722 172	-34%	18 844 588 851	18 286 061 464	3%
MF - II	84 572 880	61 752 359	37%	97 171 331	73 516 695	32%
FI - AMC	38 592 644	58 215 720	-34%	29 407 935	44 795 982	-34%
MF - AMC	7 351 643	3 492 124	111%	7 449 411	5 938 708	25%
TOTAL:	2 263 720 733	2 206 515 200	2,6%	47 239 084 055	37 864 449 422	25%

Source: ICF

At the end of 2019, the client assets subject to compensation have a slight increase compared to the end of 2018. The largest increase is in the MF managed by the AMC, as their amount increases more than twice. In absolute terms, this increase is not so high (about BGN 3.9 million). In the group of the II there is also a significant increase of the protected MF - by 37%, which in real terms is by BGN 23 million. In contrast to the MF, FI held by the AMC and the II decreased significantly - by about 34% in both groups, and in real terms the decrease was larger in the II. Only in B-II, the protected FI increase - from BGN 1.3 billion as of 31.12.2018 to BGN 1.6 billion at the end of 2019, i.e. by 24%.

In contrast to protected assets, unprotected client assets increased in all investment intermediaries, except for FI held by AMC, which are 34% less on an annual basis. The total amount of the noneligible to compensation client assets as of 31.12.2019 is BGN 47.24 billion, or 25% more than in the previous year. The largest

¹² The amounts of the protected and unprotected FI under the II for 2018 differ from the amount in the annual report for 2018 due to an adjustment made by an intermediary in its reports under Art. 77m, para 12 of LPOS.



increase is in the unprotected FI in B-II - by 45% more compared to the end of 2018. An increase is also observed in MF held by II - by 32% more on an annual basis.

As of December 31, 2019, the financial instruments managed by B-II amount to a total of BGN 29.9 billion¹³, of which those protected by the Fund amount to BGN 1.6 billion and unsecured - BGN 28.3 billion. The share of the FI subject to compensation from the Fund in the total amount of FI managed by B-II is 5%.

The amount of protected and unprotected client assets in the II group is a total of BGN 19.54 billion, of this amount FI are BGN 19.36 billion, the remaining amount of BGN 182 million are MF. Only 3% of the client assets in this group are subject to compensation from the Fund, in absolute terms the amount is BGN 600 million. The reason is the significant decrease of 34% in the amount of protected FI reported by the participants in the group, which in real terms it is nearly BGN 260 million.

The client assets managed by the AMC as of 31.12.2019, amount to a total of BGN 82.8 million compared to BGN 112 million a year earlier. There is a decrease of 34% in the amount of both protected and unprotected FI. MF in the group, subject to and not subject to compensation, increased by BGN 3.9 million and BGN 1.5 million, respectively.

The funds collected in the Fund as of 31.12.2019, formed by initial and annual contributions of the II, B-II and the AMC, as well as from investments income, amount to BGN 17.941 million¹⁴ and they represent 0.8% of the amount of protected client assets (BGN 2.26 billion). When the accumulated funds in the Fund exceed 5% of the total amount of the client's assets at all intermediaries, the Management Board of the Fund may decide to suspend the payment of the annual contributions. As of December 31, 2019, 5% of the protected client assets amount to nearly BGN 113 million (5% of BGN 2.26 billion).

Fig. 7 represents the distribution of protected and unprotected FI by groups of intermediaries. As of December 31, 2019, the total amount of all FI, subject to and not subject to compensation, is BGN 49.3 billion, of which the share of protected FI is about 4.4%.

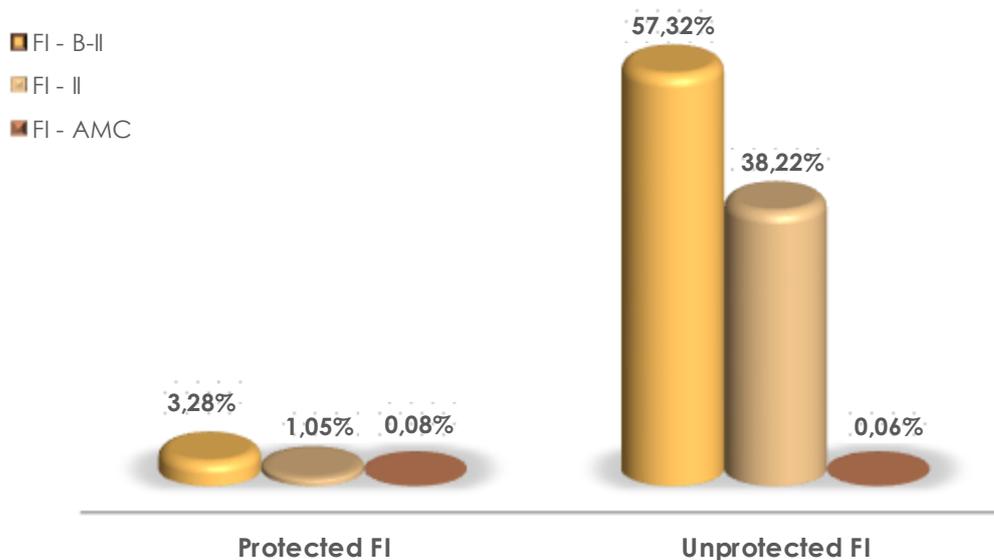
¹³ Banks do not declare MF in the Fund, as they are considered as deposits and fall within the scope of protection from the BDIF.

¹⁴ The amount includes all assets of the Fund.



Fig. 7

Distribution of FI by groups of intermediaries, as of 31.12.2019



B-II hold the greatest amount of protected FI - 3.28% of all FI, and they continue to hold the largest share of unprotected FI - 57.32%. It is noteworthy that compared to the end of 2018, the share of unprotected FI in B-II has increased by nearly 10%. In the II, the share of protected FI is 1.05%, and of unprotected ones - 38.22%. The share of the protected FI in the AMC as of 31.12.2019 is 0.08%, and of the unprotected ones is 0.06%.

In 2019, the highest amount of protected FI were reported in April, when their value was BGN 2.47 billion. This amount is also included in Table 2, in which, in addition to the maximum value of FI for 2019, the peak value of the FI reported during the years / February 2014 - BGN 2.62 billion /, as well as their minimum value, reported in February 2009 - BGN 918 million are presented. It is noteworthy that the maximum reported value of FI for 2019 is only 6% lower than the peak value reported in 2014. For 2019, the least FI were reported in December, when their value was BGN 2.17 billion.

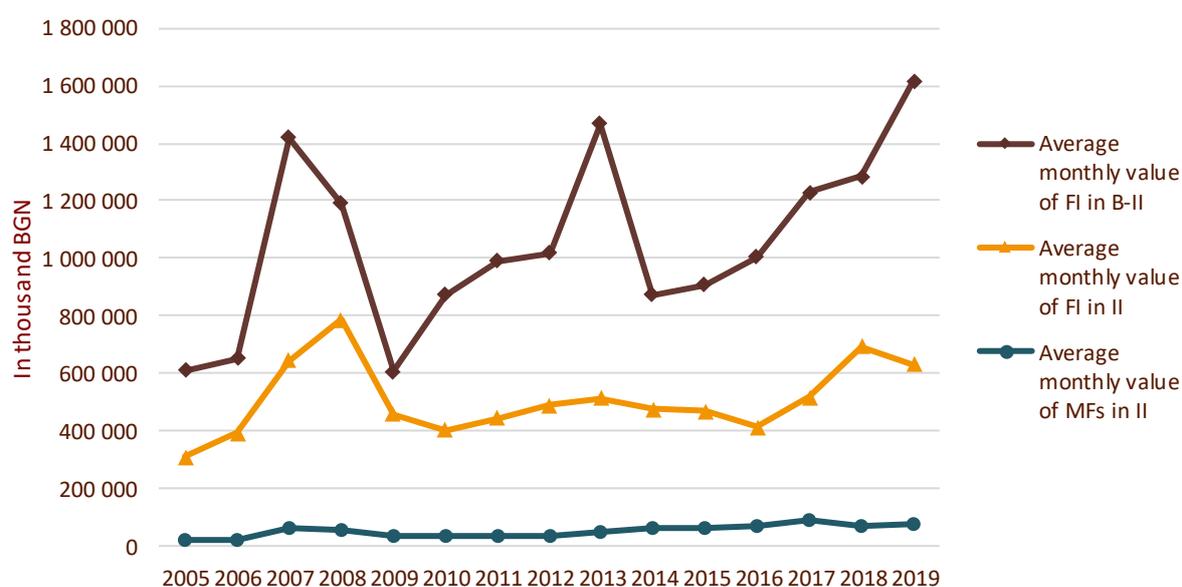
**Table 2** - Protected Client Assets

Clients' FI	Date	Peak Value	Minimum	Current Value
	February, 2014	2 624 521 486		
	February, 2009		917 667 292	
	April, 2019			2 468 100 943
% of the peak value		100%	-65%	-6%

Source: ICF

The annual contribution that the participants pay into the Fund is determined on the basis of the average monthly values of the protected client assets. Fig. 8 presents the average monthly values of the protected client assets by years and by groups of participants.

Fig. 8
Average monthly value of protected client assets in II and B-II



In 2019, the average monthly amount of client assets in II and B-II is a total of BGN 2.32 billion compared to BGN 2.05 billion in 2018. This increase of nearly BGN 274 million is due to the higher average monthly amount of FI in B-II. As it can be seen from the figure, in this group, after 2015, there is a steady increase in the average monthly value of protected FI, and the highest levels so far are reported in 2019, exceeding those



before the financial crisis. On average, B-II manage protected FI amounting to BGN 1.62 billion per month. There is also a slight increase in the average monthly amount of MF held by II. In 2019, on average, II manage about BGN 74 million per month, compared to BGN 69 million in 2018. The average monthly value of the protected FI held by the II decreases by BGN 63 million. In 2019, the amount is BGN 631 million.

The managed client assets by the AMC are not included in Fig. 8, as they are of small value. In 2019, on average per month, AMC manage protected FI amounting to BGN 46.3 million compared to BGN 67.6 million in 2018, i.e. their amount decreases by BGN 21 million. The average monthly amount of MF protected by the Fund in AMC increases from BGN 2.9 million in 2018 to BGN 6.2 million in 2019.

Table 3 presents the protected client assets, the stock exchange capitalization and the GDP as of December 31 of the respective year.

As of December 31, 2019, the stock exchange capitalization is BGN 27.91 billion or 4% higher than on December 31, 2018. The ratio of client assets subject to compensation to the stock exchange capitalization at the end of 2019 is 8%, and the stock market capitalization/GDP ratio is 23.5% compared to 24.8% at the end of 2018.

A more detailed overview of the capital market in 2019 is presented in Appendix 3.

Table 3 Client assets, stock market capitalization and GDP as of December 31

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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	2 263
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	27 905
Clients' assets to stock exchange capitalization ratio	11,00%	11,00%	12,00%	12,96%	21,28%	23%	16%	17%	17%	8%	9%	8%
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	118 669
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%	23,5%

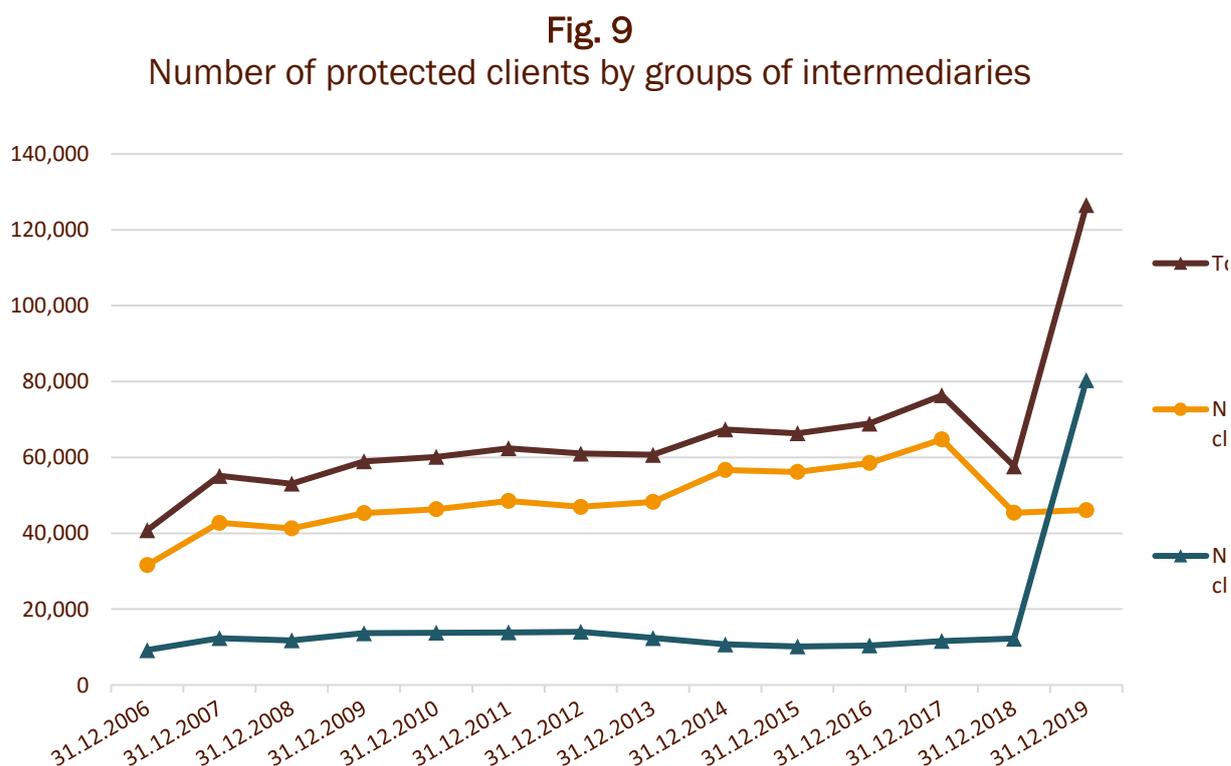
Source: website of BSE, ICF



5. EXPOSURE TO THE PARTICIPANTS

Every six months, the intermediaries submit to the Fund information on the number of protected clients, distributed by intervals, according to the assets they own. Based on this information, the Fund's exposure to the participants and the extent to which the funds available in the Fund will be sufficient to pay compensation in the event of bankruptcy of an intermediary, are assessed.

Fig. 9 represents the number of protected clients by groups of intermediaries as of December 31, for the period from 2006 to 2019, inclusive.



As of December 31, 2019, the total number of clients that are eligible to compensation for all participants in the Fund is 126 862, compared to 57 964 a year earlier. There is a significant increase in the number of protected clients, with 68 898, due entirely to the group of B-II, which report the largest number of clients compared to other groups.

As of 31.12.2019 the number of clients of B-II is 80 384 compared to 12 238 a year earlier, i.e. by 68 146 more. There are 46 117 clients in the II group, i.e. with 722 more compared to 31.12.2018.



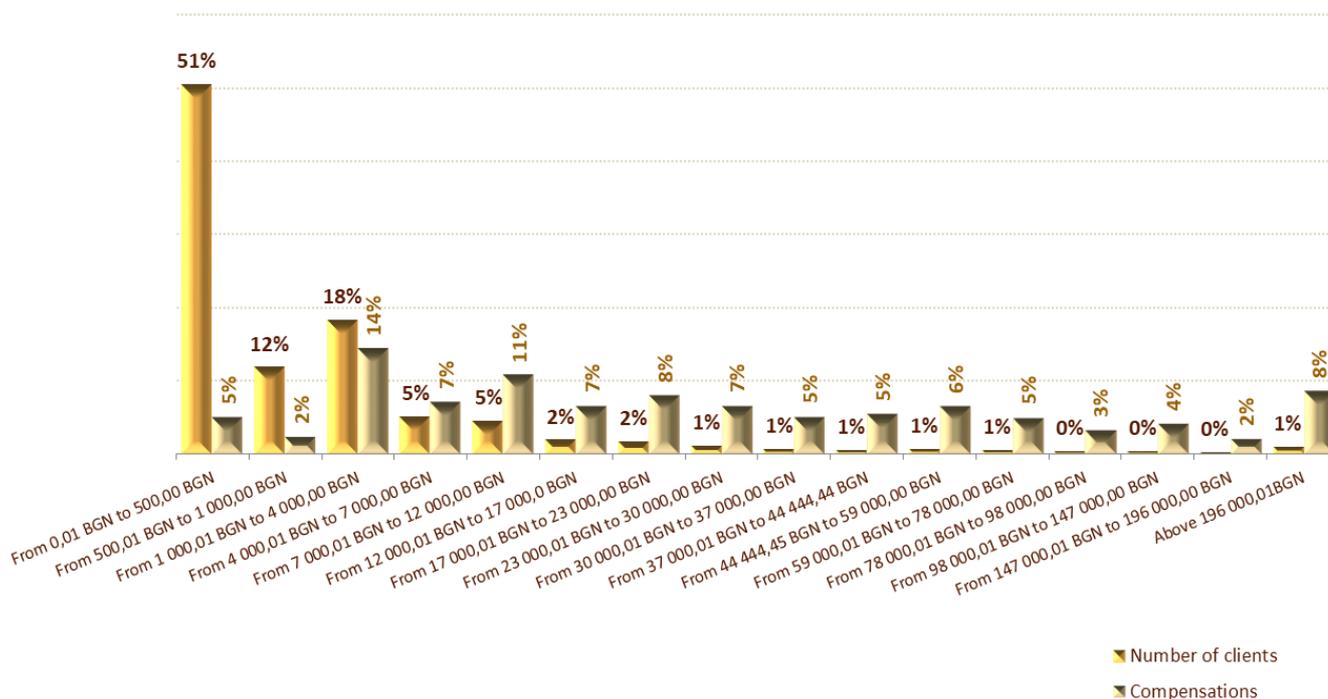
The number of clients declared by AMC as of 31.12.2019 is 361. Due to the fact that in 2019 there are only 4 companies that declare client assets subject to compensation and, accordingly, the number of their clients is small, AMC are not presented in Fig. 10.

As of December 31, 2019, the Fund's exposure to its participants is **BGN 587.30 million** compared to **BGN 282.48 million** as of December 31, 2018¹⁵. The increase of BGN 304.82 million is due to the larger number of protected clients declared by B-II.

Due to the significant increase of clients in the B-II group, the exposure of the Fund is the highest in this group – BGN 390 million. The maximum compensation in the II group is BGN 192 million, out of those, BGN 163 million is the compensation for II with full license. The compensation of all clients of AMC is calculated at BGN 5,41 million.

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

Fig. 10
Distribution of the maximum compensation and the number of clients, by groups of client assets



¹⁵ The Fund's exposure is calculated on the basis of the potential compensation to the clients of one intermediary, which 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 on the number of clients by intervals of client assets provided by intermediaries as of 31.12.2019. Due to the assumption that clients have assets of an amount equal to the upper limit of the interval in which they fall, the maximum compensation is inflated.

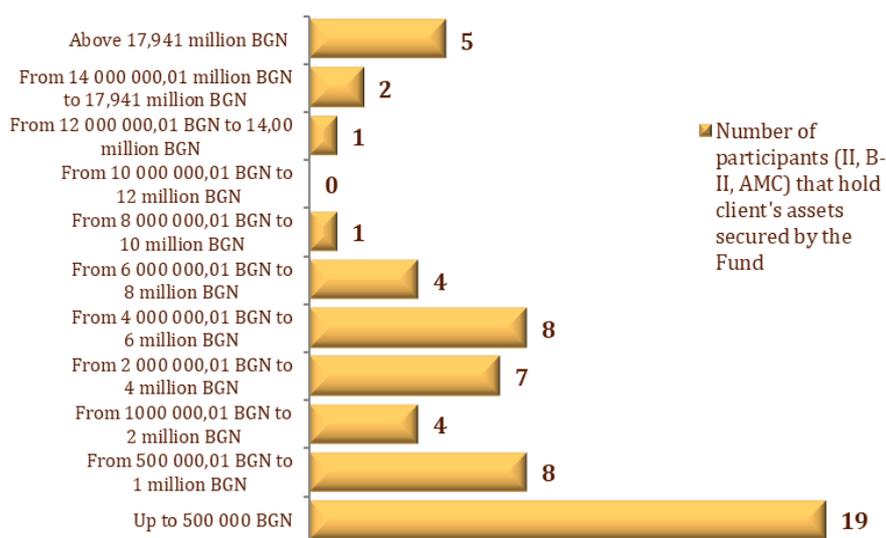


The largest number of clients is in the range of client assets *up to BGN 500*, they are 51% of all clients and the compensation calculated for them is only 5% of all compensations, in absolute value it is BGN 28.8 million. The largest compensation that the Fund would pay is for the clients who hold assets *up to BGN 4 thousand*, they represent 18% of all clients, and the compensation for them is 14% of the compensations in the group, as in absolute value it is in the amount of BGN 83 million. The investors who hold assets over BGN 44 thousand are 4 242, for whom the calculated maximum compensation amounts to BGN 169.7 million, which represents 28% of all compensations. The compensation for investors with assets over *BGN 196 thousand*, representing 1% of all clients, is BGN 49.4 million or 8%.

The funds collected in the Fund, as of 31.12.2019, amount to BGN 17.941 million, and the amount of the calculated compensation for all participants is BGN 587.30 million, i.e. the Fund has 3% coverage of any compensations that it would pay (BGN 17.941 million / BGN 587.30 million).

On Fig. 11 the distribution of participants by amount of compensation and by intervals up to the funds available in the Fund (BGN 17.941 million) is presented as of 31.12.2019. The figure also includes 4 AMC, with which the total number of active participants in the Fund is 59.

Fig. 11
Number of participants depending on the Fund's exposure to their clients



For a total of 19 intermediaries, the calculated compensation is in the range of *up to BGN 500 thousand*, of which 14 II, 4 B-II and 1 AMC. In the intervals with



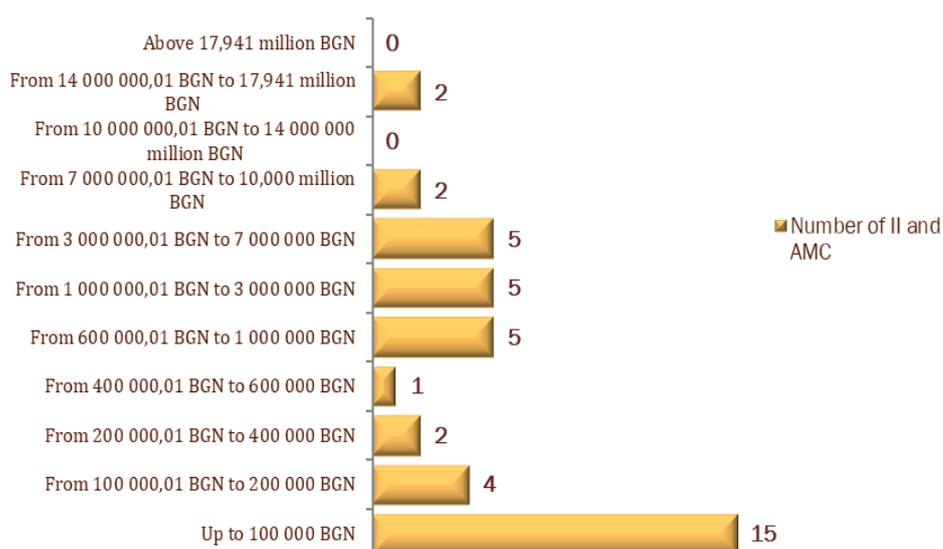
compensation of *up to BGN 1 million* and *up to BGN 6 million*, there are 8 participants each, followed by the interval of *up to BGN 4 million*, in which there are 7 participants. For two intermediaries, the calculated real compensation is in the range of the funds available in the Fund. For a total of 5 participants, the calculated real compensation is above the funds available in the Fund, these are 2 II and 3 B-II. In case of occurrence of circumstances for payment of compensations by the Fund, to clients of any of these intermediaries, it may be necessary for the ICF to collect additional funds, according to the provisions of Art. 77q of LPOS. At the same time, the Fund's resources would be enough to compensate the clients of several intermediaries at the same time, where the potential compensations are 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.

Fig. 12 represents the distribution of II and AMC according to the amount of the protected MF held by them.

A total of 15 intermediaries or 37% of all active AMC and II hold MF subject to compensation to clients in the amount of *up to BGN 100 thousand*. An equal number of participants (five each) hold clients' money in the intervals *up to BGN 1 million*, *up to BGN 3 million* and *up to BGN 7 million*. Two intermediaries manage the MF of clients up to the funds available in the Fund. As of December 31, 2019, there is no participant to manage MF for an amount higher than the Fund's resources.

Fig. 12
Amount of MF of II and AMC as of 31.12.2019





6. INTERNATIONAL ACTIVITY

The Fund's international activity in 2019 included the participation of its representatives in international meetings, working groups and conferences as well as the exchange of information and experience with European schemes on various issues concerning the payment of compensation. The participation of representatives of the Fund in international events was mainly through the associated membership of the Fund in the European Forum of Deposit Insurers /EFDI/ and the various working groups established for it.

In April 2019 in Dublin, Ireland, representatives of the Fund participated in a meeting of the working group on investor compensation schemes at EFDI. During the meeting, a plan and guidelines for the activities of the group were discussed, and at the same time several schemes presented the most current moments of their activities. In Dublin, representatives of the Fund held a meeting with the Irish resolution and recovery scheme for investment companies, to exchange experiences.

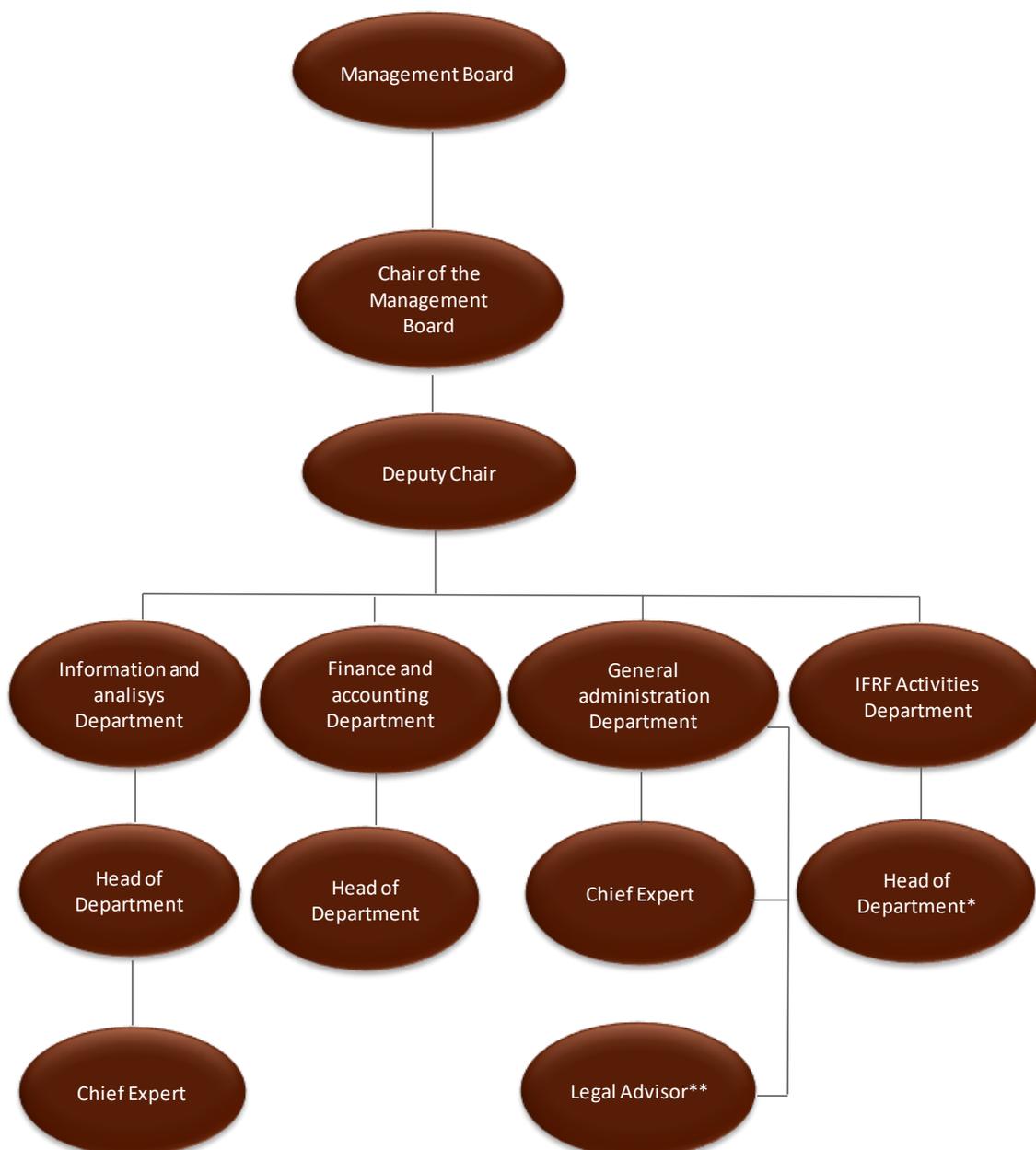
An international conference of the International Association of Deposit Insurers (IADI) was held in May 2019 in Basel, Switzerland. Issues related to increasing confidence in protection schemes and their role in the financial system, as well as in crisis situations, were discussed during the conference. The meeting was hosted by the Bank for International Settlements.

In September 2019, the Chair of the Board took part in the Annual Meeting of EFDI, which was held in Sarajevo, Bosnia and Herzegovina. According to the established practice, an annual conference was held within the meeting, with the main emphasis on achieving financial stability in Europe and the role of guarantee funds in this direction. An international meeting of investor protection schemes was also held, as well as a meeting of the working group of investor compensation schemes at EFDI.

Along with participating in various forums, during the year representatives of the Fund exchanged experience and information with other EU schemes regarding their practice with the payment of compensation.

All this contributes to the improvement of the Fund's activity in accordance with the best practices.

ORGANIZATIONAL STRUCTURE



* At the end of 2019, a new position schedule was approved (effective from 01.01.2020), according to which the position of “Head of Department” of IFRF activities was closed and a new position “Chief Expert” in IFRF activities department was opened in its place.

** The legal advisor is on a civil contract.



INVESTMENT INTERMEDIARIES

1 ABC FINANCE EAD	19 EMIRATES WEALTH EAD
2 ABV-INVESTMENTS EOOD	20 FAVOURITE AD
3 ADAMANT CAPITAL PARTNERS AD	21 FACTORY AD
4 ALARIC SECURITIES OOD	22 FIRST FINANCIAL BROKERAGE HOUSE OOD
5 AVAL IN AD	23 FK-EVER AD
6 BALKAN CONSULTING COMPANY EAD	24 FOCAL POINT INVESTMENTS AD
7 BENCHMARK FINANCE AD	25 GRAND CAPITAL EOOD
8 BULBROKERS EAD	26 INTERCAPITAL MARKETS AD
9 CAPITAL INVEST EAD	27 KAROL AD
10 CAPITAL MARKETS AD	28 LENNO GLOBAL ADVISORY AD
11 CAPMAN AD	29 MK BROKERS AD
12 DE NOVO EAD	30 REAL FINANCE AD
13 DEALING FINANCIAL COMPANY AD	31 SOFIA INTERNATIONAL SECURITIES AD
14 DELTASTOCK AD	32 TRADING 212 LTD
15 DV INVEST EAD	33 UG MARKET AD
16 ELANA TRADING AD	34 UPTREND OOD
17 EUROPEAN BROKERAGE HOUSE OOD	35 VANCHEV FINANCE EOOD
18 EURO-FINANCE AD	36 VAHA TRADE EOOD
	37 ZAGORA FINACORP 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. RAIFFEISENBANK (BULGARIA) AD
14. TBI BANK EAD
15. TEXIM BANK AD
16. TOKUDA BANK AD
17. UNICREDIT BULBANK AD
18. UNITED BULGARIAN BANK AD



ASSET MANAGEMENT COMPANIES

- | | |
|--|---|
| 1 ACTIVA ASSET MANAGEMENT AD | 22 RAIFFEISEN ASSET MANAGEMENT (BULGARIA) EAD |
| 2 ALARIC CAPITAL AD | 23 REAL FINANCE ASSET MANAGEMENT AD |
| 3 ALFA ASSET MANAGEMENT COMPANY EAD | 24 SELECT ASSET MANAGEMENT EAD |
| 4 ARKUS ASSET MANAGEMENT AD | 25 SKY ASSET MANAGEMENT AD |
| 5 ASTRA ASSET MANAGEMENT AD | 26 STRATEGIA ASSET MANAGEMENT AD |
| 6 CAPMAN ASSET MANAGEMENT AD | 27 TEXIM ASSET MANAGEMENT EAD |
| 7 CCB ASSET MANAGEMENT AD | 28 TREND ASSET MANAGEMENT AD |
| 8 COMPASS INVEST AD | 29 UBB ASSET MANAGEMENT AD |
| 9 CONCORD ASSET MANAGEMENT AD | 30 UG MARKET FUND MANAGEMENT AD |
| 10 DELTASTOCK ASSET MANAGEMENT EAD | 31 VANCHEV MANAGING COMPANY EAD |
| 11 DSK ASSET MANAGEMENT AD | 32 ZLATEN LEV CAPITAL AD |
| 12 DV ASSET MANAGEMENT EAD | |
| 13 EF ASSET MANAGEMENT AD | |
| 14 ELANA FUND MANAGEMENT AD | |
| 15 EXPAT ASSET MANAGEMENT AD | |
| 16 FIRST FINANCIAL BROKERAGE HOUSE ASSET MANAGEMENT AD | |
| 17 INVEST FUND MANAGEMENT AD | |
| 18 INVEST CAPITAL EAD | |
| 19 KAROL CAPITAL MANAGEMENT EAD | |
| 20 KBC Asset Management NV, Belgium | |
| 21 MUNICIPAL BANK ASSET MANAGEMENT EAD | |



THE CAPITAL MARKET IN BULGARIA IN 2019

The market capitalisation of the official market of the BSE at the end of 2019 was BGN 8.9 billion and reported an increase of 2.4%, as the capitalisation on the alternative market on the BSE was BGN 19 billion and reported an increase of 5.2 %, where the share of total capitalization in relation to GDP reported a slight decrease compared to 2018, reaching 24%.

The SOFIX and BGBX40 indices decreased by 4.4% and 3.5% on an annual basis, respectively, while BGTR30 and BGREIT reported an increase of 4% and 7.4%, respectively. The turnover on the BSE reported an increase of 65% in 2019 compared to 2018, caused by an increase in the turnover of almost all segments, except for a decrease in the turnover of Standard shares. The most significant increase in turnover is in terms of initial public offerings, trading in government securities, Premium shares and others. The number of concluded transactions on the BSE also reported an increase of 23% compared to 2018. The new emissions in 2019 are less than the ones in 2018 - 32 against 41 years earlier. The predominant part of the new emissions is related to capital increases with rights offers, as well as bond issuance.

In 2019, the government securities trade remains the leader in terms of the volume of concluded transactions. According to data from the Ministry of Finance for the period January 1 - December 31, 2019, the volume of the secondary government securities market in Bulgaria is BGN 23.2 billion, as it decreases compared to 2018, and the yield on government securities also decreases.¹⁶ The long-term interest rate for assessing the degree of convergence, determined on the basis of the yield to maturity on the secondary market for long-term government securities in BGN as of December 2019, is 0.18% compared to 0.72% a year earlier.¹⁷ The trend for negative interest rates on the interbank deposit market continues, as the LEONIA Plus index continues to decline and by the end of 2019 is -0.59%.

Unlike Bulgaria, the capital markets of our neighbouring countries report an increase on an annual basis in the main indices of stock exchanges - the VET index in

¹⁶ 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.

¹⁷ See: BNB Statistics: Government Securities Yield and Long-Term Interest Rate for Assessing the Degree of Convergence.



Romania increased by 35.13%, the ASE index in Greece increased by 49.47%, BELEX in Serbia increased by 8.65%, ISE 100 in Turkey increased by 52.11% and MBI 10 in Northern Macedonia by 33.90%.¹⁸

In 2019, changes were introduced in some of the main normative acts regulating the activity of the capital market in Bulgaria.

The Law on Amendments and Supplements to the Markets in Financial Instruments Act specifies the provisions introduced in 2018 in connection with the requirements of Directive 2014/65 /EU. The main part of the changes concerns the new regulatory framework stemming from the Regulation 909/2014 of the EP on improving the settlement of securities in the EU, as well as for the central securities depositories, and a number of measures for the implementation of the Regulation are prescribed. There are also partial changes regarding the investment intermediaries in connection with the determination of the suitability of the members of their management boards, the assessment of the suitability of the financial services for their clients, etc.

The Law on Amendments and Supplements to the Law on the Activity of Collective Investment Schemes and Other Collective Investment Enterprises introduced changes in the direction of new requirements for performing stress tests by money market funds and changes concerning their activity. The amendments to the law aim to introduce measures in the national legislation to ensure conditions for the implementation of Regulation (EU) 2017/1131 of the EP to improve regulatory regulation, a higher level of investor protection and reduce the problems of short-term financing market. Texts concerning the activity of management companies are introduced in terms of restrictions on their influence on the management of an issuer or a public company, as well as in terms of the management of alternative investment funds. Provisions related to CIS prospectuses, capital adequacy, liquidity and their management are specified.

At the end of 2019, a bill for amendment and supplement of LPOS was submitted, as the amendments were adopted in March 2020. The new texts aim to introduce into Bulgarian legislation the requirements of Directive 2017/828 of the EP amending Directive 2007/36 /EC with regard to the promotion of the long-term involvement of

¹⁸ See: The Economy and the Banking Sector of Bulgaria (fourth quarter of 2019), ABB, p. 10.



shareholders in public companies and their identification, as well as the facilitation of the exercise of shareholders' rights.

In early 2020, capital markets in the EU and around the world were shaken by the COVID-19 crisis. Since mid-February, there have been significant adjustments in the prices of debt instruments, comparable to the decline reported during the Global Financial Crisis. Record volatility, signs of significant stress and a serious increase in sovereign bond spreads are reported. There has also been a multiple increase in trade caused by high volatility. Some EU member states have introduced short-term and long-term bans on opening short positions. The dynamic situation envisages a sharp change in the situation on the capital markets, the end result of which will depend on the duration of this crisis and the measures to be taken by EU bodies and governments worldwide.



Distribution of the number of protected clients and the potential compensation by groups of client assets as of 31.12.2019

Client asset groups	Number of clients of II		Compensations for II (in BGN)		Number of clients of B-II		Compensations for B-II (in BGN)		Total number of clients		Total compensation (in BGN)	
	Number	%	Value	%	Number	%	Value	%	Number	%	Value	%
<i>From BGN 0.01 to BGN 500.00</i>	30 102	65%	13 545 900	7%	33 804	42%	15 211 800	4%	63 906	51%	28 757 700	4,94%
<i>From BGN 500.01 to BGN 1 000.00</i>	3 499	8%	3 149 100	2%	11 579	14%	10 421 100	3%	15 078	12%	13 570 200	2,33%
<i>From BGN 1 000.01 to BGN 4 000.00</i>	5 217	11%	18 781 200	10%	17 956	22%	64 641 600	17%	23 173	18%	83 422 800	14,34%
<i>From BGN 4 000.01 to BGN 7 000.00</i>	1 679	4%	10 577 700	6%	4 851	6%	30 561 300	8%	6 530	5%	41 139 000	7,07%
<i>From BGN 7 000.01 to BGN 12 000.00</i>	1 402	3%	15 141 600	8%	4 384	5%	47 347 200	12%	5 786	5%	62 488 800	10,74%
<i>From BGN 12 000.01 to BGN 17 000.0</i>	739	2%	11 306 700	6%	1 747	2%	26 729 100	7%	2 486	2%	38 035 800	6,54%
<i>From BGN 17 000.01 to BGN 23 000.00</i>	615	1%	12 730 500	7%	1 613	2%	33 389 100	9%	2 228	2%	46 119 600	7,93%
<i>From BGN 23 000.01 to BGN 30 000.00</i>	443	1%	11 961 000	6%	965	1%	26 055 000	7%	1 408	1%	38 016 000	6,53%
<i>From BGN 30 000.01 to BGN 37 000.00</i>	307	1%	10 223 100	5%	574	1%	19 114 200	5%	881	1%	29 337 300	5,04%
<i>From BGN 37 000.01 to BGN 44 444.44</i>	279	1%	11 159 999	6%	504	1%	20 159 998	5%	783	0,6%	31 319 997	5,38%
<i>From BGN 44 444.45 to BGN 59 000.00</i>	357	1%	14 279 999	7%	582	1%	23 279 998	6%	939	1%	37 559 996	6,45%
<i>From BGN 59 000.01 to BGN 78 000.00</i>	339	1%	13 559 999	7%	375	0%	14 999 999	4%	714	0,6%	28 559 997	4,91%
<i>From BGN 78 000.01 to BGN 98 000.00</i>	184	0%	7 359 999	4%	276	0%	11 039 999	3%	460	0,4%	18 399 998	3,16%
<i>From BGN 98 000.01 to BGN 147 000.00</i>	264	1%	10 559 999	6%	331	0%	13 239 999	3%	595	0,5%	23 799 998	4,09%
<i>From BGN 147 000.01 to BGN 196 000.00</i>	160	0%	6 399 999	3%	139	0%	5 559 999	1%	299	0,2%	11 959 999	2,06%
<i>Over BGN 196 000.01</i>	531	1%	21 239 998	11%	704	1%	28 159 997	7%	1 235	1%	49 399 995	8,49%
TOTAL:	46 117	100%	191 976 792	100%	80 384	100%	389 910 388	100%	126 501	100%	581 887 180	100%



**INVESTOR
COMPENSATION
FUND**



**FINANCIAL
STATEMENTS
2019**



CONTENTS:

INDEPENDENT AUDITOR'S REPORT

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II. PROFIT OR LOSS STATEMENT AND OTHER COMPREHENSIVE INCOME

III. STATEMENT OF CHANGES IN RESERVES

IV. CASH FLOW STATEMENT

REPORT OF INDEPENDENT AUDITOR

To: The Management Board of the INVESTOR COMPENSATION FUND

Report on the financial statements

Opinion

We have audited the financial statements of the INVESTOR COMPENSATION FUND (ICF), consisting of the statement of financial position as of 31.12.2019 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended this date, as well as the explanatory notes to the financial statements, including the summary disclosure of significant accounting policies.

In our opinion, the accompanying financial statements present authentically, in all material respects, the financial condition of the ICF as of 31.12.2019, its financial results from its business and cash flows for the year ended that date, in accordance with International accounting standards adopted by the European Union.

Grounds 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 ICF in accordance with the International Code of Ethics for Professional Accountants (including International Standards of Independence) of the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements applicable to our audit of the financial statements in Republic of Bulgaria, and we have 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 audit opinion.

Drawing Attention

We draw attention to the Explanatory Note Information on significant events after the balance sheet date in the financial statements, which discloses a material non-corrective event related to the spread of the coronavirus pandemic (COVID-19). Violation of the usual economic activity in the Republic of Bulgaria as a result of COVID-19 may adversely affect the operations of the ICF, in particular the evaluation of its investments.

Due to the unpredictable dynamics of COVID-19, it is practically impossible at this stage to make a reliable assessment and measure the potential effect of the pandemic. Our opinion has not been modified on this issue.

Report on other legal and regulatory requirements - Annual activity report

In addition to our responsibilities and reporting under the ISA, with respect to the activity report, we have followed the procedures added to those required by the ISA. These procedures concern checks on the availability as well as checks on the form and content of this other information in order to assist us in forming an opinion on whether the other information includes the disclosures and reports 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 the procedures performed, our opinion is that:

- The information included in the activity report for the financial year for which the financial statements have been prepared corresponds to the financial statements.
- The activity report has been 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 on it

Management is responsible for the other information. The other information consists of an activity report prepared by management in accordance with Chapter Seven of the Accountancy Act, but not includes 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 it any form of security conclusion about it, unless explicitly 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 thereby assess whether that other information is material inconsistencies with the financial statements or with our knowledge gained during the audit, or otherwise appear to contain material misstatement. In the event that, based on the work we have performed, we conclude that there is material misstatement in this other information, we are required to report this fact.

We have nothing to report in this regard

Management's responsibilities for the financial statements

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

In preparing the financial statements, management is responsible for assessing the ability of the ICF to continue as a going concern, disclosing, where applicable, matters related to the going concern assumption and using the accounting basis based on the going concern assumption, unless management does not intend to liquidate the ICF or to discontinue its activity, or if management has virtually no alternative but to do so.

The persons in charge of general management are responsible for supervising the financial reporting process of the ICF.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain a reasonable degree of assurance as to whether the financial statements as a whole do not contain material misstatements, whether due to fraud or error, and to issue an audit report that includes our opinion. A reasonable level of assurance is a high level of assurance, but there is no guarantee that an audit performed in accordance with ISA will always reveal a material misstatement where one exists. Deviations may arise as a result of fraud or error and are considered material if it could reasonably be expected that they, alone or as a whole, will affect the economic decisions of consumers made on the basis of these financial statements.

Further details of our responsibilities are set out in the Annex to this report.

Registered auditor:

Nikolai Polinchev

Date: May 26, 2020

ANNEX to the Independent Auditor's Report on the Financial Statements of the INVESTOR COMPENSATION FUND for 2019

Auditor's Responsibilities for the Audit of the Financial Statements

As part of the audit in compliance with ISA, we use professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and evaluate the risks of material misstatements the financial statements, whether due to fraud or error, develop and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not disclosing a material misstatement resulting from fraud is higher than the risk of material misstatement resulting from an error, as fraud may involve collusion, falsification, intentional omissions, statements to mislead the auditor, as well as neglect or circumvention of internal control.
- Gain an understanding of internal control relevant to the audit in order to develop audit procedures that are appropriate in the particular circumstances, but not in order to express an opinion on the effectiveness of the ICF's internal control.
- We evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by management.
- We conclude about the appropriateness of management's use of the accounting basis based on the going concern assumption and, based on the audit evidence obtained, whether there is material uncertainty about events or conditions that could arise significant doubts about the ability of the ICF to continue to operate as a going concern. If we conclude that there is material uncertainty, we are required to draw attention in our audit report to the disclosures related to this uncertainty in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the ICF to cease to operate as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements present the underlying transactions and events in a manner that achieves reliable presentation.

We communicate with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including significant deficiencies in internal control that we identify during our audit.



I. STATEMENT OF FINANCIAL POSITION

for the year ended on December 31st, 2019

In thousand BGN

	<i>Explanatory applications</i>	31.12.2019	31.12. 2018
ASSETS			
<i>Non-current tangible assets</i>	5,16	5	5
<i>Non-current intangibles assets</i>	6,17	2	4
<i>Non-current government securities measured at fair value through other comprehensive income</i>	18.1	7 438	6 761
<i>Non-current government securities valued at amortized cost</i>	18.2	9 781	9 117
Total non-current assets		17 226	15 887
<i>Receivables</i>	19	416	555
<i>Short-term part of long-term government securities</i>		207	188
<i>Prepaid expenses</i>	20	0	4
<i>Monetary Funds</i>	21	92	229
Total current assets		715	976
Total assets:		17 941	16 863
RESERVES			
<i>Compensation reserve</i>	22	18 070	16 988
<i>Reserve from fair value revaluations through other comprehensive income</i>		(264)	(170)
<i>Reserve of coupon payments</i>		376	177
<i>Result for the period</i>		(250)	(148)
Total reserves:		17 932	16 847
LIABILITIES			
<i>Obligations to staff</i>		6	8
<i>Obligations to suppliers</i>	23	1	8
<i>Other obligations</i>		2	
Total liabilities:		9	16
Total reserves and liabilities:		17 941	16 863



II. PROFIT OR LOSS STATEMENT AND OTHER COMPREHENSIVE INCOME

for the year ended on December 31st, 2019

In thousand BGN

	<i>Explanatory applications</i>	31.12.2019	31.12.2018
<i>Financial income / (expenses)</i>	24	195	246
<i>Material costs</i>	25	(5)	(5)
<i>Costs for external services</i>	26	(100)	(89)
<i>Depreciation costs</i>	16,17	(6)	(3)
<i>Staff costs</i>	27	(317)	(280)
<i>Other expenses</i>	28	(17)	(17)
<i>Result before tax</i>		(250)	(148)
<i>Result for the period</i>		(250)	(148)
<i>Other comprehensive income</i>			
<i>Income from a change in the fair value of financial assets carried in other comprehensive income, which will subsequently be reclassified to profit / loss</i>		(104)	(170)
<i>Income from change in fair value of financial assets transferred to profit / loss</i>		10	
<i>Income from coupon payments, which will subsequently be reported in profit / loss</i>		234	177
<i>Income from coupon payments transferred to profit / (loss)</i>		(35)	
<i>Total other comprehensive income for the year, net of taxes</i>		105	7
<i>Total comprehensive income for the year</i>		(145)	(141)



III. STATEMENT OF CHANGES IN RESERVES

for the year ended on December 31st, 2019

In thousand BGN

	Compensation reserve	Revaluation reserve	Reserve of coupon payments	Result for the period	Total reserves
Balance as of December 31st, 2017	15 815	-	-	76	15 891
Changes in reserves in 2018					
Transfer of accumulated profit/(loss) from previous years as a reserve for compensations	76			(76)	0
Initial and annual contributions for 2018	1 074				1 074
Net effect of non-received / received contributions for 2017/2018	63				63
Effect of transition to IFRS 9		129			129
Result for the period				(148)	(148)
Other comprehensive income					
- Compensations paid to clients of an investment intermediary	(40)				(40)
- Fair value revaluation reserve through other comprehensive income, which will subsequently be transferred to profit / loss		(299)			(299)
- Reserve of coupon payments, which will subsequently be transferred to the 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
Changes in reserves in 2019					
Initial and annual contributions for 2019	1 203				1 203
Recognized overpaid and unclaimed contributions from investment intermediaries as an annual contribution	7				7
Net effect of non-received / received contributions for 2018/2019	20				20
Transfer of accumulated profit / (loss) from previous years as a reserve for compensations	(148)			148	0
Result for the period				(250)	(250)
Total changes in reserves in 2019	18 070			(250)	17 827
Other comprehensive income					
- Fair value revaluation reserve through other comprehensive income, which will subsequently be transferred to profit / loss		(104)			(104)
- Fair value revaluation reserve transferred to profit / loss		10			10
- Reserve of coupon payments, which will subsequently be transferred to the profit / loss			234		234
- Reserve of coupon payments transferred to profit / (loss)			(35)		(35)
Total comprehensive income		(264)	376		105
Balance as of December 31st, 2019	18 070	(264)	376	(250)	17 932



IV. CASH FLOW STATEMENT

for the year ended on December 31st, 2019

In thousand BGN

	<i>Explanatory applications</i>	31.12.2019	31.12.2018
Cash flows from operating activities:			
<i>Proceeds from initial and Annual contributions from investment intermediaries</i>		1 203	1 074
<i>Compensations paid to clients of investment intermediaries</i>		-	(40)
<i>Cash payments to suppliers</i>		(119)	(100)
<i>Cash payments to staff</i>		(328)	(290)
<i>Cash payments to the budget</i>		(0)	(1)
Net flow generated by operating activities:		756	643
Cash flows from investment activities:			
<i>Payments for acquisition of fixed assets</i>		(3)	(10)
Net flow used in investing activities:		(3)	(10)
Cash flows from financial activities:			
<i>Proceeds from maturity / sale of government securities</i>		1 792	2 418
<i>Cash payments related to government securities</i>		(3 332)	(3 315)
<i>Cash payments for bank fees and commissions</i>		(4)	(5)
<i>Proceeds for coupons on government securities</i>		534	431
<i>Cash payments on coupons related to the purchase of government securities</i>		(49)	(6)
<i>Refunded amount from CCB</i>		169	
Net flow used in financial activities:		(890)	(477)
<i>Net increase / (decrease) of MF and MF equivalents:</i>		<i>(137)</i>	<i>156</i>
<i>MF and MF equivalents at the beginning of the period</i>		229	73
Cash at the end of the period:	10; 21	92	229

INVESTMENT FIRMS RESOLUTION FUND



**ANNUAL
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ABBREVIATIONS

SRF – Single Resolution Fund

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

LPOS – Law on Public Offering of Securities

FSC – Financial Supervision Commission

IAS – International Accounting Standards

IFRS – International Financial Reporting Standards

ICF – Investor Compensation Fund

BRF – Bank Resolution Fund

IFRF – Investment Firms Resolution Fund

GS – Government Securities

MFIA - Markets in Financial Instruments Act



IFRF ACTIVITY REPORT FOR 2019

Description of the activity

The main activity of the Investment Firms Resolution Fund (IFRF) is to finance the implementation of the tools provided in the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF) for recovery and resolution of troubled investment intermediaries. IFRF was established in accordance with the regulatory requirements set out in LRRCIIF and began operating in January 2017.

In 2019, changes were adopted in LRRCIIF. The changes mainly concern the Bank Resolution Fund (BRF), however there are amendments and supplements related to IFRF / Art. 135 et seq. of LRRCIIF/. Two sub-funds are set up, respectively a sub-fund to finance the implementation of the instruments and resolution powers related to investment firms falling within the scope of the LRRCIIF, and a sub-fund for fundraising under Articles 69, 70 and 71 of Regulation (EU) № 806 /2014 and their transfer to the Single Resolution Fund (SRF). As of 2019, there are no investment intermediaries in the Republic of Bulgaria that fall within the scope of Regulation (EU) № 806/2014.

The amendments to the law also removed the requirement for a target level of IFRF resources, which was set at one percent of the amount of protected monetary funds of clients of investment intermediaries.

These amendments at this stage do not lead to the need for changes in the structure and by-laws related to the activity of IFRF.

As of 31.12.2019, the participants in IFRF are a total of 17, these are the investment intermediaries which have a full license to perform activity and provide services 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).

The main source for raising funds in IFRF are the individual annual contributions collected from the participants. The total amount of the annual instalment shall be determined by March 31 of each calendar year by the Financial Supervision Commission, in its capacity as a resolution authority in respect of investment intermediaries. The FSC determines the contribution, taking into account the phase of the economic cycle and the corresponding impact on the financial condition of the investment intermediaries. By 1st of May of the respective year, the FSC shall also determine the individual annual contributions of the participants in the IFRF, after which it shall notify each investment intermediary for the amount of the contribution it must pay within 30 days from the date



of notification. In addition to the annual instalments, the source of funds for IFRF are also the revenues from investing the resources collected in the Fund, interest on overdue receivables and other sources.

In April 2019, the FSC determined the amount of the annual contributions of the investment intermediaries to IFRF in the total amount of BGN 35 205 thousand. All intermediaries falling within the scope of LRRCIIF transferred their contributions within the statutory term. The amount of the contribution in 2018 was BGN 37 161.

As of 31.12.2019, the funds in IFRF amount to BGN 110 thousand.

The resources collected in IFRF may be used only after a decision of the Resolution Authority /FSC/ up to the amount necessary to ensure effective implementation of the resolution instruments.

The investment of the funds of IFRF is carried out in accordance with the provisions of LRRCIIF, the "Investment Policy of IFRF" adopted by the Management Board of ICF and the decisions of the Management Board of ICF. IFRF funds are invested in compliance with the principles of security, liquidity and diversification. In accordance with the established internal procedures, the Management Board periodically reviews the "Investment Policy of IFRF" and, if necessary, makes changes to it.

The funds collected in IFRF can be invested in BGN and EUR deposits and other financial instruments offered by the BNB; euro deposits with foreign banks that have one of the three highest credit ratings assigned by two credit rating agencies; debt instruments denominated in euro, excluding embedded options, issued by foreign countries, foreign banks, foreign financial institutions, international financial organisations, foreign agencies or other foreign companies whose instruments or issuers have one of the three highest credit ratings assigned by two agencies for credit rating.

According to the regulatory requirements, IFRF also has the right to perform repo transactions / repurchase agreements / in EUR with foreign banks, foreign financial institutions or international financial organizations, which have one of the three highest credit ratings assigned by two credit rating agencies. rating and lend against equivalent collateral their debt instruments to foreign banks, foreign financial institutions or international financial organizations that have one of the three highest credit ratings assigned by two credit rating agencies. The funds of IFRF may be assigned for management of the BNB against remuneration, in compliance with the legal requirements.



By decision of the Management Board of the ICF, in 2019, about 67% of the funds of IFRF are invested in government securities, and 33% of the funds are available in the BNB in a separate account, which is in the name of ICF, as IFRF is not an independent legal entity, respectively has no right to its own account.

In 2020, one intermediary dropped out of IFRF because it changed its license from full to partial one. In 2020, the Management Board of ICF will continue to collect and invest the resources of IFRF in accordance with the requirements set in the regulations and internal rules of the Fund.

IFRF management

The Management Board of the Investor Compensation Fund also manages IFRF, such as the costs related to the management of this fund are part of the total administrative costs of ICF and are financed in accordance with the Law on Public Offering of Securities (LPOS).

The Management Board of the ICF is responsible for the implementation of the decisions taken by the FSC in connection with the implementation of the resolution instruments. Depending on the instrument chosen by the FSC, different responsibilities and actions to be taken arise for the IFRF. In this regard, an "Action Plan and Procedures of IFRF" was drawn, which is compliant and fully based on the provisions of LRRCIIF. This plan was created for the purpose of timely and adequate response to the activation of IFRF, outlining in detail the steps and actions to be taken by the Fund in the individual cases provided for in LRRCIIF. In 2019, there were no circumstances that would lead to the activation of the procedures for resolution of investment intermediaries, therefore it was not necessary to use funds from IFRF.

The Management Board of ICF is responsible for the collection and investment of the funds of IFRF, as well as for concluding contracts for borrowing funds and other forms of support and granting loans under the terms and conditions of LRRCIIF.

The IFRF Activities Department at the ICF assists the Management Board in the performance of its functions under the LRRCIIF, including the management of the IFRF funds. As of December 31, 2019, there is one employee appointed in this department.

**INVESTMENT FIRMS
RESOLUTION FUND**



**FINANCIAL
STATEMENTS
2019**

REPORT OF INDEPENDENT AUDITOR

To: The Management Board of the INVESTOR COMPENSATION FUND

Report on the financial statement

Opinion

We have audited the financial statements of the INVESTMENT FIRMS RESOLUTION FUND, consisting of the statement of financial position as of 31.12.2019 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended at that date, as well as the 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 31.12.2019, its financial performance and cash flows for the year then ended, in accordance with International Accounting Standards, adopted by the European Union.

Grounds 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 Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements applicable to our audit of the financial statements in Republic of Bulgaria, and we have 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 audit opinion.

Report on other legal and regulatory requirements - Annual activity report

In addition to our responsibilities and reporting under the ISA, with respect to the activity report, we have followed the procedures added to those required by the ISA. These procedures concern checks on the availability as well as checks on the form and content of this other information in order to assist us in forming an opinion on whether the other information includes the disclosures and reports 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 the procedures performed, our opinion is that:

- The information included in the activity report for the financial year for which the financial statements have been prepared corresponds to the financial statements.
- The activity report has been 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 on it

Management is responsible for the other information. The other information consists of an activity report prepared by management in accordance with Chapter Seven of the Accountancy Act, but not includes the financial statement and our audit report on it.

Our opinion on the financial statement does not cover the other information and we do not express any form of security conclusion about it, unless explicitly 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 thereby determine whether that other information is materially inconsistent with the financial statements or with our knowledge acquired during the audit or otherwise appears to contain material misstatement. In the event that, based on the work we have performed, we conclude that there is material misstatement in this other information, we are required to report this fact.

We have nothing to report in this regard.

Management's responsibilities for the financial statements

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

In preparing the financial statements, management is responsible for assessing the ability of the fund to continue as a going concern, disclosing, where applicable, matters related to the going concern assumption and using the accounting basis based on the going concern assumption, unless management does not intend to liquidate the INVESTMENT FIRMS RESOLUTION FUND or to discontinue its activity, or if management has virtually no alternative but to do so.

The persons in charge of general management are responsible for supervising the financial reporting process of the fund.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain a reasonable degree of assurance as to whether the financial statements as a whole do not contain material misstatements, whether due to fraud or error, and to issue an audit report that includes our opinion. A reasonable level of assurance is a high level of assurance, but there is no guarantee that an audit performed in accordance with ISA will always reveal a material misstatement where one exists. Deviations may arise as a result of fraud or error and are considered material if it could reasonably be expected that they, alone or as a whole, will affect the economic decisions of consumers made on the basis of these financial statements.

Further details of our responsibilities are set out in the Annex to this report.

Registered auditor:

Nikolai Polinchev

Date: February 25, 2020

ANNEX to the Independent Auditor's Report on the Financial Statements of the INVESTMENT FIRMS RESOLUTION FUND for 2019

Auditor's Responsibilities for the Audit of the Financial Statements

As part of the audit in compliance with ISA, we use professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and evaluate the risks of material misstatements in the financial statements, whether due to fraud or error, develop and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not disclosing a material misstatement resulting from fraud is higher than the risk of material misstatement resulting from an error, as fraud may involve collusion, falsification, intentional omissions, statements to mislead the auditor, as well as neglect or circumvention of internal control.
- Gain an understanding of internal control relevant to the audit in order to develop audit procedures that are appropriate in the particular circumstances, but not in order to express an opinion on the effectiveness of the Fund's internal control.
- We evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by management.
- We conclude about the appropriateness of management's use of the accounting basis based on the going concern assumption and, based on the audit evidence obtained, whether there is material uncertainty about events or conditions that could raise significant doubts about the ability of the Fund to continue to operate as a going concern. If we conclude that there is material uncertainty, we are required to draw attention in our audit report to the disclosures related to this uncertainty in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Fund to cease to operate as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements present the underlying transactions and events in a manner that achieves reliable presentation.

We communicate with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including significant deficiencies in internal control that we identify during our audit.



I. STATEMENT OF FINANCIAL SITUATION

for the year ended on December 31st, 2019

thousand BGN

	<i>Explanatory applications</i>	31.12.2019	31.12.2018
ASSETS			
<i>Non-current securities reported at amortized cost</i>	5.1	74	74
<i>Monetary Funds</i>	5.2	36	0
Total Assets:		110	74
RESERVES			
<i>Recovery and restructuring reserve</i>	5.3	110	74
Total reserves:		110	74
Total reserves:		110	74



II. PROFIT OR LOSS STATEMENT AND OTHER COMPREHENSIVE INCOME

for the year ended on December 31st, 2019

thousand BGN

	<i>Explanatory applications</i>	<i>31.12.2019</i>	<i>31.12.2018</i>
<i>Financial income / expenses</i>	<i>5.3</i>	<i>1</i>	<i>0</i>
<i>Result before tax</i>	<i>5.3</i>	<i>1</i>	<i>0</i>
<i>Result for the period</i>		<i>1</i>	<i>0</i>
<i>Other comprehensive income</i>		<i>-</i>	<i>-</i>
<i>Total other comprehensive income for the year, net of taxes</i>		<i>-</i>	<i>-</i>
<i>Total comprehensive income for the year</i>		<i>1</i>	<i>0</i>



III. STATEMENT OF CHANGES IN RESERVES

for the year ended on December 31st, 2019

	<i>Recovery and restructuring reserve</i>	<i>Result for the period</i>	thousand BGN <i>Total reserves</i>
<i>Balance as of December 31st, 2017</i>	<i>37</i>		<i>37</i>
<i>Changes in reserves in 2018</i>			
<i>Annual contributions</i>	<i>37</i>		<i>37</i>
<i>Balance as of December 31st, 2018</i>	<i>74</i>		<i>74</i>
<i>Changes in reserves in 2019</i>			
<i>Annual contributions</i>	<i>35</i>		<i>35</i>
<i>Result for the period</i>		<i>1</i>	<i>1</i>
<i>Balance as of December 31st, 2019</i>	<i>109</i>	<i>1</i>	<i>110</i>



IV. CASH FLOW STATEMENT

for the year ended on December 31st, 2019

	<i>Explanatory Applications</i>	31.12.2019	31.12.2018
thousand BGN			
Cash flows from operating activities:			
<i>Proceeds from annual contributions of investment intermediaries</i>	5.3	35	37
Net flow generated by operating activities:		35	37
Cash flows from investing activities:			
<i>Cash payments related to GS</i>		-	(74)
<i>Proceeds against government securities coupons</i>		1	0
<i>Cash payments on coupons related to the purchase of government securities</i>		-	0
Net flow used in financing activities:		1	(74)
<i>Net increase / (decrease) of monetary funds:</i>	5.2	36	(37)
<i>Cash at the beginning of period</i>		0	37
Cash at the end of the period:		36	0