BULGARIAN DEPOSIT
INSURANCE FUND

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INSURANCE
FUND

ANNUAL REPORT

2018

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27 Vladayska Street, 1606 Sofia, Bulgaria
Phone: +359 2 917 2049, +359 2 953 1217, +359 700 144 03
Fax: +359 2 952 1100
E-mail: contact@dif.bg
www.dif.bg
Contact person: Roumyana Markova, Corporate Communications and International Cooperation Department
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This version of the financial statements is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

To
The Prime Minister of the Republic of Bulgaria
The Governor of the Bulgarian National Bank
The President of the National Audit Office

Dear Sirs,

In compliance with the requirements of the Law on Bank Deposit Guarantee, I have the pleasure to present to your attention herewith the Annual Report of the Bulgarian Deposit Insurance Fund for 2018.

Radoslav Milenkov
Chairman of the Management Board
Bulgarian Deposit Insurance Fund

Bulgarian Deposit Insurance Fund

Management Board:

Chairman:	**Radoslav Milenkov**
Deputy Chairwoman:	**Nelly Kordovska**
Members:	**Bisser Manolov**
	Borislav Stratev
	Valery Dimitrov

Chief Accountant: **Yana Slavcheva**

Head Office: *27 Vladayska Street, 1606 Sofia, Bulgaria*

Auditor: **PricewaterhouseCoopers Audit OOD**

9-11 Maria Louisa Blvd., 1000 Sofia, Bulgaria

Contents

List of abbreviations:

BDIF or the **Fund** – Bulgarian Deposit Insurance Fund

BNB – Bulgarian National Bank

BRF – Bank Resolution Fund

DGS – Deposit Guarantee Scheme

DLIs – Disbursement Linked Indicators

EBA – European Banking Authority

EBRD – European Bank for Reconstruction and Development

EC – European Commission

ECB – European Central Bank

EDIS – European Deposit Insurance Scheme

EFDI – European Forum of Deposit Insurers

EU – European Union

GDP – Gross Domestic Product

GDPR – General Data Protection Regulation

HICP – Harmonised Index of Consumer Prices

IADI – International Association of Deposit Insurers

IAS – International Accounting Standards

IASB – International Accounting Standards Board

IBRD – International Bank for Reconstruction and Development (World Bank)

IFRS – International Financial Reporting Standards

KTB, KTB (in bankruptcy) – Corporate Commercial Bank AD (in bankruptcy)

LBB – Law on Bank Bankruptcy

LBDG – Law on Bank Deposit Guarantee

LCI – Law on Credit Institutions

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

MB – Management Board

MF – Ministry of Finance

SRF – Single Resolution Fund

BDIF Mission

To protect depositors' funds in banks, as well as creditors' interests in bank bankruptcy proceedings and to participate in the process of bank resolution in the cases provided for by the law, thus contributing to the stability of and confidence in the financial system

Vision

Competent and active participant in the financial stability system

Objectives

Maintaining depositors' confidence

Maintaining financial stability

Mandate

The Bulgarian Deposit Insurance Fund is a legal entity established in 1999.

In accordance with the Law on Bank Deposit Guarantee BDIF repays the guaranteed amount of deposits, determines and collects annual and extraordinary premium contributions from banks, and invests its assets in deposits with the BNB and in highly liquid debt securities issued or guaranteed by the Bulgarian State or issued by first class foreign issuers.

In compliance with the Law on Bank Bankruptcy BDIF protects the interests of creditors and oversees the lawful and appropriate exercise of trustee's powers in bank bankruptcy proceedings.

Under the Law on the Recovery and Resolution of Credit Institutions and Investment Firms a Bank Resolution Fund has been established to finance the resolution tools. The Bank Resolution Fund is managed by the BDIF Management Board and its funds are used upon a decision of the BNB, in its capacity as bank resolution authority.

Chairman's Address

Dear Ladies and Gentlemen,

In 2018 BDIF continued to effectively preform its mandate focusing on several key areas.

BDIF ran tests with member banks of the deposit guarantee system in Bulgaria in accordance with the updated Programming Cycle of Stress Tests of the Deposit Guarantee System for the Period 2017-2021. In addition to the Guidelines issued to the member banks BDIF Management Board adopted Methodology for Assessment of Stress Tests and a Time Schedule. The results of the tests showed high quality of information exchange and operability. The first test of operational cross-border cooperation has been scheduled for 2019, in line with the EBA Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU.

The amendments introduced to the Law on Bank Deposit Guarantee enhanced BDIF administrative independence. The essential amendments to the Law on Bank Bankruptcy reflect the legislators' will for achieving optimal efficiency of trustee's actions related to replenishing the bankruptcy estate. With the view to a more efficient execution of BDIF major functions the ordinance on calculation and collection of premium contributions from banks was amended accordingly. Following the enforcement of the General Data Protection Regulation BDIF aligned its internal regulation framework in this area.

In the payout of the covered deposits with KTB by the end of 2018 BGN 3,685.67 million, or 99.74 per cent, of covered deposits were paid out. In the bankruptcy proceedings of the bank the implementation of the adopted five-year liquidation plan is underway. The sale of Commercial Bank Victoria was finalised. With regard to the first partial distribution account for allocation of the available amounts among the creditors of the bank, a ruling of the court is expected in order to proceed with its execution.

The assets of the Bank Resolution Fund are managed in compliance with the legal regulations.

BDIF fulfiled its commitments under the Loan Agreements with the International Bank for Reconstruction and Development and the European Bank for Reconstruction and Development. In 2018 no new tranches were used under the concluded loan contract between the Republic of Bulgaria and BDIF.

As a financial safety net player BDIF maintains its capacity to fulfil its mandate and powers by closely cooperating with its institutional partners – the Bulgarian National Bank, the Ministry of Finance, the Association of Banks in Bulgaria and the banking community in order to contribute to the stability of and confidence in the Bulgarian financial system.

Radoslav Milenkov
Chairman of the Management Board
Bulgarian Deposit Insurance Fund

BULGARIAN DEPOSIT INSURANCE FUND

ANNUAL REPORT 2018

Activity Report of the Bulgarian Deposit Insurance Fund Management for 2018

Developments in the Deposit Guarantee System in 2018

Programming Cycle of Stress Tests of the Deposit Guarantee System

BDIF continued performing the Programming Cycle of Stress Tests of the Deposit Guarantee System for the Period 2017-2021. The Programming Cycle adopted by the MB of BDIF in early 2017 was updated in 2018 for compliance with the requirements of EBA Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU.

The five-year programming cycle encompasses all major intervention scenarios related to a payout. The areas for assessing BDIF preparedness to fulfil its mandate are: quality assessment of standardised SCV files, payment instruments, funding capacity, operational capacity, communication with depositors, operational cross-border cooperation.

To ensure that BDIF is able to technically start a payout of covered deposits in the statutory deadline standardised SCV files were introduced. The files contain the necessary information about the banks' customers to whom BDIF is obliged to pay the guarantee. File structure and contents are specified in the Guidelines on the contents and format of information provided to BDIF for the purposes of payout and testing the deposit guarantee system, updated by BDIF Management Board in 2018.

In accordance with the Programming Cycle in 2017 and 2018 member banks were tested except for one, which during that period was migrating customers' accounts due to a merger with another bank. The following areas were checked in the tests performed so far:

– testing the banks' preparedness to provide standardised SCV files in compliance with BDIF Guidelines;

– testing the data transfer between BDIF and the banks;

– testing the upgrade in BDIF payout software;

– testing BDIF operational capacity; and

– testing the servicing bank.

Methodology for Assessment of Stress Tests

To complement the Guidelines on the contents and format of information provided to BDIF for the purposes of payout and testing the deposit guarantee system issued in June 2017 by BDIF, the Board adopted in 2018 Methodology for assessment of stress tests following EBA Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU, as well as a Time Schedule for performing the tests of the DGS in 2019. Further, BDIF Management Board issued Methodological Notes to the Guidelines with a view to enhancing the quality of the information provided by banks.

Follow-up tests were run with some of the banks, where the results showed improvement both in the time for providing the standardised SCV files required from banks and the quality of the latter.

The findings from the tests performed in 2017-2018 were used to further refine the payout software, as well as to provide detailed feedback to banks to reduce reported lapses and inaccuracies.

Test runs with the member banks of the DGS will be a major line of BDIF activities in 2019, and the execution of the first operational cross-border cooperation test has been scheduled in compliance with

the requirements of EBA Guidelines and the applicable Programming Cycle of Stress Tests of the Deposit Guarantee System for the Period 2017-2021 adopted by the BDIF Management Board.

Amendments to the Statutory Framework

Law on Bank Deposit Guarantee

In 2018 amendments to the LBDG were introduced, on the one hand fine-tuning the definition of 'deposit', and on the other abolishing BDIF's obligation to submit to the Bulgarian National Bank the adopted annual budget for the administrative expenses of the Fund and the report on its implementation.

Law on Bank Bankruptcy

The main amendments to the LBB were dictated by the legislators' intent to maximise the efficiency of the trustee's actions related to replenishing the bankruptcy estate. With the aim of ensuring utmost protection of creditors' interests amendments were introduced declaring null and void the deletion by the conservators, interim trustee or trustee in the period from the placement of the bank under special supervision until the start of the liquidation, of collateral instituted by the bank's debtors, whereby the collateral is deemed effective and its ranking is preserved. New provisions were introduced regarding the relative invalidity of transactions of transfers of claims originating from the bankrupt bank effected with no actual consideration, as well as regarding the relative invalidity of transactions involving transfers of shares made by debtors of the bank after its placement under special supervision. For higher efficiency, the term for repeal proceedings was extended from 2 to 5 years from the opening of the bankruptcy proceedings.

A further part of the amendments are related to empowering the bankruptcy court to allow temporary trustee, trustee and members of the BDIF Management Board access to data for tracking operations related to retrieval of received property originating from the bank in bankruptcy in the payment system for real-time gross settlement under the Law on Payment Services and Payment Systems and the TARGET2 system of the BNB.

Ordinance No. 29 on Establishing the Procedure for Financing the Administrative Expenses of the Bulgarian Deposit Insurance Fund

In view of the adopted amendments to the LBDG the BDIF Management Board in end-2018 tabled to the BNB revisions to Ordinance No. 29 which introduce changes regarding the entities to whom BDIF presents its budget and the report on its implementation as well as the information on the sum of annual contributions. Further amendments relate to the inclusion and presentation of non-material revenues/ recovered expenses from non-core transactions, such as: awarded legal costs, reintegrated provisions, insurance indemnities, sale of assets, etc. in the budget statement. The review and adoption by the BNB of the proposed amendments to the Ordinance are upcoming.

Ordinance No 30. of the BNB on Calculation of the Amount and Collection of Premium Contributions Due by Banks Under the Law on Bank Deposit Guarantee

The proposed amendments by the BDIF Management Board to Ordinance No. 30 were adopted by the BNB at the end of 2018. The main change is related to ensuring the Fund's capacity to start repayment of deposits within 7 working days. To this end, the deadline for determining and collecting extraordinary contributions from banks was reduced from 45 days to 7 days. Amendments were made to detail the procedure used to adjust the premium paid by a bank due to alterations in the sum of guaranteed deposits or information on the basis of which the risk profile of the banks is determined. A new chapter on the actions of the BNB and the BDIF is included in case a member bank of the deposit guarantee system in

the Republic of Bulgaria fails to pay a premium contribution due within the time limits set by the LBDG and the Ordinance. In addition, the Fund also issued Methodological Notes on the application of the Guidelines for the provision of information for calculating the amount of premiums due by banks.

Protection of Personal Data at BDIF

BDIF ensures protection of personal data processed in relation to its mandate under the Law on Bank Deposit Guarantee, the Law on Bank Bankruptcy and the Law on the Recovery and Resolution of Credit Institutions and Investment Firms, as well as any other data containing personal information processed by BDIF.

Following the enactment on 25 May 2018 of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), BDIF updated its internal statutory framework and elaborated new rules on the protection of personal data. BDIF commissioned its internal auditor to conduct compliance check of the updated internal statutory framework against the provisions of the applicable legislation in the area of personal data protection. The audit findings stated that BDIF had taken adequate measures to ensure compliance of its activities related to processing of personal data of individuals and made recommendations for amendments in some provisions within the internal framework.

In compliance with the GDPR requirements in 2018 BDIF also appointed a Data Protection Officer and filed the relevant notification to the Commission for the Protection of Personal Data. BDIF also carried out an impact assessment on data protection for the processing of personal data. The results of the evaluations have shown that, with the protection measures in place, there is no significant probability that the data processing activities in question will pose a high risk to the rights and freedoms of the data subjects.

Payout of Covered Deposits with KTB and Bankruptcy Proceedings Against KTB (in bankruptcy)

Payout of Covered Deposits with KTB

Payout of guaranteed amount of deposits with KTB started on 4 December 2014 via nine servicing banks. Through their branch network by the end of 2018 BGN 3,685,666 thousand, or 99.74 per cent, of the guaranteed amounts were reimbursed to nearly 112 thousand depositors.

The substantial part of the covered deposits was reimbursed by the end of 2014 – BGN 3,196,457 thousand, or 87.18 per cent, to over 89 thousand depositors. In the following four years the payout slowed down, and in end-2015 BGN 3,666,377 thousand, or 99.30 per cent, were repaid to over 110 thousand depositors, respectively as of end-2016 – BGN 3,680,089 thousand, or 99.60 per cent, were disbursed to over 111 thousand depositors, and by the end of 2017 – BGN 3,683,232 thousand, or 99.68 per cent, to nearly 112 thousand depositors. In 2018 via the branch network of the servicing banks BGN 2,434 thousand were paid to 131 depositors of the bank.

Bankruptcy Proceedings Against KTB (in bankruptcy)

With a judgement from 22 April 2015 Sofia City Court opened the bankruptcy proceedings against KTB determining 6 November 2014 as the initial date of insolvency. In a subsequent judgement by Sofia Appellate Court the initial date of insolvency was modified to 20 June 2014. In the bankruptcy proceedings against KTB (in bankruptcy) BDIF fulfils its legally vested functions to exercise control on the lawful and appropriate exercise of the trustee's powers and to protect creditors' interests.

In compliance with its administrative and oversight powers under the LBB, BDIF conducted the following controlling activities during the year:

- gave permissions related to the adopted by BDIF Management Board plan for liquidation of the assets from the bankruptcy estate;
- gave permissions to commission the services of external valuation experts, and approved their remuneration;
- gave permissions for the sale of assets in accordance with Art. 85, para 6, item 2 of the LBB;
- approved trustee's monthly budgets for the expenses of the bankruptcy proceedings and approved the reports on the budget;
- gave prior permissions for extraordinary expenses in the bankruptcy proceedings based on a reasoned request;
- provided prior permissions for trustee's actions or transactions where the property interest exceeded BGN 10,000;
- gave prior permission for disposal with the bank's cash funds;
- issued methodological instructions to the trustee relating to the exercise of their powers;
- defined trustee's remuneration in accordance with BNB Ordinance No 33 on trustee's remuneration; and
- conducted inspections on trustee's activity.

Preservation and Replenishment of the Bankruptcy Estate of KTB (in bankruptcy)

With the aim of replenishing the bankruptcy estate by the end of 2018 the trustee of KTB (in bankruptcy) had undertaken legal measures for initiating and conducting more than 1,226 litigations – order-for-payment, declaratory, repeal and enforcement proceedings, proceedings for recovery of property originating from the bank against third parties, as well as bankruptcy proceedings against legal entities (borrowers, joint debtors, incl. against third parties). 294 order-for-payment, declaratory, repeal and enforcement proceedings were initiated against physical persons, debtors to the bank. 136 claims were filed against former KTB administrative officers for awarding compensation for damages incurred to the bank, as well as 24 preliminary injunction proceedings. As of end-2018 pending are two proceedings against the auditor who certified the bank's financial statements for the past few years before the bank was declared bankrupt. Pending are 48 lawsuits on appeals by the bank's creditors against the accepted and rejected claims in the list of creditors of the bankruptcy estate of KTB (in bankruptcy), and 131 court proceedings were closed as of year-end. Set-offs equalling BGN 1,172,912 thousand were challenged in 201 litigations.

Further to the above proceedings, 72 lawsuits on the legal grounds of Art. 60a of the LBB and Art. 135 of the Law on Obligations and Contracts are ongoing. As of 31 December 2018 pending are also the proceedings on the appeals of the first partial account for distribution of collected cash, drawn by the KTB trustee, and approved and amended by BDIF Management Board. The litigation was opened on the basis of 9 appeals of creditors against the resolution of BDIF Management Board.

Procedure for Liquidation of Assets from the Bankruptcy Estate of KTB (in bankruptcy)

Throughout 2018 on a monthly basis public disposition of individual items and property rights, as well as aggregations of property items and rights included in the approved by the BDIF Management Board in November 2016 Liquidation plan for the bankruptcy estate of KTB (in bankruptcy) were held. The BDIF Chairman issued the requisite permissions for the auctions.

During the year the approved by the BDIF Management Board Liquidation Plan was updated vis-à-vis the inclusion of unrealised assets from previous months. Included were assets which were excluded under Art. 78, para 4 of the LBB after lifting the statutory restrictions, and also receivables included in the Liquidation Plan after repayment of a creditor's liability thereon.

At the end of 2018 a procedure was launched for the sale of an aggregation of financial assets under Art. 87, para 5 in relation to paras 8 and 9 of the LBB, including the shares held by the bank representing 51 per cent of the capital of the Management Company 'Trend Asset Management' AD and the respective shares in the funds managed by it: Mutual Fund 'Trend Money Market Fund', Mutual Fund 'Trend Balanced Fund' and Mutual Fund 'Trend Fund Shares'. The deadline for submission of letters of interest to KTB (in bankruptcy) expired on 30 November 2018. An indicative bid was received within the set deadline and a binding bid was submitted at the next stage of the negotiations.

First Partial Account of the Cash Collected from Liquidated Property for Distribution Among the Creditors of KTB (in bankruptcy)

At the beginning of March 2017 KTB trustee announced in the Commercial Register the drawn partial account for distribution of the collected cash among the creditors with accepted claims. The partial account distributes cash amounting to BGN 570 million, including nearly BGN 534 million allocated for disbursement, and BGN 36 million allocated for contingent claims. Within the 14-day time limit under Art. 98 of the LBB twenty-seven objections against the partial distribution account were received at BDIF.

BDIF Management Board examined each of the objections and issued a resolution allowing the partial distribution account drawn by the KTB trustee to be amended. The first partial distribution account approved by BDIF Management Board was published in the Commercial Register at the end of April 2017.

Nine objections (out of 7,022 creditors) to the approved by the BDIF Management account were filed and a court case was opened by the bankruptcy court. After several hearings held in 2018 no date was set for passing a judgment on the case, and as of the date of this report the next hearing was scheduled by the court panel for 10 May 2019. Following the court's final ruling, KTB trustee will commence the execution of the partial account.

Commercial Bank Victoria

The procedure for the sale of 100 per cent of the shares of the capital of Commercial Bank Victoria and all receivables of KTB (in bankruptcy) from Commercial Bank Victoria under the LBB was finalised in 2018 following all requisite approvals by the competent regulatory authorities. The acquisition of Commercial Bank Victoria through merger was entered into the Commercial Register with the Registry Agency on 21 November 2018. The received price provided not only for a full refund of the investment in the form of shares and other financial instruments made by KTB in June 2014 but also generated a positive net cash flow (profit) of about BGN 2.8 million.

Reporting in the Bankruptcy Proceedings of KTB (in bankruptcy)

In the course of the bankruptcy proceedings in compliance with Art. 32, para 6 of the LBB the trustee submitted monthly reports on their activity to BDIF and to the Minister of Finance. The reports, save for the information protected by law, have been posted on BDIF website.

The KTB trustee submitted the monthly reports on their activity and reports in accordance with the statutory requirements in the format and contents stipulated by BDIF.

The approved by BDIF Management Board monthly reports of the Chairman of the BDIF Management

Board on the performance of his functions under the LBB were sent for reference to the National Assembly.

BDIF acts related to the bankruptcy proceedings of KTB (in bankruptcy) were entered in a dedicated register that is public. The register is also kept in an e-format available on BDIF website.

Communication with Depositors and Creditors of KTB (in bankruptcy)

BDIF continuously provided information to the depositors and creditors of KTB (in bankruptcy), the major channel of communication being BDIF website, where data on payout on a weekly basis, trustee's monthly reports, the e-register of BDIF acts and any relevant information on the bankruptcy proceedings of KTB (in bankruptcy) were posted.

Interinstitutional Cooperation

Throughout the drafting of legislative amendments BDIF coordinated the proposed changes with its institutional partners, the BNB and the Association of Banks in Bulgaria.

In connection with its membership in Financial Services No. 26 Working Group to the Council on European Issues, established by an order of the Minister of Finance, BDIF participated in its activities within its scope of competence.

Loan Agreements with the International Bank for Reconstruction and Development and the European Bank for Reconstruction and Development and Partial Repayment of the Loan from the Republic of Bulgaria

In 2018 in view of the market situation BDIF continued pursuing conservative strategy maintaining low modified duration of the bond portfolio.

BDIF was fulfiling its commitments under the Loan Agreements with the International Bank for Reconstruction and Development and the European Bank for Reconstruction and Development signed in 2016 and providing government guaranteed loans to BDIF. In March BDIF utilised the final EUR 20 million from the World Bank loan. As of 31 December BDIF reported and the WB confirmed the achievement of eight DLIs stipulated in the Loan Agreement. The fulfilment of the last two indicators related to the receipt in BDIF accounts of cash amounting to BGN 400 million out of the distribution of liquidated property from the bankruptcy estate of KTB (in bankruptcy) until the end of 2018 is contingent upon a pending litigation based on filed appeals against the BDIF Management Board resolution on the approval of the drawn by the trustee first partial distribution account of the cash available from the property in the bankruptcy estate. In this regard in October BDIF requested from the WB extension of the deadline of the project with another 12 months and lowering of the contractual requirement for the reserve ratio. Approval was granted by the IBRD in December 2018.

In 2018 no new tranches under the loan contract between the Republic of Bulgaria and BDIF were utilised. As of end-2018 the amount of the outstanding principal stood at BGN 500 million, with BDIF having repaid a total of BGN 1.175 billion of the utilised BGN 1.675 billion. The aggregate amount of interest paid on the loan between 2015 and 2018 was BGN 119.533 million. BDIF has declared plans to repay the outstanding principal also before the maturity of the loan.

Proposal of the European Commission for Establishing a European Deposit Insurance Scheme

In November 2015 the European Commission proposed the establishment of a European Deposit Insurance Scheme for the euro area countries as the third pillar of the Banking Union. The Banking Union was set up to promote confidence in banks, with the European Deposit Insurance Scheme strengthening depositor protection, enhancing financial stability and further reducing the links between banks and the sovereign, as banks will rely to a lesser extent on public money in time of crisis.

Under the EC proposal the EDIS shall be implemented in several stages. At its final stage of execution the payout shall be fully funded by the EDIS with the assistance of and the close cooperation with national DGSs. The negotiations on the EC proposal in the Council and the European Parliament continued throughout 2018.

BDIF follows track of the negotiations on the EDIS proposal, and during the Bulgarian Presidency of the Council of the European Union BDIF experts were actively participating in the team assisting the Bulgarian delegation which chaired the meetings of the Ad-hoc Working Party on the Strengthening of the Banking Union set up by the EU Council.

International Cooperation

In the framework of its membership in the European Forum of Deposit Insurers BDIF was an active participant in the information exchange among its members via queries and questionnaires, as well as in the activities of the EFDI EU Committee and the meetings of its working groups on the Banking Union, cross-border cooperation, stress tests, risk-based premiums, database and public awareness. BDIF representatives participated in seminars and conferences organised by EFDI.

With regard to the preparation for the review of Directive 2014/49/EU in 2019 and in view of eventually providing the EC with recommendations for further harmonisation the EBA initiated a Task Force on DGS. BDIF representative participated in its activity and attended the meetings held.

As a member of the International Association of Deposit Insurers BDIF was participating in the activities of the IADI Technical Committees on data and survey, research and guidance, as well as in the work of the Europe Regional Committee, and provided replies to questionnaires and surveys from the IADI members. BDIF attended the annual conference of the Europe Regional Committee and a conference on bank resolution, crisis management and deposit insurance, organised jointly by the Financial Stability Institute at the Bank for International Settlements, Basel and the IADI.

By invitation of the World Bank BDIF representatives took part in a conference on the international practices on restructuring of non-performing loans organised by the World Bank's Financial Sector Advisory Center in Vienna.

Public Awareness

Promoting depositors' awareness of the mechanism of deposit protection and their confidence in the deposit guarantee system is a major goal of BDIF communication activities.

BDIF employs various channels for depositor communication – by telephone, at BDIF premises or by correspondence in writing, as well as information materials including *Questions and Answers About Deposit Guarantee* brochure distributed in print via banks' branch networks, and disseminated in an e-format via BDIF and banks' websites. Further, depositors are advised on the main features of the deposit

guarantee system by the Information Bulletin attached to the deposit contracts.

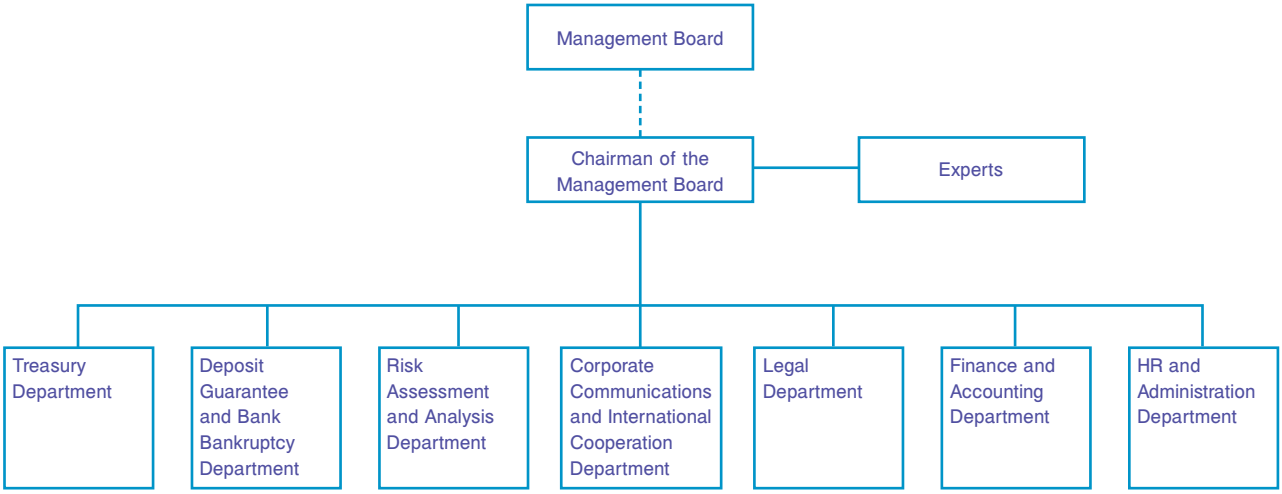
At the end of 2017 BDIF commissioned a market research agency to conduct a public opinion survey to evaluate the level of awareness, attitudes and expectations of depositors and the public about the principles and conditions of deposit guarantee and the role and functions of BDIF. The nationally representative survey among individuals and companies showed a relatively high degree of awareness of the scheme and a good assessment of BDIF's work. The findings and the recommendations of the survey informed last year the strategy of BDIF for enhancing public awareness on the deposit guarantee system.

Human Resource Management

In line with the policy adopted by the management of BDIF for promoting the qualification and competencies of the institution's expert staff, BDIF officers attended various professional trainings.

BDIF had 20 employees as of 31 December 2018.

BDIF Organisation Chart as of 1 January 2019



This Report was approved by the Management Board of the Bulgarian Deposit Insurance Fund on 21 March 2019 and signed on its behalf by:

Radoslav Milenkov
Chairman of the Management Board
Bulgarian Deposit Insurance Fund

Appendix No. 1 Major Financial Indicators of BDIF

Statement of BDIF financial position as at 31 December 2018

BGN '000

	31.12.2018	31.12.2017
TOTAL ASSETS	**1,396,151**	**1,218,097**
– Cash and cash equivalents	650,996	455,786
– Securities reported at fair value in other comprehensive income	22,664	66,563
– Subrogation claims against banks	720,584	695,003
– Property and equipment	645	655
– Intangible and other assets	1,263	90
TOTAL LIABILITIES	**1,703,986**	**1,674,179**
– Attracted funds	1,682,143	1,651,538
– Liabilities on covered deposits	20,169	21,438
– Financing of administrative expenses	1,129	850
– Other liabilities	545	353
NET LIABILITIES	**(307,835)**	**(456,082)**

Statement of BDIF operations for the year ended 31 December 2018

BGN '000

	31.12.2018	31.12.2017
Net income for the year	**148,797**	**113,972**
– Premium contributions	158,331	153,362
– Investment income	(762)	2,005
Interest income from government securities	629	2,502
Net gains/(losses) from sales/maturity of government securities	(6)	(6)
Interest expense on deposits and current accounts	(1,385)	(491)
– Earnings/expenses on covered deposits with a bank with revoked license	24,311	(7,842)
– Interest on attracted funds	(33,215)	(32,786)
– Other income/losses, net	132	(767)
– Income from financing of administrative expenses	2,606	2,558
– General administrative expenses	(2,606)	(2,558)
Other components of net assets		
Comprehensive income that will be recognised in the Statement of operations in the future	**(550)**	**(1,955)**
– Net change in fair value of financial assets reported at fair value in other comprehensive income	(543)	(1,949)
Losses resulting from revaluations during the year	(543)	(1,949)
– Actuarial loss	(7)	(6)
TOTAL COMPREHENSIVE RESULT FOR THE YEAR	**148,247**	**112,017**

Statement of BDIF cash flows for the year ended 31 December 2018

BGN '000

	at 1 January 2018	at 31 December 2018	at 1 January 2017	at 31 December 2017
Cash and cash equivalents	455,786	650,996	247,439	455,786

Statement of changes in net assets of BDIF as at 31 December 2018

	BGN '000
Balance as at 1 January 2017	**(568,099)**
Total comprehensive income for the year	112,017
Balance as at 31 December 2017	**(456,082)**
Total comprehensive income for the year	148,247
Balance as at 31 December 2018	**(307,835)**

The structure of the financial assets and liabilities of BDIF as at 31 December by category is presented in the table below:

		BGN '000
	31.12.2018	**31.12.2017**
Financial assets		
'Financial assets reported at amortised cost' category		
Cash and cash equivalents	650,996	455,786
'Financial assets reported at fair value in other comprehensive income' category		
Government securities	22,664	66,563
'Financial assets reported at fair value in the profit and loss' category		
Subrogation claims against banks	720,584	695,003
	1,394,244	**1,217,352**
Financial liabilities		
'Financial liabilities reported at amortised cost' category		
Attracted funds	1,682,143	1,651,538
Liabilities on covered deposits	20,169	21,438
Other liabilities	545	353
	1,702,857	**1,673,329**

Major financial ratios of BDIF

	31.12.2018	**31.12.2017**
Return on BDIF total assets	–0.68%	–3.23%
Ratio of BDIF liquid assets to total assets	47.50%	40.04%
Ratio of BDIF highly liquid assets to total assets	46.63%	37.42%

The return on total assets was determined as a ratio of BDIF result for the year (net of premium contributions) to BDIF total assets at the end of the reporting period.

The ratio of liquid assets to total assets of BDIF was calculated as a ratio of the amount of cash and liquid assets with maturity of up to one year to BDIF total assets.

The ratio of highly liquid assets to total assets of BDIF was determined as a ratio of the amount of cash to the total assets of BDIF.

Appendix No. 2 Overview of the Economic Environment

The Global Economy in 2018

In 2018 the world economy grew by 3.0 per cent keeping the growth rate from the previous year. In most developed economies, with the exception of the United States where growth stood at 2.9 per cent in 2018, a slowdown in growth was reported. Eurozone real GDP growth returned to the 2016 levels, up 1.9 per cent from last year's 2.4 per cent growth. Japan's economic growth also slowed down considerably, with an increase of 0.8 per cent at the end of 2018 compared to 1.9 per cent a year earlier. The growth rate of the real GDP of developing economies declined by 0.2 percentage points compared to the previous year and amounted to 4.4 per cent, but remained above the levels reported at the end of 2016 (4.0 per cent).

The real growth in the US economy in 2018 was mainly driven by domestic consumption. The economic activity in the country was stimulated by the pro-cyclical fiscal incentives provided and by the accommodative monetary policy pursued by the Federal Reserve. Overall, the labour market in the country was improving. The unemployment rate reached a 49-year low (3.7 per cent) at the end of November, and at the year-end it amounted to 3.9 per cent. In 2018 real wages rose by 2.9 per cent. The reported annual inflation was 1.9 per cent, with expectations to remain below its target levels next year. In the course of the year the US government imposed tariff constraints worth approximately USD 300 billion, mainly against China, and USD 150 billion of counter-measures were imposed on the country. The political uncertainty brought about by recent developments is expected to have a negative impact on the country's growth in 2019. The possible withdrawal of some fiscal stimuli and a more restrictive monetary policy pursued by the Federal Reserve may additionally impact economic growth next year. According to the projections at the end of December 2018 the growth of US economy is expected to slow down to 2.5 per cent in 2019.

Economic activity in Europe demonstrated signs of deceleration in 2018. Eurozone real GDP growth slowed down by 0.5 percentage points in 2018 compared to the previous year, and expectations are that growth in 2019 will fall to 1.6 per cent. The economic situation in the region remained heterogeneous. Italy's economy continued to experience serious difficulties, domestic consumption in the country slowed down, and interest rates on government securities remained high and quite volatile throughout the year. The GDP growth rate realised in 2018 is 1 per cent, with a fall of 0.6 percentage points relative to the previous year. Social tensions in France have intensified and may negatively impact the country's fiscal discipline. Economic growth slowed down from 2.3 per cent in 2017 to 1.5 per cent in 2018. The German economy achieved growth rates in 2018 lower than expected. The marked growth in the real GDP of the country at the end of December amounted to 1.5 per cent, compared to 2.2 per cent in 2017, which marked the lowest rate for the past 5 years. There was a decline in the country's exports as well as a slowdown in industrial production, partly due to the introduction of new regulatory rules for car production. The key short-term risk to the euro area remains the UK exit process with all the economic, social and political ramifications.

In 2019 the world's GDP is expected to grow by 2.9 per cent. The international economic environment is highly uncertain. The risk of US imposing new cross-border restrictions on key trading partners remains, the political and social situation in Europe continues to be unclear, and the possibility of escalation of current geopolitical conflicts will persist as in the year past.

Bulgaria's Economy in 2018

Despite the signs of a slowdown in economic development in Europe and the complicated international political environment in 2018, the Bulgarian economy witnessed improvement in a number of macroeconomic indicators. The real GDP of the country increased by 3.1 per cent compared to 2.9 per cent, realised in the previous year. The main contribution to GDP growth on an annual basis was individual consumption, which increased by 5.3 per cent on an annual basis. Gross fixed capital formation also posted an increase, up by 4.0 per cent on an annual basis. Exports and imports of goods and services increased by 0.8 per cent and 2.5 per cent respectively, with the country's foreign trade balance standing at BGN -2.25 billion.

The labour market in the country was improving in 2018. The unemployment rate was 4.7 per cent, which was a record low. By the end of 2017 the unemployment rate amounted to 5.6 per cent. The economic activity ratio recorded a slight decrease on an annual basis, reaching 55.0 per cent at the end of 2018 compared to 55.5 per cent at the end of 2017.

The reversal of the deflation trend, on since end-2016, sustained in 2018. At the end of December 2018 the HICP amounted to 103.21, an increase of 2.31 per cent on an annual basis.

Bulgaria's gross external debt at the end of December 2018 amounted to EUR 32,715.5 million and decreased by EUR 681.8 million compared to the end of 2017 (EUR 33,397.3 million). As a share of GDP the gross external debt was 59.3 per cent and decreased by 5.3 percentage points compared to the end of 2017 (64.6 per cent). At the end of 2018 the Central Government sub-sector debt amounted to EUR 3,123.4 million, registering a decrease of EUR 775.8 million from the end of 2017, when it amounted to EUR 3,899.2 million, representing 5.6 per cent of the country's GDP. The external debt of the Central Government sub-sector amounted to EUR 9,093.9 million, registering an increase of EUR 104.4 million compared to the end of 2017 when it amounted to EUR 9,198.3 million and represented 16.5 per cent of the country's GDP. The ratio of total government debt to GDP declined in the past year and amounted to 22.1 per cent. In 2018 the country's credit rating remained unchanged.

At the end of December 2018 the fiscal balance under the consolidated fiscal program reported a surplus of BGN 137 million representing 0.1 per cent of the projected GDP. The surplus was the result of a national budget surplus amounting to BGN 251.7 million and a deficit on EU funds in the amount of BGN 114.7 million. The size of the fiscal reserve at the end of 2018 amounted to BGN 9.4 billion and decreased by BGN 3.48 billion compared to the end of 2017.

The main challenges facing Bulgaria's economy in 2019 will be the need to adapt to the slowing growth rates in larger European economies and the EU as a whole. In the long run, there is a need to undertake structural reforms in the economy. Expectations are that the real GDP will increase by 3.1 per cent in 2019.

Appendix No. 3 Banking System and Deposit Guarantee

3.1. Bulgaria's Banking System

In 2018 the banking system in Bulgaria remained stable, well capitalised and boasting high levels of liquidity. The status of the banks' credit portfolio improved, and in parallel with the increase in the credit activity there was also a significant decrease in the share of non-performing loans. Against the backdrop of reduced credit risk and stable capital and liquidity position of Bulgarian banks, high levels of profit were recorded. Over the past year the consolidation process of the banking sector sustained.

Bulgarian banks continued to maintain adequate levels of regulatory capital. At the end of 2018 Tier 1 capital adequacy declined by 1.42 percentage points to 18.99 per cent, Tier 1 capital at banking system level amounted to 19.41 per cent, declining by 1.45 percentage points, and the ratio of total capital adequacy decreased by 1.69 percentage points to 20.38 per cent. The rate of equity increase for the system, amounting to 1.23 per cent, was lower than the growth rate of the total amount of risk-weighted exposures in the banking system of 9.65 per cent on an annual basis.

The total assets of the banking system grew by BGN 7.78 billion (8.0 per cent), reaching BGN 105.56 billion. The reported growth in the sum of total assets was mainly due to growth in loans and advances, which posted an increase of BGN 7.20 billion (12.1 per cent) against the end of 2017, and in the *cash, cash balances with central banks and other sight deposits*, which increased by BGN 0.83 billion (4.2 per cent). The share of loans and advances in the sum total of the assets of the banking system increased from 61.0 per cent by the end of 2017 to 63.3 per cent by the end of 2018 and that of *cash, cash balances with central banks and other sight deposits* decreased from 20.0 per cent to 19.3 per cent. The assets of Group I banks increased by BGN 7.99 billion (14.6 per cent) to BGN 62.65 billion. Assets of Group II banks reported a decrease of BGN 0.91 billion (2.2%) and by the end of 2018 totalled BGN 39.83 billion, and those of Group III banks increased by BGN 0.69 billion (29.2 per cent) to BGN 3.07 billion. The share of assets of Group I, II and III banks in the total assets of the banking system at the end of 2018 was 59.4 per cent, 37.7 per cent and 2.9 per cent respectively (55.9 per cent, 41.7 per cent and 2.4 per cent at the end of 2017).

The total amount of deposits in the banking system increased by BGN 6.00 billion (7.2 per cent) compared to a year earlier, the reported growth rates being similar to those in 2017 when deposits increased by BGN 5.12 billion (6.5 per cent). In nominal terms, household deposits increased by BGN 3.93 billion (7.9 per cent), reaching BGN 53.38 billion, or 59.5 per cent of the total deposits, followed by deposits of non-financial corporations, which increased by BGN 1.09 billion (4.5 per cent) to BGN 25.28 billion, or 28.2 per cent of the total amount of deposits. Deposits of the Central Government sector increased by BGN 0.71 billion (35.6 per cent) to BGN 2.70 billion, or 3.0 per cent of total deposits and those of other financial corporations – by BGN 0.44 billion (15.9 per cent) to BGN 3.21 billion, or 3.6 per cent of the total amount of deposits. Decrease was recorded only in the deposits of credit institutions, which declined by BGN 0.17 billion (3.2 per cent), reaching BGN 5.13 billion at the end of 2018 (5.7 per cent of the total amount of deposits).

In 2018 the credit activity of the banking system was on the rise. Gross loans and advances increased by BGN 7.50 billion (9.2 per cent), reaching BGN 89.03 billion at the end of 2018. Increase in lending to all institutional sectors was observed. The largest increase was recorded in gross loans and advances to households, by BGN 2.29 billion (11.6 per cent) and non-financial corporations, by BGN 1.76 billion (5.3 per cent). Growth was also seen in the gross loans and advances to central banks – by BGN 1.34 billion (9.5 per cent) and to credit institutions – by 1.34 BGN billion (11.7 per cent). There were no significant changes in the structure of gross loans and advances during the year. The share of loans to non-financial corporations remained the largest – 39.2 per cent (compared to 40.6 cent at the end of 2017), followed by

households – 24.8 per cent (against 24.3 per cent at the end of 2017).

During the year there was a steady tendency to decrease the amount of non-performing loans and advances in both absolute and relative terms. At the end of 2018 gross non-performing loans and advances amounted to a total of BGN 6.79 billion, and their relative share in total gross loans and advances was down to 7.6 per cent. Among the main factors contributing to the reported dynamics were the positive influence of the trends in the overall macroeconomic situation in the country, the processes of the improvement of the regulatory framework related to the BNB supervisory functions and the forthcoming second asset quality review in the country. Despite the reported improvement, the share of non-performing loans and advances in the country remained above the average for the European banking system.

The profit of the banking system at the end of 2018 reached BGN 1.66 billion, up by BGN 0.51 billion (44.7 per cent) compared to the figure reported for 2017 (1.15 billion BGN). The net interest income at the end of 2018 amounted to BGN 2.74 billion compared to BGN 2.67 billion at the end of 2017, showing an increase of BGN 0.07 billion (2.5 per cent). The Return on Assets and the Return on Equity amounted to 1.58 per cent and 11.97 per cent respectively, marking an increase compared to the end of 2017 (1.18 per cent and 9.15 per cent).

The liquidity position of the banks in Bulgaria remained at levels substantially above the regulatory requirement. At the end of 2018 the liquidity buffer amounted to BGN 29.63 billion, and the liquidity coverage ratio was 294.1 per cent.

The main challenges facing the banking system in 2019 are related to the running of the second asset quality review and stress test carried out under the direction of the ECB as well as to the overall synchronisation process of supervisory practices between the ECB and the BNB related to the possible membership of the country in the ERM II Exchange Rate Mechanism and its accession to the Single Supervisory Mechanism. In the medium term, in view of depressed interest rates and limited opportunities for banks to pursue active pricing policy, there is a risk of lowering credit standards to make larger profits by increasing credit portfolios. The slowdown in economic growth in the euro area could also have an impact on the Bulgarian banking system.

3.2. Banks in the Deposit Guarantee System

At the beginning of the year the member banks of the deposit guarantee system in the Republic of Bulgaria were 23 and at the end of the period their number decreased by 2 banks due to the merger between CIBANK EAD and United Bulgarian Bank AD and the acquisition of Commercial Bank Victoria EAD by Investbank AD. After the merger was entered in the Commercial Register on 5 February 2018 the deposits with United Bulgarian Bank AD and CIBANK EAD were guaranteed separately for a period of 6 months. Upon expiration of this period, a depositor's funds with both banks prior to the merger are aggregated for the purposes of calculating the guaranteed sum. The separate guarantee for the depositors of Commercial Bank Victoria EAD and Investbank AD is valid until 21 May 2019.

BDIF Member Banks*

- Allianz Bank Bulgaria
- Bulgarian-American Credit Bank
- Bulgarian Development Bank
- Central Cooperative Bank
- D Commerce Bank
- DSK Bank
- Eurobank Bulgaria (Post Bank)
- First Investment Bank
- International Asset Bank
- Investbank
- Municipal Bank
- Piraeus Bank Bulgaria
- ProCredit Bank (Bulgaria)
- Raiffeisenbank (Bulgaria)
- Societe Generale Expressbank (present Expressbank)
- TBI Bank
- T. Ç. Ziraat Bank – Sofia Branch
- Texim Bank
- Tokuda Bank
- UniCredit Bulbank
- United Bulgarian Bank

* As at 1 January 2019

Note: The credit institutions listed below are branches of banks from EU Member States and they do not participate in the deposit guarantee scheme in the Republic of Bulgaria since they are protected by the applicable home country scheme:

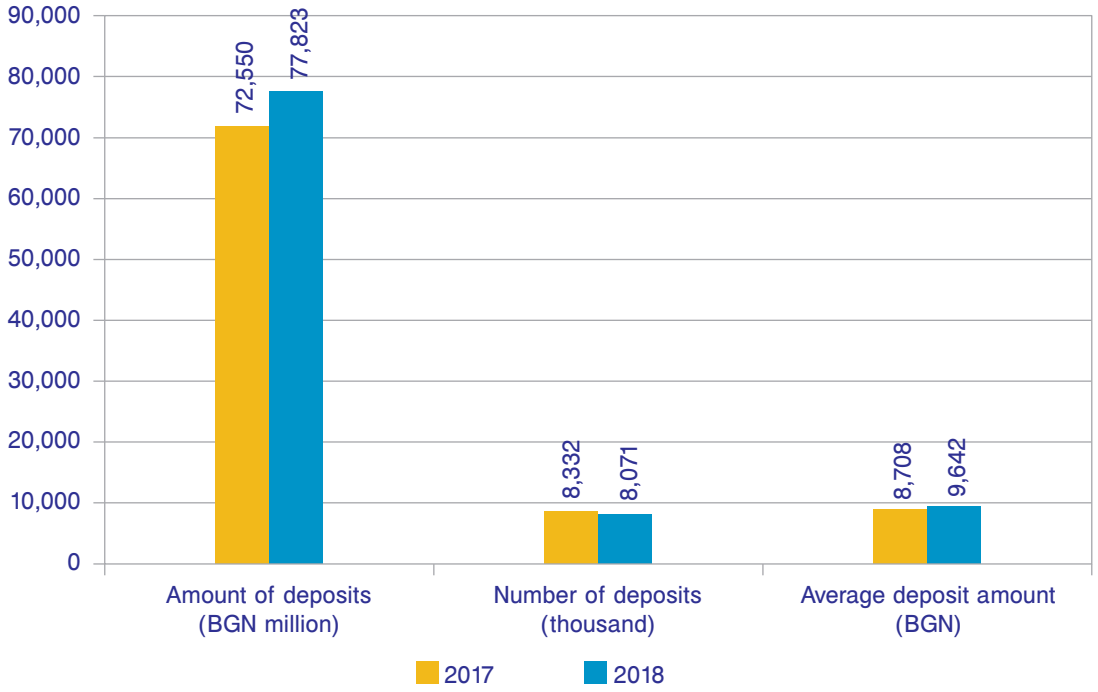
- BNP Paribas S.A. – Sofia Branch
- BNP Paribas Personal Finance S.A. – Bulgaria Branch
- Citibank Europe Plc. – Bulgaria Branch
- ING Bank N.V. – Sofia Branch
- Varengold Bank AG – Sofia Branch

3.3. Deposits Covered by the Deposit Guarantee System

The total amount of eligible deposits as at 31 December 2018 was BGN 77,823,338 thousand (31 December 2017: BGN 72,550,146 thousand). The total number of deposits was 8,071,187 (31 December 2017: 8,331,842). The average balance of one deposit was BGN 9,642, and in 2017 – BGN 8,708.

In 2018 the aggregate sum of eligible deposits rose by 7.27 per cent, while their number decreased by 3.13 per cent compared to the previous year. There was an increase in the average balance of one deposit, which in 2018 increased by 10.73 per cent compared to 2017, or by BGN 934.

Total amount, number and average amount of deposits



Source: BDIF

Breakdown of deposits by currency

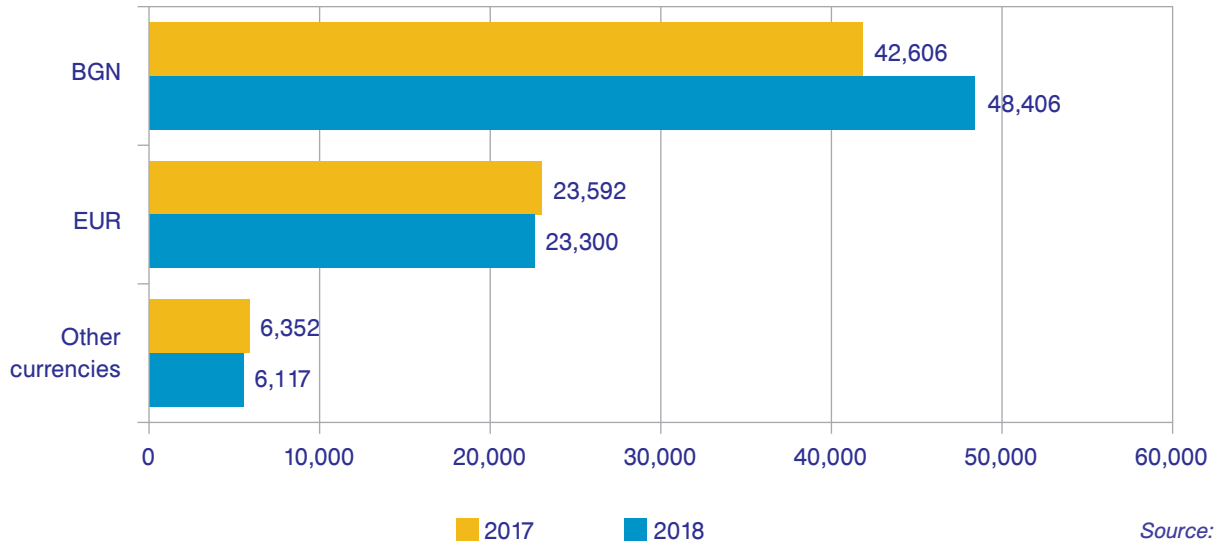
BGN-denominated deposits reached BGN 48,406,313 thousand (62.20 per cent) and numbered 6,269,062 (77.68 per cent).

EUR-denominated deposits accounted for BGN 23,300,006 thousand (29.94 per cent), their number reaching 1,404,753 (17.40 per cent).

Deposits in other currencies amounted to BGN 6,117,019 thousand (7.86 per cent) numbering 397,372 (4.92 per cent).

Compared to the previous year, no substantial changes occurred in depositor preferences concerning the currencies in which their funds were held.

Deposit breakdown by currency (BGN million)



Source: BDIF

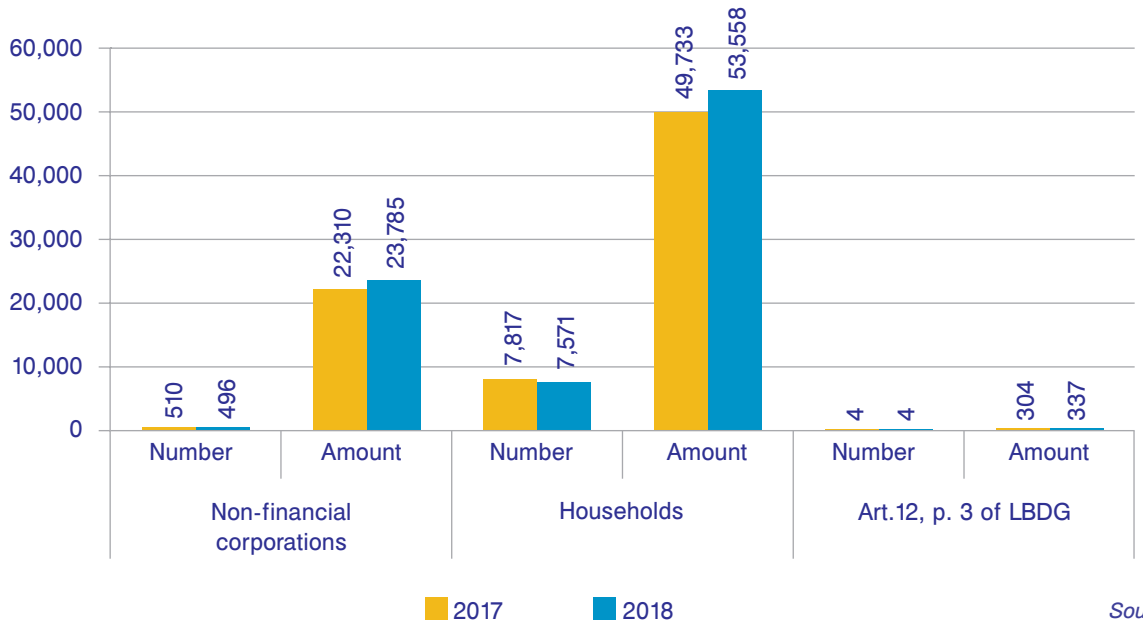
Breakdown of deposits by source

The amount of deposits of non-financial corporations was BGN 23,784,560 thousand (30.62 per cent) numbering 495,821 (6.14 per cent). In 2018 these deposits grew by 1,474,780 thousand (6.61 per cent) while their number decreased by 14,571 (-2.85 per cent) compared to 2017.

Household deposits reached BGN 53,557,850 thousand (68.95 per cent) and numbered 7,571,054 (93.81 per cent). In 2018 household deposits posted growth in value by BGN 3,825,233 (7.69 per cent) while their number decreased by 246,264 (-3.15 per cent).

Deposits of depositors under Art. 12, para 3 of the LBDG amounted to BGN 336,716 (0.43 per cent) numbering 4,312 (0.05 per cent).

Deposit breakdown by source (number in thousand, amount in BGN million)



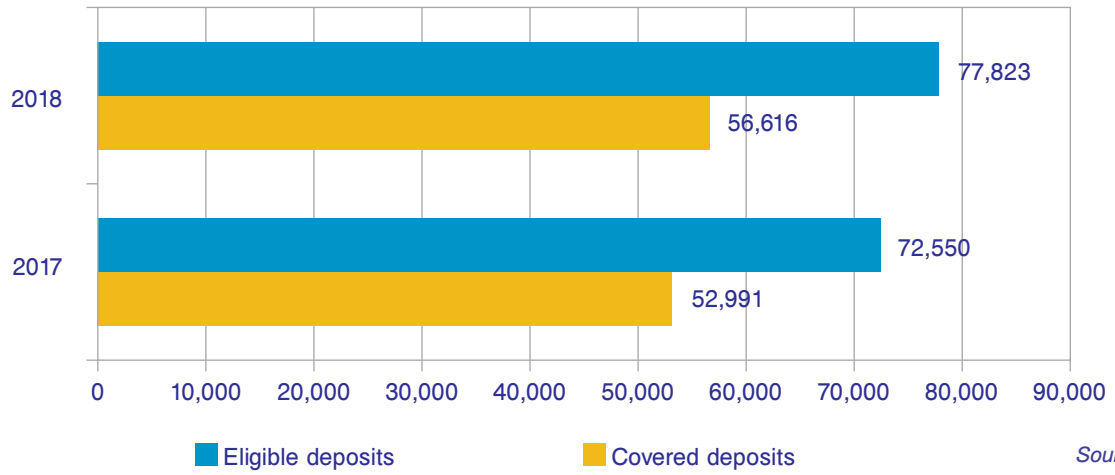
Source: BDIF

Covered deposits

As of 31 December 2018 the amount of covered deposits totalled BGN 56,616 million compared to BGN 52,991 million as of 31 December 2017 (6.84 per cent up).

As of 31 December 2018 the guarantee coverage ratio, i.e. the ratio between covered and eligible deposits, was 72.75 per cent compared to 73.04 per cent in 2017.

Deposit guarantee (BGN million)



Source: BDIF

Annual premium contributions by banks for 2018

All banks paid duly their annual premium contributions for 2018 amounting to BGN 158,331 thousand.

Appendix No. 4 Investment Policy and Asset Management

A paramount principle in the LBDG and BDIF internal regulations governing the investment activities is managing BDIF assets in accordance with the public interest. A major responsibility of BDIF is to safeguard and guarantee public funds managed in line with the following principles:

- safety and protection of capital;
- liquidity to cover liabilities; and
- risk minimisation and income optimisation.

In accordance with the LBDG and the revised in 2016 BDIF Investment Policy BDIF funds may be invested in deposits with the Bulgarian National Bank or in highly liquid debt securities, issued or guaranteed by the Bulgarian state or issued by other Member States or third countries, the European Central Bank, the European Investment Bank, the European Bank for Reconstruction and Development or other foreign financial institutions, or international financial organisations, including supranational organisations of Member States assigned one of the two highest credit ratings by two credit rating agencies, registered or certified in line with Regulation (EC) No. 1060/2009.

Under the LRRCIIF the Management Board of BDIF decides on the investment of the resources of BRF in observance of the principles of security, liquidity and diversification. These principles, along with other regulatory requirements are also described in the BRF Investment Policy adopted by the BDIF Management Board.

The funds of BRF under the LRRCIIF and the BRF Investment Policy can be invested in deposits in levs and euro or other financial instruments offered by the BNB; deposits in euro with foreign banks assigned one of the three highest credit ratings by two credit rating agencies; debt instruments in euro, excluding embedded options, issued by foreign countries, foreign banks, foreign financial institutions, international financial organisations, foreign agencies or other foreign companies, those instruments or issuers having one of the three highest ratings assigned by two credit rating agencies.

Investment Portfolio

The investment portfolio of BDIF as at 31 December 2018 was BGN 668,905 thousand compared to BGN 507,709 thousand as at the end of 2017. The growth in the portfolio of BDIF for 2018 was BGN 161,196 thousand and was largely due to the annual premium contributions collected from banks by BDIF for 2018 and the utilisation of EUR 20 million of the loan from IBRD of 2016. In 2018 the resources of BDIF were invested in deposits with the BNB and in bonds issued by the Bulgarian government. The share of bonds went down from 12.89 per cent of total assets as at end-2017 to 3.39 per cent as at the end of 2018, where the drop in the share of bonds resulted from maturity in BDIF securities portfolio.

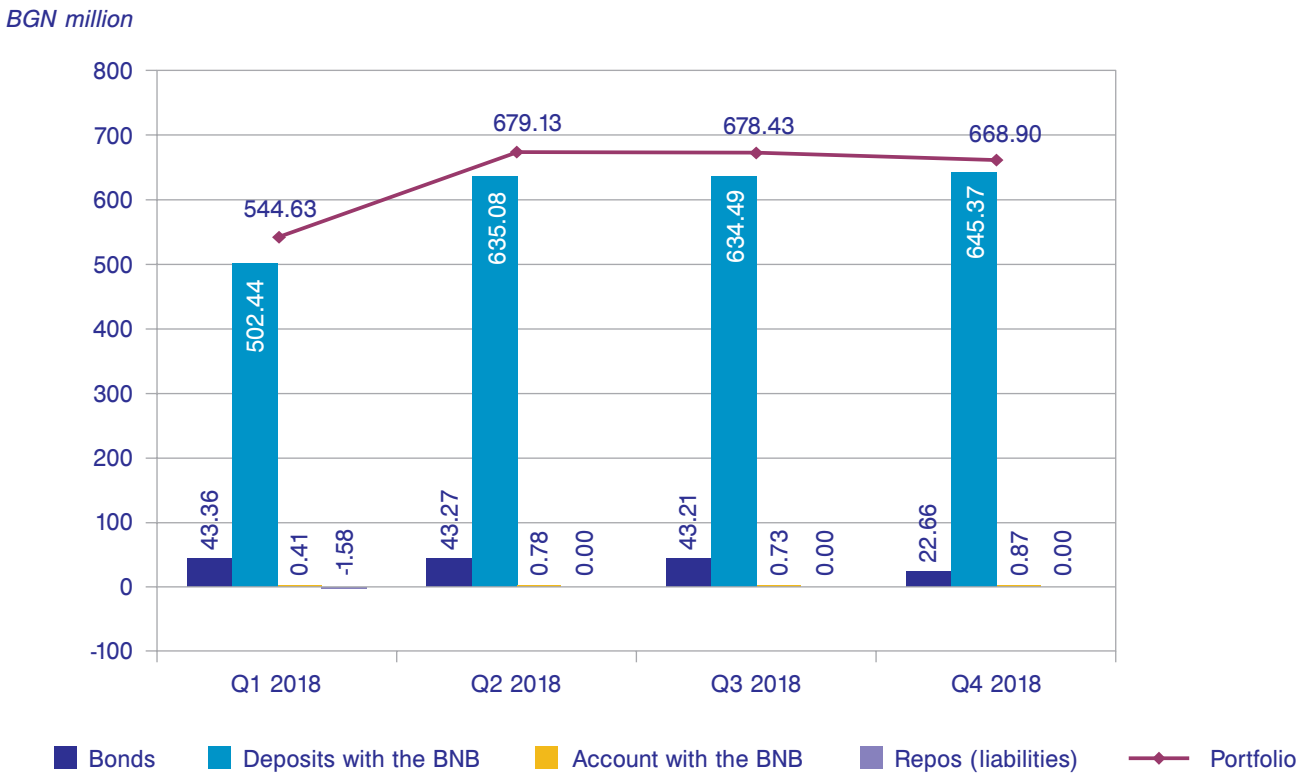
Year-round BDIF did not purchase Bulgarian and foreign debt securities in the secondary market, and the revenues from maturities and coupons on government securities received during the period were not reinvested in view of the market situation. In order to manage short-term liquidity in the process of repayment of covered deposits with KTB (in bankruptcy), BDIF continued to use repo transactions collateralised by government securities with Bulgarian banks.

During the year BDIF utilised no new tranches from the loan from the Republic of Bulgaria of 3 December 2014 for the reimbursement of covered deposits with KTB. At the end of 2018 the liabilities of BDIF on the loan totalled BGN 510.50 million (BGN 500 million principal and BGN 10.50 million accrued interest). During the year BDIF made an interest payment on the loan in the amount of BGN 14.961 million. As at end-2018 BDIF had repaid a total of BGN 1.175 billion of the utilised BGN 1.675 billion, while the paid interest on the loan in the 2015-2018 period amounted to BGN 119.53 million.

In 2018 the Fund continued to successfully fulfil its commitments set out in the Loan Agreements with IBRD and EBRD concluded in 2016 and providing government guaranteed loans to BDIF. In March the Fund absorbed the last tranche of EUR 20 million from the IBRD loan. By the end of 2018 BDIF had utilised in full both government guaranteed loans from the EBRD and the IBRD of EUR 300 million each. BDIF liabilities on the government guaranteed loans by the two international financial institutions at the end of 2018 amounted to BGN 586.83 million to the IBRD and BGN 584. 82 million to the EBRD.

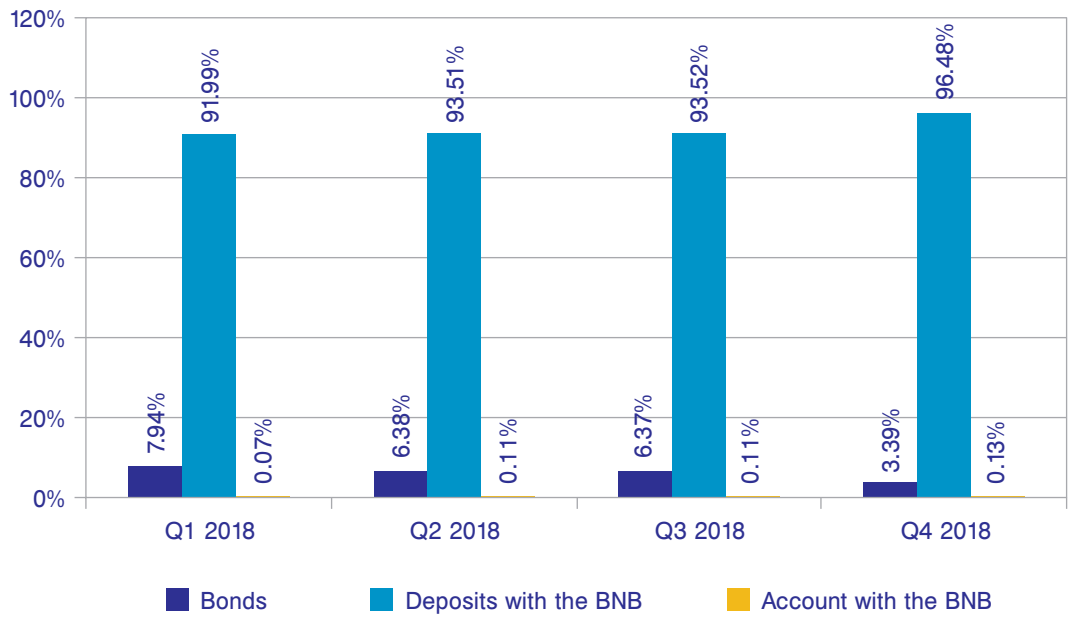
The liabilities on the loans from the Republic of Bulgaria, IBRD and EBRD are targeted and are not regarded as part of the investment portfolio of BDIF.

BDIF Portfolio



Source: BDIF

Assets (Instrument Breakdown)

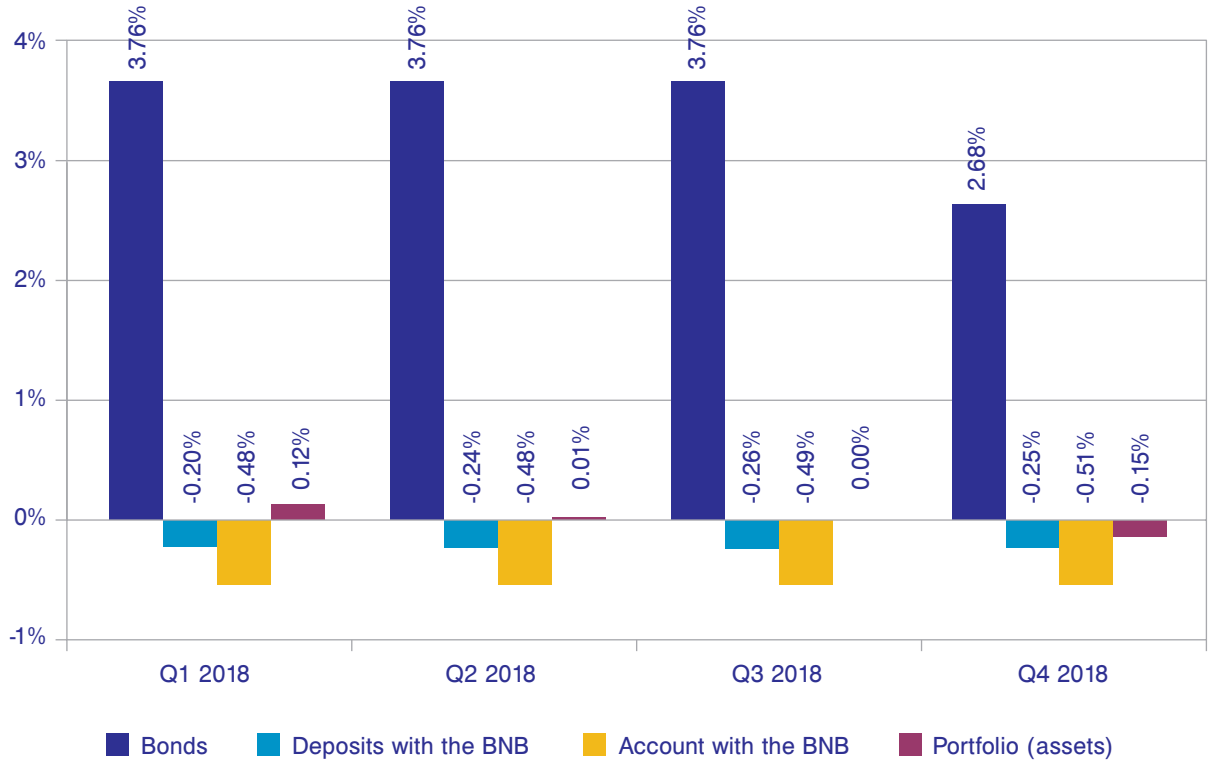


Source: BDIF

Investment Portfolio Profitability

The weighted average yield to maturity of the bonds in the portfolio of BDIF in the first nine months of the year was 3.76 per cent, dropping to 2.68 per cent in the fourth quarter of 2018. The decrease was a result of maturing government securities with a yield higher than the average for the portfolio. Decline in the weighted average yield of the aggregate investment portfolio of BDIF was reported during the year stemming from the growth of the share of the portfolio of deposits with the BNB whose interest rate stood in the negative with no substantial alterations in 2018.

Portfolio Assets Profitability

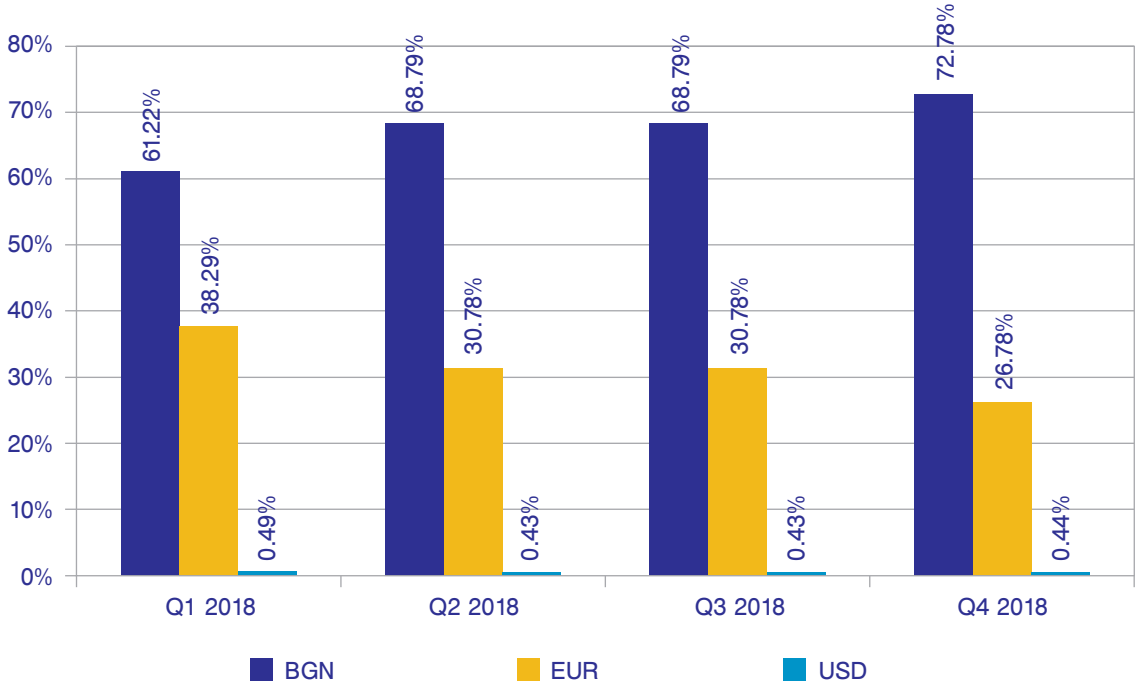


Source: BDIF

Currency breakdown of investment portfolio

In 2018 the currency structure of BDIF's investment portfolio witnessed an increase in the share of BGN instruments at the expense of those in euro. The increase in the share of BGN instruments at the expense of those in euro recorded in the second and the fourth quarter of 2018 resulted from the annual premiums received from banks at the end of April and in May and the maturity of government securities denominated in euro in October. As of year-end the BGN exposure accounted for 72.78 per cent of the aggregate investment portfolio, and that in EUR and USD – for 26.78 per cent and 0.44 per cent of the portfolio respectively.

Portfolio Currency Breakdown (Assets)



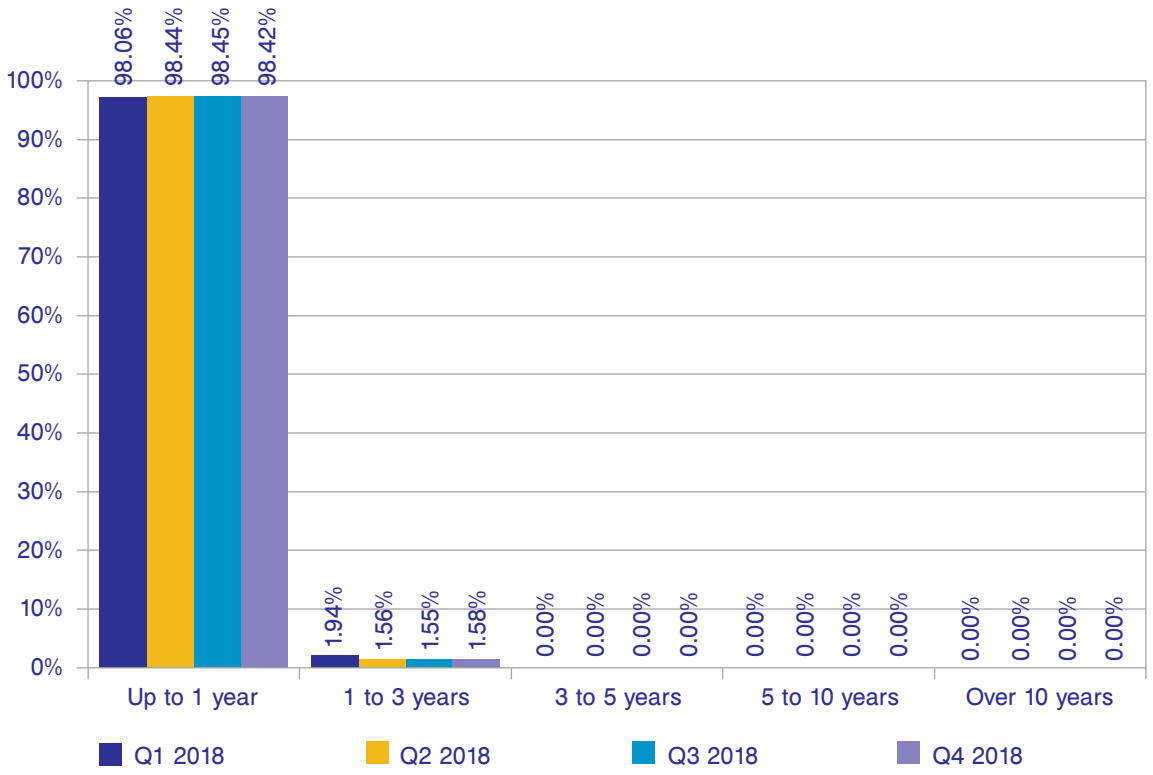
Source: BDIF

Maturity breakdown and duration of the investment portfolio (assets). Modified duration of bonds in the portfolio

In 2018 the BDIF investment portfolio was characterised by a short-term maturity structure, with the share of assets with a maturity of up to 1 year at 98.42 per cent at the end of the year. The bulk of the assets in the BDIF investment portfolio was concentrated in deposits with the BNB with a maturity of up to one year, which at the end of the year had a share of 96.48 per cent. Debt securities in the maturity segment up to 1 year had a share of 1.81 per cent of the assets in the investment portfolio and 53.49 per cent of the BDIF bond portfolio.

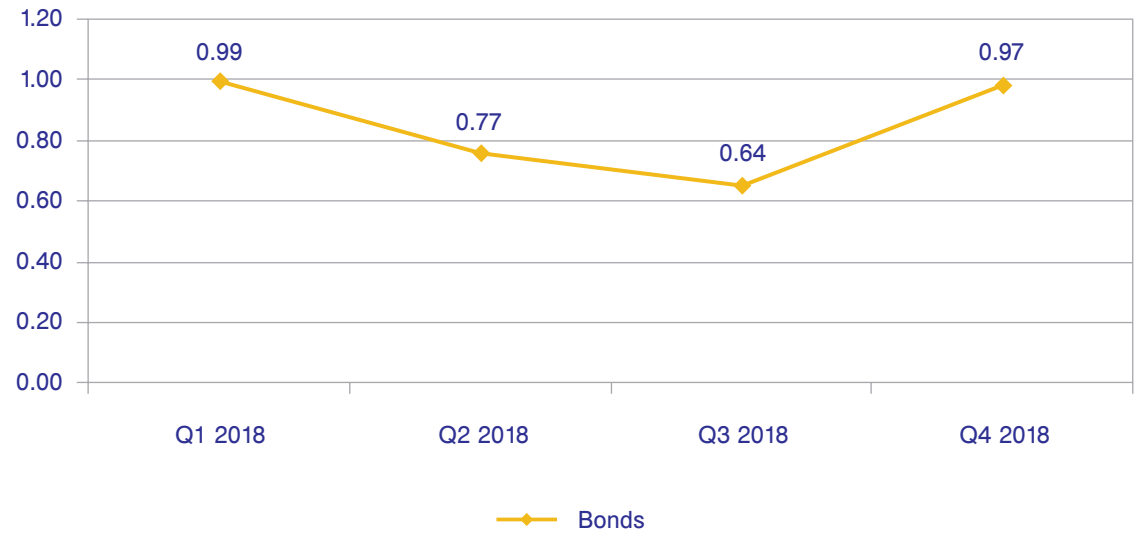
In view of the market situation BDIF maintained a low modified duration of the bond portfolio in 2018 below the 1.5 limit, although the indicator recorded an increase in the period to 0.97 at the end of the year against 0.74 as of 31 December 2017. The increase in the modified duration of the bond portfolio was mainly due to a change in the structure of the portfolio owing to maturity in 2018.

Portfolio Maturity Breakdown (Assets)



Source: BDIF

Bond Portfolio Modified Duration



Source: BDIF

Financial result

BDIF investment income for 2018 totalled BGN (762) thousand compared to BGN 2,005 thousand in 2017. The net change in the fair value of financial assets reported at fair value in other comprehensive income in 2018 was BGN (543) thousand compared to BGN (1,949) thousand in 2017.

Independent Auditor's Report

To the Management Board of the Bulgarian Deposit Insurance Fund

Our opinion

We have audited the financial statements of the Bulgarian Deposit Insurance Fund (the "Fund") which comprise the statement of financial position as at 31 December 2018, and the statement of operations, the statement of changes in net assets and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for opinion

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

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

Independence

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the financial statements in Bulgaria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Independent Financial Audit Act.

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

Management is responsible for the other information. The other information comprises *the Annual Activity Report*, prepared by the management in accordance with Chapter Seven of the Accountancy Act but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in this regard.

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Additional Matters to be reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Annual Activity Report, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA), issued on 29 November 2016 and approved by its Management Board on 29 November 2016. These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion on 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, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

a) The information included in the Annual Activity Report for the financial year for which the financial statements have been prepared is consistent with those financial statements.

b) The Annual Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures 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 auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Rositsa Boteva
Registered Auditor

Jock Nunan
PricewaterhouseCoopers Audit OOD

25 March 2019
Sofia, Bulgaria

BDIF Annual Financial Statements for 2018

Contents

STATEMENT OF OPERATIONS

for the year ended 31 December 2018

	Notes	**2018** (BGN '000)	**2017** (BGN '000)
Premium contributions	*3*	158,331	153,362
Investment income	*4*	(762)	2,005
Earnings/expenses on covered deposits with a bank with revoked license	*5*	24,311	(7,842)
Interest on attracted funds	*6*	(33,215)	(32,786)
Other income/losses, net	*7*	132	(767)
Income from financing of administrative expenses	*8*	2,606	2,558
General administrative expenses	*8*	(2,606)	(2,558)
Net income for the year		**148,797**	**113,972**
Other components of net assets			
Comprehensive income that will be recognised in the Statement of operations in the future		**(550)**	**(1,955)**
Net change in fair value of financial assets reported at fair value in other comprehensive income	*4*	(543)	(1,949)
Actuarial loss		(7)	(6)
TOTAL COMPREHENSIVE RESULT FOR THE YEAR		**148,247**	**112,017**

The accompanying notes on pages 42 to 82 form an integral part of the financial statements

STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Notes	**31.12.2018** (BGN '000)	**31.12.2017** (BGN '000)
ASSETS			
Cash and cash equivalents	*9*	650,996	455,786
Securities reported at fair value in other comprehensive income	*10*	22,664	66,563
Subrogation claims against banks	*11*	720,584	695,003
Property and equipment	*12*	645	655
Intangible and other assets	*13*	1,262	90
TOTAL ASSETS		**1,396,151**	**1,218,097**
LIABILITIES			
Attracted funds	*14*	1,682,143	1,651,538
Liabilities on covered deposits	*15*	20,169	21,438
Financing of administrative expenses	*16*	1,129	850
Other liabilities	*17*	545	353
TOTAL LIABILITIES		**1,703,986**	**1,674,179**
NET LIABILITIES		**(307,835)**	**(456,082)**

The accompanying notes on pages 42 to 82 form an integral part of the financial statements

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Notes	**31.12.2018** (BGN '000)	**31.12.2017** (BGN '000)
Cash flows from operating activities			
Cash receipts from banks as premium contributions		158,331	153,362
Payments on covered deposits		(2,540)	(3,143)
Cash paid to employees and for social security		(1,604)	(1,518)
Taxes paid		(167)	(155)
Other proceeds/(payments) from operating activities, net		1,206	2,096
Net cash flows from operating activities		*155,226*	*150,642*
Cash flows from investing activities			
Proceeds related to securities reported at fair value in other comprehensive income		44,111	146,523
Payments related to cash		(1,389)	(403)
Purchases of equipment and other assets		(132)	(44)
Net cash flows used in investing activities		*42,590*	*146,076*
Cash flows from financing activities			
Repaid principal and interest paid to Republic of Bulgaria		(14,961)	(68,585)
Proceeds of repo agreements		17,883	64,700
Payments on repo agreements		(26,680)	(129,826)
Loan (interest paid) from IBRD, net		30,075	52,770
Interest paid to EBRD		(8,923)	(7,430)
Net cash flows used in financing activities		*(2,606)*	*(88,371)*
Increase/(decrease) in cash flows during the year		**195,210**	**208,347**
Cash and cash equivalents at 1 January		**455,786**	**247,439**
Exchange differences		–	–
Cash and cash equivalents at 31 December	*9*	**650,996**	**455,786**

The accompanying notes on pages 42 to 82 form an integral part of the financial statements

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 December 2018

	Accumulated result	Revaluation reserve: available-for-sale securities	Net (liabilities)/ assets
	(BGN '000)	(BGN '000)	(BGN '000)
Balance as at 1 January 2017	**(570,915)**	**2,816**	**(568,099)**
Result for the year	113,972	–	113,972
Net change in fair value of available-for-sale financial assets	–	(1,949)	(1,949)
Actuarial losses	–	(6)	(6)
Total comprehensive income	**113,972**	**(1,955)**	**112,017**
Balance as at 31 December 2017	**(456,943)**	**861**	**(456,082)**
Result for the year	148,797	–	148,797
Net change in fair value of financial assets reported at fair value in other comprehensive income	–	(543)	(543)
Actuarial losses	–	(7)	(7)
Total comprehensive income	**148,797**	**(550)**	**148,247**
Balance as at 31 December 2018	**(308,146)**	**311**	**(307,835)**

The accompanying notes on pages 42 to 82 form an integral part of the financial statements

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for 2018

1. GENERAL INFORMATION

Information on BDIF

The Bulgarian Deposit Insurance Fund was established by the Law on Bank Deposit Guarantee published in *Darjaven Vestnik*, issue 49 from 29 April 1998, repealed and replaced with the Law on Bank Deposit Guarantee published in *Darjaven Vestnik*, issue 62 from 14 August 2015, transposing Directive 2014/49/EU. In 2015 the Law on the Recovery and Resolution of Credit Institutions and Investment Firms entered into force, transposing Directive 2014/59/EU, stipulating the functions of BDIF in the process of resolution of banks.

The objective of BDIF is to contribute to the stability of and trust in the financial system of the Republic of Bulgaria, by ensuring deposit protection and repayment of covered deposits, facilitating the effectiveness of the process of resolution of credit institutions as specified in the LRRCIIF and to provide adequate protection of creditors' interests in bank bankruptcy proceedings. According to the LBDG, the BDIF activity involves determining and collecting annual and extraordinary contributions from all banks licensed under the Law on Credit Institutions and their branches in other Member States, as well as from bank branches seated in a third country and licensed to perform activities in the Republic of Bulgaria by the BNB, where there is no deposit guarantee scheme in place or such a scheme exists but it does not cover bank branches abroad, or the amount or scope of the guarantee is lesser than the amount or scope of the deposit guarantee provided for in the LBDG. BDIF invests the collected funds as per the provisions in the LBDG. If the BNB revokes the license of a bank or announces the deposits therein unavailable, or where, due to a judicial authority act, depositors have no access to their funds with the bank, BDIF reimburses up to BGN 196,000 for deposits of individuals and legal entities and up to BGN 250,000 for the deposits specified under Art. 10 of the LBDG. Along with these functions, BDIF also performs the functions set out in the Law on Bank Bankruptcy and is involved in the financing of the resolution of credit institutions by taking on the losses for the insured depositors in the resolution process pursuant to the terms and conditions of the LRRCIIF.

The Management Board of BDIF prepares and publishes separate financial statements of the Bank Resolution Fund. BDIF does not prepare and publish consolidated financial statements of the Bulgarian Deposit Insurance Fund and the Bank Resolution Fund, as the two funds are not parent and subsidiary companies. BRF is not an autonomous legal entity and BDIF acts as a manager company of BRF without controlling it within the meaning of the requirements of Art. 7 of IFRS 10 'Consolidated Financial Statements'.

For the requirements of statistics and of tax administration, the data BDIF submits is consolidated for both funds.

The financial reporting of BDIF is in accordance with the principles and requirements of the International Accounting Standards.

The address and headquarters of BDIF are: 27 Vladayska Street, 1606 Sofia, Bulgaria.

The personnel as at 31 December 2018 comprised 20 employees (31 December 2017: 20).

Regulatory framework of BDIF operations

BDIF operations are regulated by the Law on Bank Deposit Guarantee in force from 14 August 2015.

This Law requires that BDIF funds are invested into deposits with the Bulgarian National Bank or into highly liquid debt securities, issued or guaranteed by the Bulgarian State or issued by other Member States or third countries, assigned one of the two highest credit ratings by two credit rating agencies, registered or certified in line with Regulation (EC) No. 1060/2009, or by the European Central Bank, the European Investment Bank, the European Bank for Reconstruction and Development or other foreign financial institutions or international financial organisations assigned one of the two highest credit ratings by two credit rating agencies, registered or certified in line with Regulation (EC) No. 1060/2009.

BDIF is governed by a Management Board consisting of five members designated as follows:

- the Chairman of the Management Board – by the Council of Ministers;
- the Deputy Chairman of the Management Board – by the BNB Governing Council;
- one member – by the Association of Banks in Bulgaria;
- two members – jointly by the Chairman and the Deputy Chairman of the Management Board of BDIF.

The Chairman of the Management Board organises and manages the daily operations of BDIF and the administrative personnel and represents BDIF in Bulgaria and abroad.

The term of office of the Management Board of BDIF is four years. As at 31 December 2018 the Management Board of the Bulgarian Deposit Insurance Fund comprised:

- Radoslav Milenkov – Chairman of the Management Board of BDIF, nominated by Resolution No. 355 of the Council of Ministers dated 21 May 2015;
- Nelly Kordovska – Deputy Chairwoman of the Management Board of BDIF, nominated by Resolution No. 7 of the Governing Council of the BNB dated 15 January 2015;
- Bisser Manolov – member, nominated by Resolution of the Management Board of the Association of Banks in Bulgaria dated 14 April 2015;
- Borislav Stratev – member, appointed by Order No. 92-0007 of the Chairman and the Deputy Chairwoman of the Management Board of BDIF dated 22 July 2015;
- Valery Dimitrov – member, appointed by Order No. 92-0077 of the Chairman and the Deputy Chairwoman of the Management Board of BDIF dated 22 July 2015.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF BDIF

Accounting policies

The financial statements were drawn up following the accounting policies listed below. The adopted accounting policies are consistent with those applied in the previous reporting period, unless noted otherwise.

Basis for the preparation of the financial statements

The financial statements of BDIF have been prepared in accordance with the International Financial Reporting Standards and the clarifications issued by the IFRS Interpretations Committee as adopted by the European Union. The EU-adopted IFRS is the generally adopted name of a framework with an overall purpose of trustworthy disclosure equivalent to the definition of the framework introduced by force of § 1,

item 8 of the Additional Provisions of the Accountancy Law – 'International Accounting Standards'.

Historical cost principle

The present financial statements were prepared according to the historical cost principle, with the exception of financial assets classified as: reported at fair value in other comprehensive income (government securities) and reported at fair value in the profit and loss (claims on KTB (in bankruptcy)) that are measured at fair value.

BDIF keeps its accounting records in Bulgarian levs (BGN), and the financial statements are denominated in BGN as the adopted currency for reporting purposes of the entity. The items in the financial statements and in the notes thereof are rounded to the nearest thousand (BGN '000), unless explicitly specified otherwise.

Going concern

The financial statements were prepared in accordance with the going concern principle under which BDIF is assumed to continue its existence in the foreseeable future. The assets of the Fund grow by the year, with reported loss as a result of payout of covered deposits with KTB declining.

Estimates

The preparation of financial statements in compliance with International Financial Reporting Standards requires that the management adopts the most appropriate estimates, accruals and reasonable assumptions that have an effect on reported values of assets and liabilities, incomes and expenses, and disclosures of contingent receivables and liabilities as of the date of the financial statements. These estimates, accruals and assumptions are based on the information available as of the date of the financial statements, therefore future actual result may differ from those. Items in the financial statements presuming a higher level of subjective assessment and complexity or where the assumptions and accounting estimates have a material effect on the financial statements, are disclosed separately in Note 2.11.

2.1. New and amended standards adopted by the Bulgarian Deposit Insurance Fund

The Fund applied the following standards and amendments for the first time for its annual financial reporting period starting on 1 January 2018:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- Amendments to IFRS 2 'Classification and Measurement of Transactions on Share-based Payment'
- Annual improvements to IFRS – Cycle 2014-2016
- Amendments to IAS 40 'Transfers of Investment Property'
- IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'
- IFRIC Interpretation 23 'Uncertainty over Income Tax Treatments' (issued on 7 June 2017)
- Amendments to IFRS 9 'Prepayment Features with Negative Compensation' (issued on 12 October 2017)
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' (issued on 12 October 2017)

BDIF amended its accounting policy following the adoption of IFRS 9. The other changes listed above have no significant impact on the amounts recognised in previous periods and are not expected to influence the current or future periods.

BDIF applies IFRS 9 from 1 January 2018 under a simplified approach (non-retrospectively). The Fund developed and adopted a business model for the management of financial assets and approaches for measuring the probability of default in the assessment of potential credit losses, vis-à-vis the impairment requirements in the standard.

In connection with the application of IFRS 9, the management of BDIF classified the financial assets held by BDIF in groups according to the manner they are managed as follows:

1. *Debt securities*

Under Art. 23, para 2 of the LBDG, the funds of BDIF are invested in highly liquid debt securities with high credit rating. Under Art. 13, para 1 of the LBDG one of the sources for financing the Fund is the income generated from investment of the resources collected by BDIF. Therefore, the securities in the portfolio of BDIF are held for obtaining contractual cash flows and yields from sales of securities from the portfolio when the market conditions are suitable.

In addition to earning income, BDIF can sell securities from its portfolio to provide liquidity for paying out covered deposits with a bank that is a member of the deposit guarantee system, with respect to which conditions under the LBDG have emerged, or are likely to emerge, for triggering of the process of payout or for which this process has already been triggered. Also BDIF can sell securities from its portfolio to finance bank resolution measures under the LRRCIIF. In view of the operational specifics and short deadlines in which BDIF may need to convert the securities portfolio into liquid cash securities may be sold at any time prior to maturity.

Both the collection of contractual cash flows and the sales of debt securities are key factors for the achievement of the objective of the model.

Debt instruments – government securities classified as 'Available-for-sale financial assets' up to 1 January 2018, are classified thereafter as 'Reported at fair value in other comprehensive income' (RFVOCI), and there is no change in their reporting.

In connection with the impairment requirements of the standard, the management of BDIF reviewed the financial instruments and the possible approaches for measuring the probability of default. For all financial instruments with issuers with credit rating by Moody's or Standard & Poor's higher than or equal to Baa or BBB, BDIF management has decided to assume that potential credit losses will equal zero. On this basis and on the basis of the credit rating of the Republic of Bulgaria, for the purposes of the initial recognition, expected credit losses for the portfolio of BDIF have been estimated to be zero.

BDIF monitors the dynamics of credit risk of financial instruments in its portfolio, evaluates whether there is a significant increase of credit risk after the initial recognition, and sets recovery rate, for the purposes of assessing potential credit losses.

2. *Subrogation claims against banks*

The objective of the business model where subrogation claims against banks are managed is to collect the cash flows from the bankruptcy estate in the effectuation of the distribution account. BDIF takes decisions on the basis of the fair value of claims to realise their fair values.

Subrogation claims against banks classified and reported at fair value in the profit or loss (FVPL) until 1 January 2018 are reported according to the same rules under IFRS 9.

Cash and cash equivalents classified as 'Loans and receivables' and valued at amortised cost until 1 January 2018 meet the criteria for classification at amortised cost under IFRS 9.

The financial liabilities of BDIF include:

- Attracted funds under loan agreements with the International Bank for Reconstruction and Development and the European Bank for Reconstruction and Development, a received loan from the Ministry of Finance – currently classified and reported at amortised cost that will continue to be reported according to the same rules under IFRS 9.
- Liabilities on covered deposits to depositors of KTB (in bankruptcy) under Art. 4 of the LBDG (repealed) of up to BGN 196,000 per depositor per bank, regardless of the number and amount of deposits held by that person. The management assumes that these payables represent financial liabilities because the underlying initial obligation is resultant from a statutory obligation and its settlement is connected with payment by BDIF.

There will be no effect on the reporting of financial liabilities of BDIF as the new requirements refer only to financial liabilities measured at fair value through incomes and expenses, whereas BDIF holds no such liabilities.

(a) New standards and clarifications not yet adopted

- **IFRS 16 'Leases'**

IFRS 16 was issued in January 2016. It will lead to recognising almost all lease agreements in the balance sheet of the lessee as the distinction between operating lease and financial lease is discontinued. Under the new standard an asset (the right of use of the leased asset) and a financial liability for lease payments are recognised, the only exceptions being short-term leases and leases of low-value assets.

Impact

BDIF was no party to an operating lease contract as at 31 December 2018. In connection with the differentiation under IFRS 16 between lease contracts and service contracts depending on whether a given asset is controlled during the use, BDIF established lease elements in a contract for use of fibre optic cables in the provision of fixed Data VPN services. The contract is with an aggregate amount for several services and qualifies with the exceptions for low-value contracts. The management expects no effect of the upcoming requirements on assets, expenditures and classification of cash flows.

Date of adoption

The Fund will apply the standard from the date of its mandatory adoption – 1 January 2019. The Fund intends to apply the simplified transition approach and will not recalculate the comparatives for the year prior to initial recognition.

There are no other standards with pending effectiveness and that are expected to have a significant effect on BDIF in the current or a future reporting period, as well as in the foreseeable future transactions.

(b) New standards, clarifications, and amendments pending adoption by the EU

- IFRS 17 'Insurance Contracts' (issued on 18 May 2017) enters into force on 1 January 2021
- Annual improvements to IFRS – Cycle 2015-2017 (issued on 12 December 2017). The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 enter into force on 1 January 2019

- Amendment to IAS 19 (issued on 7 February 2018) enters into force on 1 January 2019
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018) enter into force on 1 January 2019
- Amendment to IFRS 3 – 'Definition of a Business' (issued on 22 October 2018) enters into force on 1 January 2020
- Amendment to IAS 1 and IAS 8 – 'Definition of Material' (issued on 31 October 2018) enters into force on 1 January 2020

2.2. Comparatives

In these financial statements BDIF presents comparative information for one prior year. Where necessary, comparative data is reclassified (restated) in order to achieve compatibility in view of the current-year presentation changes.

2.3. Functional currency and recognition of exchange differences

The functional and presentation currency of BDIF is the Bulgarian lev. The Bulgarian lev was pegged to the euro at a rate of BGN 1.95583 : EUR 1.

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate at the date of the transaction or operation is applied to the foreign currency amount. Cash, receivables and payables, as monetary reporting items, denominated in foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by the Bulgarian National Bank for the last working day of the respective month. As at 31 December these amounts are presented in Bulgarian levs at the closing exchange rate of the BNB.

The non-monetary items in the statement of financial position, which are initially denominated in foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently revalued at the closing exchange rate.

Foreign currency translation differences arising from the settlement or recording of foreign currency transactions at rates different from those at which they were converted on initial recognition, are included in the statement of operations (within the result for the year) as current income and expenses at the time when they arise and are treated as 'other income/(losses)' from operations and are presented net.

2.4. Premium contributions income

Premium contributions income represents the annual contributions to BDIF by banks having a license granted by the BNB and foreign bank branches. The payment deadline is by 31 May of the current year. Premium contributions income is recognised in the statement of operations (within the result for the year) on the date when the contributions are received but not later than the date on which they become due under law. After this date, penalty interest for delay is charged and presented as 'other income/(losses), net' on the face of the statement of operations. It is calculated on a statutory interest rate basis.

2.5. Investment income

Investment income includes interest on securities held, realised gains and losses from sales and revaluation of financial instruments carried at fair value through profit and the accumulated effects from revaluation of sold or derecognised financial assets.

The effects of the net change in fair value of government securities (change in the 'revaluation reserve' of financial assets reported at fair value in other comprehensive income) are reported as a change in 'other component of net assets' of BDIF in the statement of operations.

Interest income is recognised in the statement of operations (within the result for the year) for all financial instruments and is accrued currently on a time basis by applying the effective interest rate method. They also include premium/discount amortisation and any other difference between the original cost and the settlement value (repayment or disposal) of the financial instrument.

2.6. Financial instruments

Classification

BDIF classifies its financial instruments depending on the business model for financial asset management at the time of their acquisition and the characteristics of contractual cash flows. The management determines the classification of BDIF financial assets at the time of their initial recognition in the statement of financial position.

As at 31 December 2018 BDIF classifies its financial assets in three basic categories:

– 'financial assets valued at amortised cost' that include cash and cash equivalents, trade and other contractual receivables and others that are used in a business model intended for holding assets for the purpose of collecting contractual cash flows representing solely payments on principal and interest on the outstanding portion of the principal;

– 'financial assets valued at fair value in other comprehensive income (with reclassification in profit or loss)' which encompass the debt securities held by BDIF where contractual cash flows are solely settlements of principal and interest on the outstanding portion of the principal and the business model of which requires holding the securities for two major purposes: for collection of contractual cash flows and for sale, when necessary; and

– 'financial assets valued at fair value in the profit or loss' which include subrogation claims against banks.

Financial liabilities arising in connection with attracted funds, with obligations assumed by BDIF to depositors' guaranteed amounts with banks to which the provisions under Art. 20, para 1 of the LBDG apply and with the regular liabilities to counterparties arising in the course of the daily operations of BDIF, are classified as other financial liabilities.

Initial recognition

The Fund recognises a financial asset or a financial liability in its statement of financial position solely upon becoming a party to the contractual terms and conditions of the financial instrument on 'the date of settlement'. Under this approach, the instrument is recognised on the date when it is transferred to BDIF.

Initial measurement

Upon initial acquisition or origination, financial assets and liabilities are measured at their fair value that is equal to the acquisition cost and all directly attributable transaction costs.

Subsequent measurement

Following the initial recognition BDIF measures:

– cash and cash equivalents at amortised cost determined under the effective interest rate method;

– securities at fair value in other comprehensive income (with reclassification in the profit or loss);

– subrogation claims against banks at fair value in the profit and loss.

BDIF classifies all financial liabilities as valued subsequently at amortised cost, with the exception of statutory liabilities on covered deposits and for which the discounted value is the nominal value.

The effects of revaluation of financial assets classified as 'financial instruments valued at fair value through other comprehensive income (with reclassification in the profit or loss)', are recognised as 'other component of net assets' in the statement of operations of BDIF and are included in the item 'comprehensive result from operations' for the respective period. In case of a sale and/or write-off of financial assets, the accumulated effects are recognised currently in the statement of operations (within the result for the year) as 'investment income'.

Gains and losses on revaluation at fair value

Gains or losses arising from a change in the fair value of a financial asset classified as 'financial assets valued at fair value through other comprehensive income (with reclassification in the profit or loss)' are other components of net assets of the Fund, and are initially reported in the statement of operations in the item 'net change in fair value of financial assets valued at fair value through other comprehensive income', while in case of a sale and/or write-off the accumulated effects are recognised within the current result for the year under 'investment income'.

Gains and losses on revaluation of a financial asset valued at fair value through the profit or loss are included on current basis for the period in which they arise through the statement of operations (within the result for the year).

Impairment – recognition of expected credit losses

BDIF has developed and adopted approaches for measuring the probability of default in the assessment of potential credit losses, vis-à-vis the impairment requirements in the standard.

At the end of each year, in connection with the preparation of the annual financial statements, BDIF evaluates whether there is a significant increase of credit risk of a financial instrument following initial recognition as well as the amount of expected credit losses.

In preparing the assessment, BDIF takes into account the change of risk of default occurring over the expected lifetime of the financial instrument comparing the likelihood of default for the financial instrument as of the date of reporting and as of the date of initial recognition, considering all reasonable and supportable information that is available without undue cost or effort that is indicative of (showing) significant increases in credit risk since initial recognition. The significant increase in credit risk after initial recognition is determined as increase of credit risk as a result of substantial deterioration of the financial and economic conditions of the issuer of securities in the portfolio of BDIF.

BDIF assumes that the credit risk of a given financial asset has not increased significantly since initial recognition provided the financial instrument is with low credit risk as of the reporting date.

If the contractual cash flows of a financial asset have been renegotiated or modified and the financial asset is not derecognised, BDIF estimates if a significant increase of credit risk of the financial instrument has occurred by comparing:

a) the risk of default occurring as of the reporting date (based on the modified contractual terms and conditions); and

b) the risk of default occurring as of the date of initial recognition (based on original non-modified contractual terms and conditions).

As at 31 December 2018 the debt securities held by BDIF are government securities of the Republic of Bulgaria. In view of the credit rating by Moody's and Standard & Poor's of Baa2 or BBB, the likelihood of the Republic of Bulgaria defaulting on these liabilities over a year's period is estimated to be zero per cent, therefore zero credit losses in the portfolio of BDIF are expected.

Towards the end of each year, for the purposes of the annual financial statements of BDIF, the BDIF calculates the loss allowance for a financial instrument equalling lifetime expected credit losses for the instrument if its credit risk has increased significantly since initial recognition.

If as at the reporting date the credit risk of a financial instrument has not increased significantly since initial recognition, BDIF calculates a loss allowance for this financial instrument equalling expected credit losses for 12 months.

BDIF recognises in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9.

BDIF estimates expected credit losses for a financial instrument in a way to reflect:

a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

b) the time value of money; and

c) the reasonable and supportable information that is available as at the reporting date, on past events, current conditions and forecasts of future economic conditions (without undue cost or effort).

Derecognition

Financial assets or parts thereof are derecognised from the statement of financial position of the Fund solely where:

a) the contractual rights to the cash flows from this financial asset have expired; or

b) BDIF transfers the financial asset and the transfer meets the requirements for derecognition, i.e. all risks and rewards from ownership of the financial asset are transferred substantially.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, BDIF establishes if the control of the financial asset is retained. Where the control is not retained, the financial asset is derecognised. All rights and obligation arising or retained in the transfer, are recognised separately as assets or liabilities.

BDIF derecognises a financial liability from its statement of financial position solely where the liability is settled, i.e. the obligation stipulated in the contract is fulfiled, dropped or the term thereof has expired.

Types of financial instruments

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in current accounts, special-purpose accounts, bank time deposits with original maturity of up to twelve months in Bulgarian levs and in foreign currency. Cash on hand and in special-purpose accounts is presented at nominal value. Cash in current accounts and on time deposits with the BNB is presented in the statement of financial position at amortised cost determined by applying the effective interest method, i.e. together with the accrued interest due.

For the purposes of the statement of cash flows, accrued interest due on non-matured time deposits and on current accounts with the BNB as at 31 December is treated as cash equivalent.

(b) Securities reported at fair value in other comprehensive income (with reclassification in the profit or loss)

Securities reported at fair value in other comprehensive income are recognised in and derecognised from the statement of financial position on the date of settlement when the purchase or sale is performed by virtue of a contract providing submission (transfer) of securities within definite period determined by the capital market and the applicable laws regulating transactions in securities. They are initially valued at cost of acquisition, comprising their net purchase price and all directly attributable transaction costs. Interest accrued by the date of acquisition, for interest-bearing securities, is reported as interest receivables that are closed on the value date of the first coupon interest payment for the instrument.

Securities are subsequently measured at fair value. The fair value of securities quoted in active markets is determined on the basis of current bid price published quotations in the active market or those of actively trading Bulgarian banks. Where the market of particular financial assets is not active or these assets are not quoted, BDIF establishes their fair value through other valuation methods. They include: 'reference prices' by comparison with the market price of another similar financial instrument in recently realised arm's length transactions; discounted cash flows analysis; and other valuation techniques usually used by capital market participants.

Under the Procedure for determining prices for monthly revaluation of the government securities portfolio of BDIF, the Risk Assessment and Analysis Department provides the prices to be used for revaluation of the portfolio of BDIF. Official sources of market prices shall be the quotations received from Bloomberg, Reuters or another recognised market prices source.

Where no market quotations in Bloomberg, Reuters or another recognised market prices source are available or where it is not possible to obtain any such, one of the following approaches will be used: prices of issues of government securities used for calculating the amount of blocked government securities serving as collateral for budget funds in servicing banks, are taken from the BNB; the quoted prices, requested from the Treasury Department, of three actively trading banks are taken; or alternative revaluation methods are employed, 'reference prices' included, if the instrument is not traded actively enough on the secondary market.

In connection with the impairment requirements of IFRS 9, the management of BDIF adopted an approach for measuring the probability of default based on two surveys of the credit rating agencies Moody's and Standard & Poor's for the periods 1983-2016 and 1975-2010, according to which the transaction matrix of transitional probabilities over a one-year period indicates no probability of transitioning from Baa or BBB credit ratings of Moody's or Standard & Poor's to credit ratings Withdrawn/Defaulted or SD ('defaulting'). Thus, the cumulative probability of default on liabilities on the part of issuers with Moody's or Standard & Poor's credit rating higher than or equal to Baa or BBB is zero per cent. According to this approach, as BDIF as at 31 December held nothing but government securities, the probability of the Republic of Bulgaria's defaulting on its liabilities over a one-year period, has been estimated to be zero. Since the probability of default is zero, the proposed approach does not require that a recovery rate (RR) be determined for estimation of potential credit losses.

As at each reporting date BDIF checks if the credit risk of the financial instruments it holds has increased significantly since initial recognition and calculates an allowance equalling expected credit losses.

(c) Receivables from counterparties

Upon initial recognition BDIF measures the receivables that do not have a substantial financing component (set in accordance with IFRS 15), at their relevant price of the transaction (as prescribed in IFRS 15).

In accordance with IFRS 9 BDIF applies a simplified approach for reporting receivables from counterparties arising from transactions within the scope of IFRS 15, calculating a loss allowance equalling lifetime expected credit losses for the instrument.

BDIF derecognises receivables from counterparties where the contractual rights to the cash flows have expired or the receivables have been transferred in accordance with the requirements of IFRS 9.

(d) Payables to counterparties

Payables to counterparties are presented at the original invoice amount (cost) which is assumed to be the fair value of the transaction, which will be paid in the future against the goods and services received.

(e) Payables on covered deposits to depositors with banks with revoked licenses

Payables to depositors with banks with revoked licenses on guaranteed deposit amounts are presented as amounts equalling the statutory payable sum of up to BGN 196,000 per depositor per bank, regardless of the number and balances of deposits held by that person, and up to BGN 250,000 for a period of three months for the deposits specified under Art. 10 of the LBDG. Deposits acquired as a result of dispositive actions within the mandate of a special supervision, when the BNB suspends for a definite period of time, in full or in part the execution of all or some of the obligations of the bank (Art. 116, para 2, items 2 and 3 of the LCI) and after the decision of the BNB for revocation of the banking license, shall not be covered by the guarantee. Covered amounts include also accrued interest as at the date of the decision of the Bulgarian National Bank under Art. 20, para 1 of the LBDG.

Reimbursable amounts by BDIF are set on the basis of provided information on deposits and opened deposits and accounts provided by the conservator, trustee or liquidator of the relevant bank.

The management assumes that these payables represent financial liabilities because the underlying initial obligation is resultant from a statutory obligation and their settlement is connected with payment by BDIF.

Payout of covered deposits of depositors of KTB (in bankruptcy) has been executed under the repealed LBDG.

(f) Claims on covered deposits against banks with revoked licenses (subrogation)

Receivables on deposits for which BDIF has subrogated to the rights of depositors with a bank in bankruptcy are recognised in the statement of financial position at the earliest date after the date of their legal emergence under the LBDG, assessing if there is a high probability for them to be collected by BDIF and if they can be fairly measured. These receivables are valued at present value, based on the discounting method of future cash inflows from them for the set time of their collection.

As at the date of each financial statement BDIF management should carry out a review and a relevant adjustment of the estimate of these receivables.

Receivables on deposits for which BDIF subrogates should be derecognised when the legal grounds for this are in place.

2.7. Property and equipment

Property and equipment are presented in the financial statements at historical cost of acquisition less the accumulated depreciation and any impairment losses in value.

Initial measurement

Upon their initial acquisition, property and equipment are valued at acquisition cost (cost), which comprises the purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. The directly attributable costs include: the cost of site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes, etc.

BDIF has determined a value threshold of BGN 700 under which the acquired assets regardless of their non-current asset character are written out as a current expense at the moment of their acquisition.

Subsequent measurement

The approach chosen by BDIF for subsequent measurement of property and equipment is the cost model under IAS 16, i.e. the acquisition cost (cost) less any accumulated depreciation and any accumulated impairment losses in value.

Depreciation methods

BDIF applies the straight-line depreciation method for tangible fixed assets. Land is not depreciated. The useful life by group of assets has been determined considering: the physical wear, the characteristic features of the equipment, the intentions for future use and the expected obsolescence, and is as follows:

	Useful life (years)
Buildings	25
Plant and equipment (computers)	2-4
Motor vehicles	4
Fixtures and fittings	7
Other tangible fixed assets	3

The useful life, set for any tangible fixed asset, is reviewed at each year-end, and in case of any material deviation from the future expectations of their period of use, it is adjusted prospectively.

Subsequent expenditure

Repair and maintenance costs are recognised as current expenses as incurred. Subsequent expenses incurred in relation to property and equipment having the nature of replacement of certain components, significant parts and aggregates or improvements and restructuring, are capitalised in the carrying amount of the respective asset whereas the residual useful life is reviewed at the capitalisation date. At the same time, the non-depreciated part of the replaced components is derecognised from the carrying amount of the assets and is recognised in the current expenses for the period of restructuring.

Impairment of assets

BDIF performs a review for impairment of property and equipment when events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. If there are any indications that the estimated recoverable amount of an asset is lower than its carrying value, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of assets within the 'property and equipment' group is the higher of either the fair value less costs to sell or the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks specific to the particular asset. Impairment losses are reported in the statement of operations (within the result for the year).

Gains and losses on disposal

Tangible fixed assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or are sold. The gains or losses arising from the sale of an item from the 'property and equipment' group are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'total administrative income/losses, net' on the face of the statement of operations.

2.8. Intangible Assets

Intangible assets are stated in the financial statements at acquisition cost (cost) less accumulated amortisation and any impairment losses in value. They include licenses, software and modifications to them.

BDIF has adopted the straight-line amortisation method for the intangible assets, the useful life being set at two years for software products and their upgrades and for licences – the term of use. The carrying value of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying value might exceed their recoverable amount. Impairment losses are then included in the statement of operations (within the result for the year).

2.9. Pensions and other payables to the personnel under the social security and labour legislation

Employment and social security relations with the employees of the Bulgarian Deposit Insurance Fund are based on the provisions of the Labour Code and the effective social security legislation in Bulgaria. A major duty of BDIF in its capacity as employer is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security, the General Diseases and Maternity Fund, the Unemployment Fund, the Labour Accident and Occupational Diseases Fund, and to health insurance. The rates of the social security and health insurance contributions are defined under the Law on the Budget of the State Social Security and the Law on the Budget of the National Health Insurance Fund for the respective year. Contributions are split between the employer and the employee in line with the Social Security Code.

The social security and pension plans, applied by BDIF in its capacity as employer, are based on the Bulgarian legislation and are defined contribution plans. Under these plans, the employer pays defined monthly contributions to the government funds, i.e. the Pensions Fund, the General Diseases and Maternity Fund, the Unemployment Fund, the Labour Accident and Occupational Diseases Fund, as well as to universal and professional pension funds on the basis of rates fixed by law, and has no legal obligation to pay any additional amounts to these funds in the cases where the latter do not hold sufficient funds to repay to the respective employees the benefits they have worked out over the period of their service.

Obligations referring to health insurance are analogous.

There is no established and functioning private voluntary social security scheme at BDIF.

Short-term benefits

Short-term employee benefits in the form of remuneration, bonuses and perquisites and benefits (payable within 12 months after the end of the period when the employees have rendered the service or have met the required terms and conditions) are recognised as an expense in the statement of operations (within the result for the year) in the period when the service thereon has been rendered or the requirements for their receipt have been met and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount. BDIF payables for social security and health insurance are recognised as a current expense and liability at their undiscounted amount together with the corresponding benefits and within the period of their accrual.

At each financial statements date BDIF measures and recognises the expected costs on the accumulating compensated absences, i.e. the amount expected to be paid as a result of the unused entitlement. The measurement includes the estimated expenses on the employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Long-term retirement benefits

In accordance with Art. 222, paras 2 and 3 of the Labour Code, the employer is obliged to pay to its employee upon termination of the labour contract due to disability or after the employee has acquired the right to a retirement for length of service and age an indemnity which, depending on the length of service with BDIF, may vary between 2 and 6 gross monthly salaries as at the termination date of the employment. Under IAS 19 these payments are classified as defined benefits.

As at each financial statements date BDIF uses the services of certified actuaries who calculate the present value of these liabilities following actuarial methodology consistent with the requirements of IAS 19. In calculating the present value of the defined benefit obligations and the related current service cost the requirements of paragraphs 67-69 of IAS 19 are observed for employing the Projected Unit Credit Method which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, using effective annual interest rate based on the yield of the issues of long-term government securities (with 10-year maturity) in accordance with the prescriptions of paragraph 83 of IAS 19.

Actuarial gains and losses arise from changes in the actuarial assumptions and differences between the actuarial assumptions and actual experience. BDIF recognises the components of defined benefits costs as follows:

– expenses for length of service and the interest from unwinding of the present value, in 'expenses on personnel' in the statement of operations (within the result for the year); and

– the changes in the amount of liabilities of BDIF to the personnel (the revaluations on the defined benefits scheme) in the other comprehensive income.

Termination benefits

In accordance with the provisions of the Labour Code, BDIF in its capacity as employer is obliged, upon termination of the employment contracts prior to retirement, to pay certain types of indemnities.

BDIF recognises employee benefit obligations on employment termination before the standard retirement age when it is demonstrably committed, based on an announced plan, to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the statement of financial position at their present value.

2.10. Income taxes

Under the Law on Bank Deposit Guarantee and the Law on the Recovery and Resolution of Credit Institutions and Investment Firms BDIF is exempt from state and local taxes and fees as well as from charges on deposit guarantee transactions and on financing resolution actions.

2.11. Critical accounting judgements on applying the accounting policies of the BDIF. Key estimates and assumptions of high uncertainty

Measurement of financial instruments reported at fair value in other comprehensive income

The management of BDIF classifies the government securities held by BDIF on the basis of the adopted business model for their management and the characteristics of the contractual cash flows as financial instruments reported at fair value in other comprehensive income. The government securities are acquired for obtaining additional income from cash accumulated on the basis of member banks contributions and for maintaining required high liquidity for payout of covered bank deposits or implementation of bank resolution instruments. Both the collection of contractual cash flows and the sales of government securities are key factors for the achievement of the objective of the model.

Under the Procedure for determining prices for monthly revaluation of the government securities portfolio of BDIF, the Risk Assessment and Analysis Department provides the prices to be used for revaluation of the portfolio of BDIF. The changes in the prices of debt securities held by BDIF are treated as temporary and presented in the changes of 'other components of net assets' of BDIF.

In connection with the requirements of IFRS 9 for recognition of expected credit losses, BDIF management adopted an approach for measuring the probability of default based on surveys of the credit rating agencies Moody's and Standard & Poor's for the periods 1983-2016 and 1975-2010. On the basis of these surveys the transaction matrix of transitional probabilities over a one-year period indicates no probability of transitioning from Baa or BBB credit ratings of Moody's or Standard & Poor's to credit ratings Withdrawn/ Defaulted or SD ('defaulting'). According to this approach, the cumulative probability of default on liabilities on the part of issuers with Moody's or Standard & Poor's credit rating higher than or equal to Baa or BBB is zero per cent. On this basis, the probability of the Republic of Bulgaria's defaulting on its liabilities over a one-year period has been estimated to be zero per cent and no credit losses in the portfolio of BDIF are expected. As the probability of default is zero, the proposed approach does not require that a rate of recovery (RR) be determined for estimation of potential credit losses.

Subrogation claims against banks

As of the date of compiling the financial statements BDIF management reviewed and made adjustments of the estimated claim on the KTB (in bankruptcy) accordingly. Upon revocation of the license of KTB, BDIF has subrogated into the rights of the deposit holders of guaranteed deposits, which are recognised in the statement of financial position based on reasonable and fairly presented assumptions of their recoverable value as at the date of the financial statements.

The estimates are prepared on the basis of the liquidation balance sheet of KTB (in bankruptcy) as at 31 December 2018, the liquidation plan, the first partial distribution account, as well as additional information provided by the trustee of KTB (in bankruptcy) at the request of BDIF.

The total amount of assets in the unaudited liquidation balance sheet of KTB (in bankruptcy) as at 31 December 2018 is BGN 1,499,808 thousand, including BGN 57,674 thousand in assets intended for secured creditors (2017: BGN 1,418,383 thousand, of which BGN 57,064 thousand in assets intended for secured creditors).

Based on BDIF analysis, the expected value of available assets of KTB (in bankruptcy), excluding pledged assets, which may be used to satisfy the remaining creditors, was reduced to BGN 1,206,530 thousand (2017: BGN 1,150,093 thousand).

According to Art. 94, para 1 of the Law on Bank Bankruptcy, upon distribution of liquidated property, claims are paid as follows: first, claims secured by a pledge or mortgage – out of the proceeds of the sale of the collateral; second, claims on which the right of distraint is exercised – out of the value of the property under distraint; third, bankruptcy expenses; fourth, claims for which BDIF has subrogated and claims of depositors that are not covered by the deposit guarantee; followed thereafter by the rest of the bank's creditors.

The total amount of claims of creditors of KTB (in bankruptcy) under Art. 94, para 1, item 1 of the LBB amounted to BGN 57,674 thousand, the sum of cash intended for secured creditors totalling BGN 29,975 thousand. The amount of claims for which BDIF has subrogated to as of the date of the first partial distribution account (in April 2017) is BGN 3,701,299 thousand. The total amount of claims of creditors of KTB (in bankruptcy) ranking fourth as of the same date comes to BGN 4,931,640 thousand. Depositor claims which are not covered by the deposit guarantee scheme but are of the same rank of creditors as BDIF were BGN 1,230,341 thousand. The rest are claims of lower-tier creditors.

The percentage ratio of the BDIF subrogated claims as of the date of the first partial distribution account to the total amount of claims of same-tier creditors is 75.05 per cent. This ratio represents the share which BDIF is entitled to obtain upon liquidation of the assets of KTB (in bankruptcy).

The amount of the claim which BDIF records in its balance sheet is the present value estimated by the method of discounting net future cash flows (funds received from sales of assets less bankruptcy expenses) for the remaining three years of the five-year plan for the liquidation of the assets in the bankruptcy estate of KTB (in bankruptcy) approved by the Management Board of BDIF (2017: the period was four years). According to the lawyers representing BDIF in the appeal proceedings of the first partial account for distribution of amounts among the creditors of KTB (in bankruptcy), it is likely that by the end of 2019 there will be a final court ruling on the case. The management of the Fund expects the proceeds of the first partial distribution account to be received at BDIF before the close of 2019.

Future year-by-year cash flows are discounted using an interest rate equalling the average value of interest rates on the exposures of the credit portfolio of KTB (in bankruptcy), weighted with the net value of debt in the credit portfolio as at 31 December 2018. The effect from discounting future cash flows amounted to BGN -158,996 thousand.

Based on this analysis and given the above assumptions and methodology, the net present value of BDIF claims on KTB (in bankruptcy) has been estimated by BDIF management as at the date of these financial statements at BGN 720,584 thousand (31.12.2017: BGN 695,003 thousand; 31.12.2016: BGN 701,590 thousand; 31.12.2015: BGN 814,054 thousand; 31 December 2014: BGN 855,545 thousand).

This estimate is based on information available to BDIF as of the date of the financial statements for 2018. As of each financial statements date BDIF management reviews and makes adjustments to this estimated claim accordingly.

Contingent liabilities and provisions for litigations

As at 31 December 2018 32 litigations were pending against BDIF, claims totalling BGN 3,411 thousand (2017: 50 litigations, claims amounting to BGN 4,336 thousand). Provisions for guaranteed deposits are set aside amounting to BGN 2,340 thousand (2017: BGN 1,071 thousand).

Upon final decision of the court on adjudicated amounts of reimbursable sums of deposits payable by BDIF, the provisions of Art. 71, para 2 of the LBB will be applicable and the amounts of the liabilities BDIF will be required to pay as per the court decision will be added to the claims of BDIF on KTB (in bankruptcy). In 2018 this amount was BGN 62 thousand.

As at 31 December 2018 recognised liabilities that BDIF might be court-ordered to pay in litigation costs, reported in the administrative expenses, totalled BGN 247 thousand (2017: BGN 214 thousand).

	Covered deposits (BGN '000)	Litigation expenses (BGN '000)
Liabilities on 31.12.2017	**1,071**	**214**
Accrued provisions in 2018	1,331	247
Reversed provisions in 2018	–	(27)
Net change	*1,331*	*220*
Expended provisions in 2018	(62)	(45)
Liabilities on 31.12.2018	**2,340**	**389**

2.12. Attracted funds

Loans disbursed to BDIF are recognised initially at their fair value. They are subsequently recognised at amortised cost, and all differences between issue proceeds and redemption value are recognised in the income statement for the relevant period using the effective interest rate method.

2.13. Repo transactions

Securities which serve as collateral for repo transactions continued to be recorded in financial statements as available-for-sale securities, while liabilities to the counterparties are recognised as amounts due to banks.

3. PREMIUM CONTRIBUTIONS

In 2018 BDIF reported premium contributions from 22 banks in the amount of BGN 158,331 thousand (2017: from 23 banks, BGN 153,362 thousand). The contributions are calculated under Ordinance No. 30 on Calculation of the Amount and Collection of Premium Contributions Due by Banks Under the Law on Bank Deposit Guarantee, namely based on the amount of covered deposits with each bank for the previous year calculated as an average amount of covered deposits as at the end of each quarter and the

level of risk incurred by the respective bank. The risk profile of individual banks, the individual premium contribution due respectively, is determined based on objective and measurable quantitative criteria under Ordinance No. 30.

4. INVESTMENT INCOME

	2018 (BGN '000)	2017 (BGN '000)
Interest income from government securities	629	2,502
Net gains/(losses) from sale/maturity of government securities	(6)	(6)
Interest expense on deposit and current accounts	(1,385)	(491)
	(762)	**2,005**
Net change in the fair value of available-for-sale financial assets		
(Losses)/gains from revaluation during the year	(543)	(1,949)
	(543)	**(1,949)**

5. EARNINGS/EXPENSES ON COVERED DEPOSITS WITH A BANK WITH REVOKED LICENSE

In 2014 the license of Corporate Commercial Bank was revoked, generating liabilities to BDIF on covered deposits in the amount of BGN 3,702,156 thousand. In 2015 liabilities increased by BGN 1,189 thousand. In 2016 the liabilities rose by yet another BGN 70 thousand, and by BGN 184 thousand more in 2017. In 2018 the liabilities decreased by BGN 18 thousand (BGN 80 thousand reported revenues from subrogation in 2018 less BGN 62 thousand in covered deposits paid out in 2018 for which provisions were set aside in 2017) and as at 31 December 2018 the maximum aggregate amount of liabilities covered by the guarantee under the LBDG was BGN 3,703,581 thousand. The amount is inclusive of: the sums eligible for payout, the sums for additional payout, provided the grounds for imposed freezes and attachments are cancelled following the completion of the process of individualisation of entitled persons with respect to special-purpose accounts, contingent amounts in case BDIF becomes liable, with a court ruling that has entered into force, to pay the amount in full or in part – for the portion which BDIF was court ordered to pay as well as adjudicated amounts with respect to which Art. 71, para 2 of the LBB is applicable. Amounts paid out in 2018 were BGN 2,521 thousand (for 2017: BGN 3,143 thousand; for 2016: BGN 13,712 thousand; for 2015: BGN 469,920 thousand; and for 2014: BGN 3,196,457 thousand), of which BGN 87 thousand on litigations for which BDIF has been ordered to pay the guarantee. The total amount paid out from the initial payout day until 31 December 2018 was BGN 3,685,752 thousand.

For the litigations where likelihood of a court's ruling against BDIF exceeds 50 per cent and where the claimed reimbursable sums were not included in the amounts claimed by BDIF, BDIF recognised in the financial statements as at 31 December 2018 BGN 2,340 thousand in liabilities to depositors with banks with revoked licenses.

	2018 (BGN '000)	2017 (BGN '000)
Expenses on covered deposits with a bank with revoked license, incl.		
Decrease/increase of the liability on covered deposits	*80*	*(184)*
Liabilities on litigations	*(1,331)*	*(1,071)*
Interest related to litigations	*(19)*	*–*
Change in the fair value of the claims on KTB (in bankruptcy)	*25,581*	*(6,587)*
	24,311	**(7,842)**

The management of BDIF expects part of the subrogation expenses to be recovered from liquidation of assets from the bankruptcy estate as a result of the distribution of the collected cash determined on the basis of KTB (in bankruptcy) creditors' rights. BDIF will receive an amount representing a proportionate share of its right to subrogation.

6. INTEREST ON ATTRACTED FUNDS

	2018 (BGN '000)	2017 (BGN '000)
Interest on attracted funds, incl.		
Interest on loan from Republic of Bulgaria	*(14,727)*	*(15,381)*
Interest and fees on loan from IBRD	*(9,099)*	*(8,066)*
Interest and fees on loan from EBRD	*(9,391)*	*(9,373)*
Interest on repurchase transactions with government securities, net	*2*	*34*
	(33,215)	**(32,786)**

7. OTHER INCOME/LOSSES, NET

	2018 (BGN '000)	2017 (BGN '000)
Net gains/(losses) from revaluation and foreign currency transactions	132	(767)
Penalty interest for delay	–	–
	132	**(767)**

8. GENERAL ADMINISTRATIVE EARNINGS/EXPENSES

The administrative expenses of both funds (BDIF and BRF) are covered with annual fees paid by each bank and bank branch under Art. 1, paras 2 and 3 of the LBDG, members of the deposit guarantee scheme of the Republic of Bulgaria, under Ordinance No. 29 on Establishing the Procedure for Financing the Administrative Expenses of the Bulgarian Deposit Insurance Fund.

The total amount of fees paid by banks in 2018 was BGN 2,885 thousand (2017: BGN 2,707 thousand), representing 0.0056 per cent of the average amount of covered deposits with banks as at 31 December 2016, 31 March, 30 June and 30 September 2017. Revenues from fees for financing are recognised up to the amount of administrative expenses reported for 2018. Budget funds are held at the BNB.

Administrative expenses are reported as direct operating costs of BDIF, direct operating costs of BRF, and general/indirect expenses. The basis for allocation of all types of indirect administrative costs is the same. The allocation of indirect administrative costs for each financial year is according to two criteria with relative weight, determined along with the approval of the annual budget for administrative expenses. The criteria are: the ratio (in percentage terms) of managed financial assets (excluding subrogation claims against banks) of BDIF and BRF to the total amount of assets for both funds as at 31 December of the preceding year and the ratio (in percentage terms) of manhours of the members of the MB and all employees of BDIF, by fund, to the total manhours of the said persons for the previous year.

In 2018 the total administrative expenses were BGN 2,606 thousand, of which BGN 2,437 thousand related to the operations of BDIF (2017: BGN 2,417 thousand) and BGN 169 thousand – to the operations of BRF (2017: BGN 141 thousand).

	2018 (BGN '000)	**2017** (BGN '000)
Income from financing of administrative expenses	2,606	2,558
Administrative expenses		
Salaries and social security contributions for personnel	(1,195)	(1,110)
Remuneration and social security contributions under management contracts	(584)	(569)
Remuneration for temporarily hired personnel	(6)	(2)
Office maintenance	(87)	(85)
Subscription to media, information agencies and networks	(157)	(158)
Depreciation	(133)	(104)
Business trips	(26)	(28)
Hospitality expenses	(2)	(10)
Telecommunication and postal services	(6)	(9)
Training and qualification	(5)	(4)
Sundry, net	(405)	(479)
Total administrative expenses	**(2,606)**	**(2,558)**

Salaries and social security contributions of the personnel accounted for BGN 1,195 thousand (2017: BGN 1,110 thousand) and included staff remuneration and social security contributions under employment contracts in the amount of BGN 1,054 thousand (2017: BGN 986 thousand) and perquisites of BGN 141 thousand (2017: BGN 124 thousand).

Remunerations under management contracts include the remunerations and related social security payments and perquisites for the members of the Management Board of BDIF.

Expenses for office maintenance include mainly energy costs (electric energy and heating), security services, renovations, water, stationery and sanitary and hygienic materials, insurance, local taxes and fees, etc.

Expenses for subscription to media, information agencies and networks include mainly subscriptions for database access to one of the major information agencies, Bloomberg, subscription for portfolio management and accounting software, computer networks, and internet.

Other expenses include legal services and fees related to litigations in connection with KTB (in bankruptcy), with a net amount of BGN 54 thousand (BGN 150 thousand expenses paid less BGN 96 thousand in recovered expenses for litigations in favour of BDIF), as well as net provisions for litigations expenses related to KTB (in bankruptcy) in the amount of BGN 220 thousand. In 2017 net costs of legal services and fees on litigations related to KTB (in bankruptcy) totalled BGN 107 thousand and provisions for litigations expenses were in the amount of BGN 214 thousand. Other costs also include expenses for auditing services, annual membership fees for the European Forum of Deposit Insurers and the International Association of Deposit Insurers, bank charges and other charges paid.

9. CASH AND CASH EQUIVALENTS

	31.12.2018 (BGN '000)	**31.12.2017** (BGN '000)
Cash on hand	5	1
Current accounts in BGN	1,717	466
Current accounts in foreign currency	720	73
Deposit accounts in BGN	481,246	315,685
Deposit accounts in foreign currency	164,120	134,822
Special-purpose accounts	3,188	4,739
	650,996	**455,786**

The existing cash as at 31 December 2018 was in current and deposit accounts with the Bulgarian National Bank and in special-purpose accounts in the servicing banks selected to pay out insured deposits: Allianz Bank Bulgaria AD, Central Cooperative Bank AD, DSK Bank EAD, Eurobank Bulgaria AD, First Investment Bank AD, Raiffeisenbank (Bulgaria) EAD, UniCredit Bulbank AD, United Bulgarian Bank AD.

Cash in current and time deposits with the BNB is reported in the statement of financial position at amortised cost determined as per the effective interest rate method, i.e. together with interest accrued.

Interest rates on current and deposit accounts were as follows:

	2018	2017
Interest rates on current and deposit accounts in original currency		
BGN	from –0.52% to –0.12%	from –0.48% to –0.01%
EUR	from –0.52% to –0.20%	from –0.48% to –0.08%
USD	0%	0%

10. SECURITIES REPORTED AT FAIR VALUE IN OTHER COMPREHENSIVE INCOME

A) Classification of securities based on original maturity

31 December 2018	Nominal value (BGN '000)	Fair value (BGN '000)	Interest rate (coupon) %	Effective interest rate %	Maturity
Medium-term interest-bearing government securities	5,392	5,429	0.3	0.17	2021
Long-term interest-bearing government securities	16,864	17,235	–0.27-3.00	–0.10-3.18	2019-2021
	22,256	**22,664**			

31 December 2017	Nominal value (BGN '000)	Fair value (BGN '000)	Interest rate (coupon) %	Effective interest rate %	Maturity
Medium-term interest-bearing government securities	5,392	5,446	0.03	0.17	2021
Long-term interest-bearing government securities	59,227	61,117	–0.247-6.00	–0.10-6.71	2018-2021
	64,619	**66,563**			

B) Classification of securities based on residual maturity

31 December 2018	Nominal value (BGN '000)	Fair value (BGN '000)	Interest rate (coupon) %	Effective interest rate %	Maturity
Short-term interest-bearing government securities	12,103	12,124	–0.27-2.30	–0.10-3.18	2019
Medium-term interest-bearing government securities	10,153	10,540	0.3-3.00	0.17-2.51	2021
	22,256	**22,664**			

31 December 2017	Nominal value (BGN '000)	Fair value (BGN '000)	Interest rate (coupon) %	Effective interest rate %	Maturity
Short-term interest-bearing government securities	30,525	31,984	0.00-6.00	2.00-6.70	2018
Medium-term interest-bearing government securities	34,094	34,579	–0.247-3.00	–0.10-2.51	2019-2021
	64,619	**66,563**			

As at 31 December 2018 BDIF has opened securities registers with the following primary dealers – sub-depositories of securities: Citibank Europe Plc., Bulgaria Branch, DSK Bank EAD, Eurobank Bulgaria AD, Raiffeisenbank (Bulgaria) EAD, Societe Generale Expressbank AD, UniCredit Bulbank AD, and United Bulgarian Bank AD.

As at 31 December 2018 and 31 December 2017 BDIF had open exposures only to Bulgarian sovereign debt (Bulgarian government bonds).

11. SUBROGATION CLAIMS AGAINST BANKS

As at the balance sheet date BDIF estimated the subrogation claim upon liquidation of the bankruptcy estate of KTB (in bankruptcy) at BGN 720,584 thousand (31 December 2017: BGN 695,003 thousand; 31 December 2016: 701,590; 31 December 2015: BGN 814,054 thousand; 31 December 2014: BGN 855,545 thousand). Detailed information on this estimate is available in 2.11.

12. PROPERTY AND EQUIPMENT

	Land and buildings (BGN '000)	Office equipment and furniture (BGN '000)	Motor vehicles (BGN '000)	Total (BGN '000)
Book value as at 1 January 2017	**1,005**	**424**	**51**	**1,480**
Additions	–	16	–	16
Disposals	–	(18)	(2)	(20)
Book value as at 31 December 2017	**1,005**	**422**	**49**	**1,476**
Additions	–	30	56	86
Disposals	–	–	(49)	(49)
Book value as at 31 December 2018	**1,005**	**452**	**56**	**1,513**
Accumulated depreciation as at 1 January 2017	**404**	**309**	**51**	**764**
Depreciation charge for the year	34	43	–	77
Depreciation on disposed assets	–	(18)	(2)	(20)
Accumulated depreciation as at 31 December 2017	**438**	**334**	**49**	**821**
Depreciation charge for the year	33	61	2	96
Depreciation on disposed assets	–	–	(49)	(49)
Accumulated depreciation as at 31 December 2018	**471**	**395**	**2**	**868**
Carrying amount as at 31 December 2017	**567**	**88**	**–**	**655**
Carrying amount as at 31 December 2018	**534**	**57**	**54**	**645**

As at 31 December 2018 BDIF owned land at the amount of BGN 163 thousand (31 December 2017: BGN 163 thousand) and a building at a carrying amount of BGN 371 thousand (31 December 2017: BGN 404 thousand), the aggregate amount of both items being BGN 534 thousand.

As at 31 December 2018 and 31 December 2017 there were no established encumbrances (mortgages and pledges) on property and equipment of BDIF.

13. INTANGIBLE AND OTHER ASSETS

A) Intangible assets

	Software (BGN '000)
Book value as at 1 January 2017	**257**
Additions	28
Book value as at 31 December 2017	**285**
Additions	26
Book value as at 31 December 2018	**311**
Accumulated depreciation as at 1 January 2017	**186**
Depreciation charge for the year	27
Accumulated depreciation as at 31 December 2017	**213**
Depreciation charge for the year	36
Accumulated depreciation as at 31 December 2018	**249**
Carrying amount as at 31 December 2017	**72**
Carrying amount as at 31 December 2018	**62**

B) Other assets

Other assets include:

	31.12.2018 (BGN '000)	**31.12.2017** (BGN '000)
Long-term intangible assets – website under construction	19	–
Deposits on lawsuits with the Supreme Court of Cassation	1,165	–
Prepaid expenses	3	3
Deferred expenses	13	10
Advances granted	–	5
	1,200	**18**

14. ATTRACTED FUNDS

	31.12.2018 (BGN '000)	31.12.2017 (BGN '000)
Loan from Republic of Bulgaria	510,496	510,731
Loan from IBRD	586,828	547,656
Loan from EBRD	584,819	584,353
Liabilities to banks	–	8,798
	1,682,143	**1,651,538**

As at 31 December 2018 the liability to the Republic of Bulgaria was BGN 510,496 thousand, representing principal and interest accrued according to the effective interest rate method. Under the terms of the loan agreement in 2018 an interest payment was made in favour of the Republic of Bulgaria to the amount of BGN 14,961 thousand (2017: BGN 38,585 thousand) at a fixed interest rate of 2.95 per cent. In 2018 there was no partial early repayment of the loan from the Republic of Bulgaria. As at 31 December 2018 the outstanding portion of the principal is BGN 500 million (BGN 500 million as at 31 December 2017).

The liabilities towards IBRD and EBRD are on government guaranteed loans in the amount of EUR 300,000 thousand each. Utilisation of proceeds of the loan from the IBRD is subject to achievement of certain indicators. As at 31 December 2018 for two of the indicators that are to be fulfiled, an advance amount of EUR 60,000 thousand has been drawn down.

As at 31 December 2018 the outstanding debt to IBRD was BGN 586,828 thousand, representing principal in the amount of EUR 300,000 thousand and interest accrued as per the effective interest rate method. The interest rate on the first tranche of the loan from the World Bank in the amount of EUR 250,000 thousand was fixed on 3 January 2017, effective from the date of the following interest payment. For the entire period between 15 June 2017 and 15 June 2026 the interest rate on the tranche in the amount of EUR 250,000 thousand is 1.55 per cent. For the interest rate period from 15 December 2016 to 14 June 2017 the interest rate is 0.63 per cent (set as per the terms and conditions of the agreement as *6M EURIBOR + 85 b.p.* as of the date of setting).

On 12 July 2017 a second tranche of the loan in the amount of EUR 30,000 thousand was utilised with an interest rate of 0.58 per cent set as per the terms and conditions of the agreement as *6M EURIBOR + 85 b.p.* as of the date of setting. The interest on the tranche that is in the amount of EUR 30,000 thousand was fixed on 19 July 2017 at 1.65 per cent, effective from 21 July 2017 to 15 June 2026.

On 23 March 2018 the third tranche of the loan in the amount of EUR 20,000 thousand was utilised with an interest rate of 0.58 per cent set as per the terms and conditions of the agreement as *6M EURIBOR + 85 b.p.* as of the date of setting. The interest on the tranche that is in the amount of EUR 20,000 thousand was fixed on 27 March 2018 at 1.67 per cent, effective from 29 March 2018 to 15 June 2026.

The liabilities to EBRD were in the amount of BGN 584,819 thousand, of which EUR 300,000 thousand in principal and interest accrued as per the effective interest rate method as at 31 December 2018. The interest rate of the loan from EBRD was fixed on 22 December 2016, effective from the date of the following interest payment. For the interest rate period 19 December 2016 – 18 June 2017 the interest rate is 1 per cent (set as per the terms and conditions of the agreement as *6M EURIBOR + 100 b.p.* as of the date of setting, but not less than 1 per cent). For the entire period from 19 June 2017 to 17 June 2025 the interest rate on the loan is fixed at 1.525 per cent.

On all three agreements BDIF is fulfiling the contractual clauses.

15. LIABILITIES ON COVERED DEPOSITS

	31.12.2018 (BGN '000)	31.12.2017 (BGN '000)
Liabilities on covered deposits	17,829	20,367
Provisions for litigations	2,340	1,071
	20,169	**21,438**

The liabilities on covered deposits comprise:

– Liabilities on covered deposits as at 31 December 2018 in the amount of BGN 17,829 thousand (31 December 2017: BGN 20,367 thousand) representing the difference between BGN 3,703,581 thousand (inclusive of the sums eligible for payout, the sums for additional payout, provided the grounds for imposed freezes and attachments are cancelled following the completion of the process of individualisation of entitled persons with respect to special-purpose accounts, contingent amounts in case BDIF becomes liable, with a court ruling that has entered into force, to pay the amount in full or in part – for the portion which BDIF was court ordered to pay as well as adjudicated amounts with respect to which Art. 71, para 2 of the LBB is applicable) and the amount of covered deposits payouts after the emergence of the liability with respect to covered deposits at BGN 3,685,752 thousand (31 December 2017: BGN 3,683,232 thousand).

– Provisions for guarantees on litigations in the amount of BGN 2,340 thousand (31 December 2017: 1,071).

16. FINANCING OF ADMINISTRATIVE EXPENSES

The funds for financing the administrative expenses as at 31 December 2018 amounted to BGN 1,129 thousand (2017: BGN 850 thousand) representing the sum total of non-spent proceeds of fees collected under Ordinance No. 29 on Establishing the Procedure for Financing the Administrative Expenses of BDIF in the amount of BGN 1,007 thousand (for the period 2016-2018) and fees from banks for 2019 prepaid in 2018 totalling BGN 122 thousand.

17. OTHER LIABILITIES

	31.12.2018 (BGN '000)	31.12.2017 (BGN '000)
Payables to the budget	15	17
Payables to personnel	124	104
Liabilities for provisions for litigation expenses	389	214
Payables to suppliers	17	18
	545	**353**

Payables to personnel represent current obligations on unused paid annual leave of BDIF employees at the amount of BGN 64 thousand (31 December 2017: BGN 58 thousand) and long-term payables for indemnities on retirement amounting to BGN 60 thousand (31 December 2017: BGN 46 thousand). Liabilities for allocated provisions for litigation expenses include attorney fees and state fees. Payables to suppliers amounted to BGN 17 thousand (31 December 2017: BGN 18 thousand) and include expenses incurred in 2018.

18. FINANCIAL RISK MANAGEMENT

In the ordinary course of its business activities, BDIF is exposed to a variety of financial risks, the most important being market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows. General risk management is focused on the difficulty to forecast financial markets and to achieve minimisation of the potential negative effects that might affect the financial results and position of BDIF. Financial risks are identified on an ongoing basis, measured and monitored through various control mechanisms introduced to assess adequately the market circumstances of BDIF investments and to maintain free liquid funds while preventing undue risk concentration.

The management strives to improve the methods for assessment and management of risks related to the investment portfolio: credit, liquidity, interest and currency risks, while performing its major functions: secure investment of funds and payout of covered deposits with banks, participation in funding of resolution of banks.

With the objective of minimising risks BDIF maintains modified average portfolio duration not exceeding 1.5 and determines limits for deposits and securities dealings with a repurchase clause (repo agreements) with banks, as well as a limit for foreign currency exposure.

The management of BDIF reviews the investment strategy on a regular basis and monitors the structure of financial assets and liabilities based on information provided regularly by the Risk Assessment and Analysis Department, Treasury Department, Finance and Accounting Department and Deposit Guarantee and Bank Bankruptcy Department.

The structure of the financial assets and liabilities of BDIF as at 31 December by category is presented in the table below:

	31.12.2018 (BGN '000)	**31.12.2017** (BGN '000)
Financial assets		
'Financial assets reported at amortised cost' category		
Cash and cash equivalents	650,996	455,786
'Financial assets reported at fair value in other comprehensive income' category		
Government securities	22,664	66,563
'Financial assets reported at fair value in the profit and loss' category		
Subrogation claims against banks	720,584	695,003
	1,394,244	**1,217,352**

	31.12.2018 (BGN '000)	31.12.2017 (BGN '000)
Financial liabilities		
'Financial liabilities reported at amortised cost' category		
Loan from Republic of Bulgaria	510,496	510,731
Loan from IBRD	586,828	547,656
Loan from EBRD	584,819	584,353
Attracted funds from banks	–	8,798
Liabilities on covered deposits	20,169	21,438
Other liabilities	545	353
	1,702,857	**1,673,329**

As at 31 December 2018 the contingent financial commitments represent accrued liabilities on guarantees and litigation expenses amounting to BGN 2,629 thousand (2017: BGN 1,285 thousand).

Market risk

(a) Currency risk

The currency risk is related to the adverse movements of exchange rates of other currencies relative to the reporting currency, the Bulgarian lev, in future business transactions on foreign currency assets and liabilities recognised in the statement of financial position. BDIF is exposed to currency risk of changes in the exchange rate of the US dollar to the Bulgarian lev with a view of its open exposures denominated in US dollars. Insofar as the existing exposures are short-term ones and there is a set maximum limit for the exposure in US dollars according to the investment policy, the management is of the opinion that the risk is under control. BDIF has no other outstanding currency risks because the remaining operations are transactions denominated in BGN and/or in EUR, while the Bulgarian lev is pegged to the euro by law.

The tables below represent a summary of the exposure of BDIF to currency risk:

Currency breakdown analysis

As at 31 December 2018	BGN (BGN '000)	EUR (BGN '000)	USD (BGN '000)	Total (BGN '000)
Financial assets				
Cash and cash equivalents	486,156	164,838	2	650,996
Government securities	5,430	14,264	2,970	22,664
Subrogation claims against banks	720,584	–	–	720,584
	1,212,170	**179,102**	**2,972**	**1,394,244**

As at 31 December 2018	BGN (BGN '000)	EUR (BGN '000)	USD (BGN '000)	Total (BGN '000)
Financial liabilities				
Loan from Republic of Bulgaria	510,496	–	–	510,496
Loan from IBRD	–	586,828	–	586,828
Loan from EBRD	–	584,819	–	584,819
Covered deposits liabilities	20,169	–	–	20,169
Other liabilities	545	–	–	545
	531,210	**1,171,647**	–	**1,702,857**

As at 31 December 2017	BGN (BGN '000)	EUR (BGN '000)	USD (BGN '000)	Total (BGN '000)
Financial assets				
Cash and cash equivalents	320,890	134,894	2	455,786
Government securities	16,261	44,672	5,630	66,563
Subrogation claims against banks	695,003	–	–	695,003
	1,032,154	**179,566**	**5,632**	**1,217,352**
Financial liabilities				
Loan from Republic of Bulgaria	510,731	–	–	510,731
Loan from IBRD	–	547,656	–	547,656
Loan from EBRD	–	584,353	–	584,353
Funds attracted from banks	8,798	–	–	8,798
Covered deposits liabilities	21,438	–	–	21,438
Other liabilities	353	–	–	353
	541,320	**1,132,009**	**–**	**1,673,329**

Foreign currency sensitivity analysis

The table below demonstrates the sensitivity to a 10 per cent increase/decrease in the current exchange rate of BGN against USD based on the structure of foreign-currency denominated assets and liabilities of BDIF as at 31 December with an assumption that the influence of all other variables is ignored. The effect is measured and presented as an impact on the financial result and directly on the net assets with all other conditions held constant.

USD

	2018 (BGN '000)	2017 (BGN '000)
Financial result (profit or loss) – increase	297	563
Net assets (through the financial result) – increase	297	563
Financial result (profit or loss) – decrease	(297)	(563)
Net assets (through the financial result) – decrease	(297)	(563)

On a 10 per cent increase in the rate of USD against BGN, the final effect on the financial result of BDIF for a one-year period would be an increase by BGN 297 thousand (31 December 2017: BGN 563 thousand) mostly due to the impact of the exposure of USD-denominated securities. The impact on net assets, respectively, would be the same.

On a 10 per cent decrease in the exchange rate of USD against BGN, the final effect on the result of BDIF would be with a value equal to the increase described above but with an opposite sign.

In the opinion of the management, the above currency sensitivity analysis based on the structure of foreign-currency denominated assets and liabilities in the statement of financial position is representative of the currency sensitivity of BDIF for the reporting year. As at 31 December 2018 the USD exposure of BDIF was formed almost entirely of securities maturing on 1 January 2019.

(b) Price risk

BDIF is exposed to a price risk related to the debt securities held by it and classified as 'reported at fair value in other comprehensive income'. As mentioned above, in order to minimise this risk, BDIF invests liquid funds in Bulgarian government securities. The management has established procedures for ongoing monitoring of price changes, yields and maturity structure of government securities and respectively for undertaking timely measures and actions when indicators for lasting adverse trends are in place.

The analysis of the sensitivity of BDIF to the price of debt securities held by BDIF is based on the state and structure of investments as at 31 December. If these prices undergo a 3 per cent increase/decrease, the effect as at that date would have been directly on the net assets insofar as debt securities are reported at fair value in other comprehensive income and their revaluation is carried directly to a component thereof. This effect would be as follows:

	2018 (BGN '000)	2017 (BGN '000)
Net assets (through another component of other comprehensive income – financial assets revaluation reserve) – increase	680	1,997
Net assets (through another component of other comprehensive result – financial assets revaluation reserve) – decrease	(680)	(1,997)

(c) Interest rate risk

Interest rate risk arises from the impact that changes in interest rates may have on the future cash flows or on the fair values of financial instruments.

BDIF holds a significant portion of interest-bearing assets. Nevertheless, income and operating cash flows are largely independent from market interest rate fluctuations because the assets are mainly with fixed interest rates.

The table below presents the breakdown of financial instruments depending on the type of contractual interest flows.

31 December 2018	with floating interest rate (BGN '000)	with fixed interest rate (BGN '000)	interest-free (BGN '000)	Total (BGN '000)
Financial assets				
Cash and cash equivalents	2,437	645,366	3,193	650,996
Government securities	12,124	10,540	–	22,664
Subrogation claims against banks	–	–	720,584	720,584
	14,561	**655,906**	**723,777**	**1,394,244**
Financial liabilities				
Loan from Republic of Bulgaria	–	510,496	–	510,496
Loan from IBRD	–	586,828	–	586,828
Loan from EBRD	–	584,819	–	584,819
Covered deposits liabilities	–	–	20,169	20,169
Other liabilities	–	–	545	545
	–	**1,682,143**	**20,714**	**1,702,857**

31 December 2017	with floating interest rate (BGN '000)	with fixed interest rate (BGN '000)	interest-free (BGN '000)	Total (BGN '000)
Financial assets				
Cash and cash equivalents	539	450,507	4,740	455,786
Government securities	23,940	42,623	–	66,563
Subrogation claims against banks	–	–	695,003	695,003
	24,479	**493,130**	**699,743**	**1,217,352**
Financial liabilities				
Loan from Republic of Bulgaria	–	510,731	–	510,731
Loan from IBRD	–	547,656	–	547,656
Loan from EBRD	–	584,353	–	584,353
Funds attracted from banks	–	8,798	–	8,798
Covered deposits liabilities	–	–	21,438	21,438
Other liabilities	–	–	353	353
	–	**1,651,538**	**21,791**	**1,673,329**

The table below summarises interest rate risk. It includes the financial instruments of BDIF presented at carrying amount, categorised by the earlier of either the date of change of contractual interest rate or the maturity date.

31 December 2018	up to 1 month (BGN '000)	1-3 months (BGN '000)	3-6 months (BGN '000)	6-12 months (BGN '000)	over 1 year (BGN '000)	interest-free (BGN '000)	Total (BGN '000)
Financial assets							
Cash and cash equivalents	25,380	–	415,335	207,093	–	3,188	650,996
Government securities	12,124	–	–	–	10,540	–	22,664
Subrogation claims against banks	–	–	–	–	–	720,584	720,584
	37,504	**–**	**415,335**	**207,093**	**10,540**	**723,772**	**1,394,244**
Financial liabilities							
Loan from Republic of Bulgaria	–	–	–	–	510,496	–	510,496
Loan from IBRD	–	–	–	–	586,828	–	586,828
Loan from EBRD	–	–	–	–	584,819	–	584,819
Covered deposits liabilities	–	–	–	–	–	20,169	20,169
Other liabilities	–	–	–	–	–	545	545
	–	**–**	**–**	**–**	**1,682,143**	**20,714**	**1,702,857**

31 December 2017	up to 1 month (BGN '000)	1-3 months (BGN '000)	3-6 months (BGN '000)	6-12 months (BGN '000)	over 1 year (BGN '000)	interest-free (BGN '000)	Total (BGN '000)
Financial assets							
Cash and cash equivalents	540	27,969	263,731	158,807	–	4,739	455,786
Government securities	34,670	–	–	21,212	10,681	–	66,563
Subrogation claims against banks	–	–	–	–	–	695,003	695,003
	35,210	**27,969**	**263,731**	**180,019**	**10,681**	**699,742**	**1,217,352**
Financial liabilities							
Loan from Republic of Bulgaria	–	–	–	–	510,731	–	510,731
Loan from IBRD	–	–	–	–	547,656	–	547,656
Loan from EBRD	–	–	–	–	584,353	–	584,353
Funds attracted from banks	8,798	–	–	–	–	–	8,798
Covered deposits liabilities	–	–	–	–	–	21,438	21,438
Other liabilities	–	–	–	–	–	353	353
	8,798	**–**	**–**	**–**	**1,642,740**	**21,791**	**1,673,329**

Sensitivity to interest rate risk

The table below demonstrates the sensitivity of BDIF to possible changes in interest rates based on the structure of assets and liabilities at the end of the reporting period and with the assumption that the influence of all other variables is ignored.

The change in interest rates would affect mainly the yield of securities classified as reported at fair value in other comprehensive income, i.e. the statement of operations and respectively, directly net assets. The effect of sensitivity to interest rate risk on net assets is calculated by revaluing fixed-coupon interest rate securities as at the end of the reporting period as a result of a possible change in interest rates, with the assumption that this change would lead to a change in the yield of these instruments.

Currency	Increase/(decrease) in percentage points	Sensitivity of net assets
	2018	**2018** (BGN '000)
BGN	+1	(116)
EUR	+1	(105)
USD	+1	–
BGN	-1	116
EUR	-1	105
USD	-1	–

Currency	Increase/(decrease) in percentage points	Sensitivity of net assets
	2017	**2017** (BGN '000)
BGN	+1	(175)
EUR	+1	(317)
USD	+1	–
BGN	-1	175
EUR	-1	317
USD	-1	–

Credit risk

Credit risk is mainly the risk that BDIF might be unable to collect its receivables within the ordinary envisaged terms. The management of BDIF purposefully aims at allocating the credit risk within the frames of existing legal opportunities for investment of accumulated funds: part of the investments is in government securities and another part – in deposit accounts with the Bulgarian National Bank. In the structure of assets, the shares of investments in government securities, in deposits in accounts with the BNB and subrogation claims against banks, recognised in the statement of financial position as at 31 December, are as follows:

	31.12.2018	**31.12.2017**
Cash and cash equivalents	47%	37%
Government securities	2%	6%
Subrogation claims against banks	51%	57%

The credit risk stemming from concentration in Bulgarian government securities, classified as reported at fair value in other comprehensive income, is assessed as minimal and manageable insofar as these are government securities issued and guaranteed by the Bulgarian state, which services regularly its debt liabilities. The credit rating of an issuer is an assessment of its ability to meet the obligations upon maturity and is determined by a specialised rating agency based on profound financial analysis. The table below displays the credit rating of the Republic of Bulgaria's long-term obligations, as defined by three internationally recognised rating agencies:

31.12.2018	Rating		Outlook
	In foreign currency	In local currency	
Standard & Poor's	BBB-	BBB-	Positive
Moody's	Baa2	Baa2	Stable
Fitch	BBB	BBB	Stable

31.12.2017	Rating		Outlook
	In foreign currency	In local currency	
Standard & Poor's	BBB-	BBB-	Stable
Moody's	Baa2	Baa2	Stable
Fitch	BBB	BBB	Stable

BDIF management monitors and assesses the exposure to credit risk on a regular basis.

Analysis of the maturity structure of the claim of BDIF on KTB (in bankruptcy)

In November 2016 the management of the Fund approved a five-year plan for liquidation of the assets of the KTB (in bankruptcy). The future cash flows of the claim on KTB (in bankruptcy) are based on the remaining three-year period until the expiry of the adopted plan for liquidation in 2021 (2017: the period was four years).

Sensitivity analysis of the claim of BDIF on KTB (in bankruptcy) was conducted, measuring the net present value of expected flows for BDIF upon change of the maturity structure of received cash flows from KTB (in bankruptcy). Upon change of the maturity structure of received cash flows from KTB (in bankruptcy) where the proceeds of the first partial distribution account expected to be received in 2019 are postponed for 2020 and 2021, the subsequent cash flows from KTB (in bankruptcy) being moved within the three-year period respectively, the net present value of expected cash flows will change with -7.63 per cent or BGN -54.996 million and with -12.41 per cent or BGN -89.452 million respectively.

The table below shows the sensitivity of the claim of BDIF on KTB (in bankruptcy) in case of change of the maturity structure of received cash flows from KTB (in bankruptcy) with an assumption that the influence of the other variables is ignored.

Sensitivity analysis of the claim of BDIF on KTB (in bankruptcy) vis-à-vis the timeframe for receipt of proceeds

	Change of the net present value of expected cash flows for BDIF (BGN '000)	Change of the net present value of expected cash flows for BDIF (%)
Baseline scenario – the proceeds of the first partial distribution account from KTB (in bankruptcy) are received by the end of 2019	720,584	0
Scenario – the proceeds of the first partial distribution account are received by the end of 2020	665,588	–7.63%
Scenario – the proceeds of the first partial distribution account are received by the end of 2021	631,132	–12.41%

Sensitivity analysis of the claim of BDIF on KTB (in bankruptcy) vis-à-vis the loan portfolio

The sensitivity analysis of the claim of BDIF on KTB (in bankruptcy) relative to collected proceeds of the loan portfolio of KTB (in bankruptcy) is done on the basis of assessment of the change in the gross value of expected cash flows for BDIF and in the net present value of expected flows for BDIF upon change of expected cash flows from the loan portfolio of KTB (in bankruptcy). On change of collected proceeds of the loan portfolio of KTB (in bankruptcy) with +/-20 per cent, the gross value of expected cash flows for BDIF and the net present value of expected cash flows will increase/decrease by +/-0.85 per cent or +/-BGN 7.482 million and by +/-0.84 per cent or +/-BGN 6.031 million respectively.

The table below shows the sensitivity of the claim of BDIF on KTB (in bankruptcy) in case of possible changes in proceeds collected from the loan portfolio of KTB (in bankruptcy) with an assumption that the influence of the other variables is ignored.

	Change in expected cash flows from the loan portfolio (%)	Change in the gross value of expected cash flows for BDIF (%)	Change in the net present value of expected cash flows for BDIF (%)
+20% of the loan portfolio	20%	0.85%	0.84%
Baseline scenario	0%	0.00%	0.00%
-20% of the loan portfolio	–20%	–0.85%	–0.84%

Liquidity risk

Liquidity risk is the adverse situation where BDIF encounters difficulties in meeting unconditionally all its obligations within their maturity. The liquidity management policy of BDIF is conservative, maintaining a constant optimal liquid cash reserve to secure good capability for funding its activities. According to the Law on Bank Deposit Guarantee, BDIF has the right to collect extraordinary premium contributions from member banks and to use loans under the terms and conditions of and according to a procedure specified by the BDIF Management Board (Art. 18 of LBDG). As at 31 December 2018 BDIF had an unused limit of BGN 325,000 thousand under a loan agreement with the Republic of Bulgaria.

The table below presents the financial instruments of BDIF classified by their residual term to contractual maturity on the basis of undiscounted contractual cash flows.

Maturity analysis

31 December 2018	1-3 months (BGN '000)	3-12 months (BGN '000)	1-2 years (BGN '000)	2-5 years (BGN '000)	over 5 years (BGN '000)	Total (BGN '000)
Financial assets						
Cash and cash equivalents	28,568	622,428	–	–	–	650,996
Government securities	12,205	79	159	10,233	–	22,676
Subrogation claims against banks	–	375,556	109,635	235,393	–	720,584
	40,773	**998,063**	**109,794**	**245,626**	**–**	**1,394,256**
Financial liabilities						
Loan from Republic of Bulgaria	–	14,750	514,750	–	–	529,500
Loan from IBRD	–	9,200	9,200	85,356	542,796	646,552
Loan from EBRD	–	8,948	8,972	315,763	297,842	631,525
Covered deposits liabilities	–	20,169	–	–	–	20,169
Other liabilities	21	464	–	–	60	545
	21	**53,531**	**532,922**	**401,119**	**840,698**	**1,828,291**

31 December 2017	1-3 months (BGN '000)	3-12 months (BGN '000)	1-2 years (BGN '000)	2-5 years (BGN '000)	over 5 years (BGN '000)	Total (BGN '000)
Financial assets						
Cash and cash equivalents	33,249	422,538	–	–	–	455,787
Government securities	22,840	21,276	12,139	10,392	–	66,647
Subrogation claims against banks	–	523,543	125,939	184,737	–	834,219
	56,089	**967,357**	**138,078**	**195,129**	**–**	**1,356,653**
Financial liabilities						
Loan from Republic of Bulgaria	–	14,961	14,750	514,750	–	544,461
Loan from IBRD	–	8,645	8,583	52,808	541,835	611,871
Loan from EBRD	–	8,922	8,948	172,471	450,107	640,448
Funds attracted from banks	8,798	–	–	–	–	8,798
Covered deposits liabilities	–	–	–	21,438	–	21,438
Other liabilities	139	214	–	–	–	353
	8,937	**32,742**	**32,281**	**761,467**	**991,942**	**1,827,369**

Fair values

Fair value is generally the amount for which an asset could be exchanged, or a liability settled in an arm's length transaction between independent, willing and knowledgeable parties.

The BDIF policy is to disclose in its financial statements the fair value of the financial assets and liabilities, mostly those for which market quotations are available. The fair value of financial instruments traded in active markets is based on the prices quoted at the end of the reporting period. The quoted market prices are the current bid prices. The fair value of government securities was set on the basis of market value of securities traded in active markets as at the end of the reporting period, Level 1 in the hierarchy of fair values.

The fair value of financial instruments which are not traded in active markets is determined through valuation methods based on various valuation techniques and management assumptions made in accordance with the market circumstances as at the end of the reporting period. The fair value of the claims on KTB (in bankruptcy) in the hierarchy of fair values is of Level 3.

The management of BDIF believes that the estimates of financial assets and liabilities presented in the statement of financial position are as reliable, adequate and trustworthy as possible for financial reporting purposes under the existing circumstances.

19. RELATIONS AND TRANSACTIONS WITH GOVERNMENT INSTITUTIONS, AUTHORITIES AND ENTERPRISES

Further to its special status and functions, as well as in line with the legal requirements, BDIF has regular relations with the following institutions: the Ministry of Finance, the Bulgarian National Bank and the Association of Banks in Bulgaria.

BDIF is governed by a Management Board designated in accordance with the Law on Bank Deposit Guarantee (Note 1.).

The funds accumulated by BDIF from banks' contributions in accordance with the legal requirements are invested in securities issued or guaranteed by the Bulgarian state and in short-term deposits with the Bulgarian National Bank (Notes 9. and 10.). Securities in which BDIF invests are acquired on both the primary market by participating in auctions organised and carried out by the Bulgarian National Bank and on the secondary market.

In connection with paying out the covered deposits with KTB on 3 December 2014 BDIF concluded a loan agreement with the Republic of Bulgaria to the amount of up to BGN 2,000,000 thousand, of which BGN 1,675,000 thousand were utilised as at 31 December 2015. No new tranches were utilised in 2016 and in 2017. BDIF has made early repayment of BGN 1,175,000 thousand, and as at 31 December 2018 the outstanding amount of the principal is BGN 500,000 thousand.

On 23 January 2015 BDIF concluded a special pledge agreement with the government, providing for the establishment of a special pledge of receivables under the Law on Special Pledges in connection with Art. 18, para 5 of the Law on Bank Deposit Guarantee (repealed) in favour of the Republic of Bulgaria to secure its claims to a total amount of BGN 2,000,000 thousand, representing present and future claims vis-à-vis banks for annual premium contributions to BDIF up to the year 2020, as well as claims for which BDIF has subrogated under the procedure of Art. 24 of the LBDG (repealed).

On 9 June 2016 the National Assembly adopted laws on ratification of the Guarantee Agreements between the Republic of Bulgaria, on the one hand, and the International Bank for Reconstruction and Development and the European Bank for Reconstruction and Development, on the other hand, in connection with the government guaranteed loans from both institutions for BDIF.

20. EVENTS AFTER THE REPORTING PERIOD

On 8 March 2019 pursuant to Art. 12, para 2 of the Law on the Bulgarian National Bank, BNB submitted to the National Assembly a proposal for electing Radoslav Milenkov as Deputy Governor of the BNB in charge of the Banking Supervision Department. The voting by the National Assembly to elect the new deputy governor of the Bulgarian National Bank has been scheduled for 22 March 2019.

BANK RESOLUTION FUND

ANNUAL REPORT 2018

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Activity Report on the BRF for 2018

The Bank Resolution Fund was established in August 2015.

The address and headquarters of BRF are the address and headquarters of BDIF: 27 Vladayska Street, 1606 Sofia, Bulgaria.

BRF carries out its activities in accordance with the Law on the Recovery and Resolution of Credit Institutions and Investment Firms, the Law on Bank Deposit Guarantee, and the Law on the Bulgarian National Bank. The objective of BRF is to foster the effective resolution of credit institutions under the terms and conditions of the LRRCIIF by participating in the financing of their resolution. BRF is financed by annual contributions from banks as determined by the BNB and is managed by the BDIF Management Board. BRF is not an autonomous legal entity and the costs related to its management are part of the overall administrative expenses of BDIF, which are financed by the annual fees of banks participating in the deposit guarantee system in the Republic of Bulgaria.

Scope of Activities

A key objective of BRF is to finance the implementation of the instruments for the resolution of credit institutions which have been granted a license to conduct bank operations by the Bulgarian National Bank, bank branches in the Republic of Bulgaria of third-country credit institutions and bank branches in the Republic of Bulgaria of credit institutions established in other Member States.

BRF is financed by annual contributions determined by the BNB in its capacity as bank resolution authority. The BNB determines the total amount of annual contributions for the respective year, taking into account the economic cycle phase and the corresponding impact on banks' financial standing. The individual annual contribution for each bank is proportionate to the ratio of the relative share of the amount of the obligations of this bank or third-country bank branch (excluding equity), less the amount of covered deposits with that bank or branch, to the total liabilities of all banks and branches from third countries (excluding equity), reduced by the amount of covered deposits. The amount of the contribution also takes into account the risk profile of the bank or bank branch and shall be calculated in accordance with the rules laid down by Commission Delegated Regulation (EU) 2015/63 of 21 October 2014.

BRF resources may be invested, in line with the principles of security, liquidity and diversification in financial instruments, as follows: deposits in levs and euro or other financial instruments offered by the BNB; deposits in euro with foreign banks assigned one of the three highest credit ratings by two credit rating agencies; debt instruments in euro, excluding embedded options, issued by foreign countries, foreign banks, foreign financial institutions, international financial organisations, foreign agencies or other foreign companies which instruments or issuers are assigned one of the three highest ratings by two credit rating agencies.

BRF has the right to: enter in repo agreements in euro with foreign banks, foreign financial institutions or international financial organisations assigned one of the three highest credit ratings by two credit rating agencies; and lend against equivalent collateral its debt instruments holdings to foreign banks, foreign financial institutions or international financial organisations assigned one of the three highest credit ratings by two credit rating agencies.

In compliance with the requirements of the LRRCIIF and the Law on the Bulgarian National Bank, the resources of BRF may be awarded for management to BNB against remuneration.

BDIF Management Board has adopted the framework for management of the BRF funds, inclusive of Investment Policy of the Bank Resolution Fund and the relevant rules and limitations for investing the resources of BRF under the requirements of the LRRCIIF. In 2018 BRF funds were invested in deposits in BGN with the BNB.

Analysis of Major Operating Result Indicators

In line with the provisions of the LRRCIIF in April 2018 the BNB Governing Council determined banks' annual contributions for 2018 to the Bank Resolution Fund in the amount of BGN 121,956 thousand. All banks paid the due contributions within the deadline. As at 31 December 2018 the resources held in BRF amounted to BGN 409,835 thousand available in accounts with the BNB (31 December 2017: BGN 288,784 thousand).

Interest expenses on accounts with the BNB in 2018 amounted to BGN 905 thousand (2017: BGN 315 thousand). The financial risks management is presented in note 6 in the Notes to the Annual Financial Statements.

The Bank Resolution Fund is managed by the Management Board of BDIF free of charge. The BDIF Management Board has designated units within the BDIF structure to assist the MB in the performance of its duties related to the management and the use of BRF resources. In carrying out its duties related to the Bridge Institution tool and the Asset Separation tool – Chapters 11 and 12 of the LRRCIIF, the Management Board of BDIF shall be assisted by a unit which is separate and independent from the structural units involved in the tasks related to deposit guarantee. As of 31 December 2018 there was no necessity to establish such a unit.

Significant Events that Occurred After the Date of the Annual Financial Statements

BDIF Management Board confirms that no significant events occurred after the date of the annual financial statements.

Likely Future Development

BNB in its capacity as bank resolution authority shall take decisions to use BRF resources only in terms of resolution and assign to the BDIF Management Board the implementation of that decision. In 2018 no actions for resolving banks were undertaken and no resources from BRF were utilised.

In 2018 the Republic of Bulgaria launched a procedure for establishing close cooperation with the European Central Bank and accession to the Single Supervisory Mechanism and the ensuing accession to the Single Resolution Mechanism in the European Union. A major follow-up is the accompanying accession to the Single Resolution Fund. In accordance with the provisions of Regulation (EU) No 806/2014 the national resolution authority is responsible for the collection and transfer of contributions to the SRF following the initial transfer of funds at the accession under the Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund.

With respect to the above amendments to national legislation have been tabled. Draft amendments to the LRRCIIF provide for the transfer of BRF to the BNB and the segregation of two funds there, respectively – a subfund aimed at financing the application of tools and resolution powers under this law vis-à-vis the branches of credit institutions of third countries, and a subfund for collection of contributions under Art. 69, 70 and 71 of Regulation (EU) No 806/2014 and their transfer to SRF. The function on the calculation of the contributions of credit institutions licensed in the Republic of Bulgaria is conveyed to the Single Resolution

Council, and BDIF functions regarding the establishment of a bridge institution and an asset management vehicle are also provisioned to be conveyed to the resolution authority. The tabled amendments are provided to enter into force as of the date of the application of ECB decision for close cooperation under Art. 7 of Regulation (EU) No 1024/2013 of the Council of 15 October 2013 for conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

Management Responsibilities

According to the applicable LRRCIIF the BDIF Management Board prepares financial statements for each financial year, giving a true and fair view of the BRF performance as of year-end and of its financial results.

The BDIF Management Board confirms that an adequate accounting policy has been applied consistently and that in the preparation of the financial statements as at 31 December 2018 the precautionary principle has been observed in the evaluation of assets, liabilities, revenues and expenses.

The BDIF Management Board also confirms that it has followed the existing International Financial Reporting Standards, and the financial statements have been drawn up on a going-concern basis.

This report was approved by the Management Board of the Bulgarian Deposit Insurance Fund on 21 March 2019 and signed on its behalf by:

Radoslav Milenkov
Chairman of the Management Board
Bulgarian Deposit Insurance Fund

Independent Auditor's Report

To the Management Board of the Bulgarian Deposit Insurance Fund

Our opinion

We have audited the financial statements of the Bank Resolution Fund (the "Fund") which comprise the statement of financial position as at 31 December 2018, and the statement of operations, the statement of changes in net assets and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for opinion

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

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

Independence

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the financial statements in Bulgaria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Independent Financial Audit Act.

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

Management is responsible for the other information. The other information comprises *the Annual Activity Report*, prepared by the management in accordance with Chapter Seven of the Accountancy Act but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in this regard.

pwc

Additional Matters to be reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Annual Activity Report, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA), issued on 29 November 2016 and approved by its Management Board on 29 November 2016. These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion on 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, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

a) The information included in the Annual Activity Report for the financial year for which the financial statements have been prepared is consistent with those financial statements.

b) The Annual Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures 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 auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Rositsa Boteva
Registered Auditor

Одиторско дружество София Рег. № 085 ПрайсуотърХаусКуперс Одит ООД

Jock Nunan
PricewaterhouseCoopers Audit OOD

25 March 2019
Sofia, Bulgaria

BRF Annual Financial Statements for 2018

Contents

STATEMENT OF OPERATIONS

for the year ended 31 December 2018

	Notes	2018 (BGN '000)	2017 (BGN '000)
Annual contributions	*3*	121,956	111,274
Interest expense on deposits and current accounts	*4*	(905)	(315)
NET INCOME FOR THE YEAR		**121,051**	**110,959**

STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Notes	2018 (BGN '000)	2017 (BGN '000)
ASSETS			
Cash at bank	*5*	409,835	288,784
TOTAL ASSETS		**409,835**	**288,784**
LIABILITIES		**–**	**–**
NET ASSETS		**409,835**	**288,784**

The accompanying notes on pages 94 to 102 form an integral part of the financial statements

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Notes	2018 (BGN '000)	2017 (BGN '000)
Cash flows from operating activities			
Cash receipts from banks as annual contributions		121,956	111,274
Net cash flows from operating activities		**121,956**	**111,274**
Cash flows from investing activities			
Payments related to cash		(905)	(315)
Net cash flows from investing activities		**(905)**	**(315)**
Increase in cash during the year		121,051	110,959
Cash and cash equivalents at 1 January		288,784	177,825
Cash and cash equivalents at 31 December	*5*	**409,835**	**288,784**

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 December 2018

	Net assets (BGN '000)
Balance as at 1 January 2017	**177,825**
Result for the year	110,959
Total comprehensive income	110,959
Balance as at 31 December 2017	**288,784**
Result for the year	121,051
Total comprehensive income	121,051
Balance as at 31 December 2018	**409,835**

The accompanying notes on pages 94 to 102 form an integral part of the financial statements

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for 2018

1. GENERAL INFORMATION

Information on the Bank Resolution Fund

The Bank Resolution Fund was established by the Law on the Recovery and Resolution of Credit Institutions and Investment Firms. The BRF is managed by the BDIF Management Board and it is not an autonomous legal entity.

The address and headquarters of BRF are the address and headquarters of BDIF: 27 Vladayska Street, 1606 Sofia, Bulgaria.

Regulatory framework of BRF operations

The Bank Resolution Fund operations are regulated by the Law on the Recovery and Resolution of Credit Institutions and Investment Firms, the Law on Bank Deposit Guarantee, and the Law on the Bulgarian National Bank.

The objective of BRF is to foster the effective resolution of credit institutions under the terms and conditions of the LRRCIIF by participating in the financing of the resolution.

No management discretions have been used in the preparation of these financial statements.

BNB in its capacity as bank resolution authority shall take decisions to use BRF resources only in terms of resolution and assign to BDIF Management Board the implementation of that decision.

As at 31 December 2018 the Management Board of the Bulgarian Deposit Insurance Fund comprised:

- Radoslav Milenkov – Chairman of the Management Board of BDIF, nominated by Resolution No. 355 of the Council of Ministers dated 21 May 2015;
- Nelly Kordovska – Deputy Chairwoman of the Management Board of BDIF, nominated by Resolution No. 7 of the Governing Council of the BNB dated 15 January 2015;
- Bisser Manolov – member, nominated by Resolution of the Management Board of the Association of Banks in Bulgaria dated 14 April 2015;
- Borislav Stratev – member, appointed by Order No. 92-0007 of the Chairman and the Deputy Chairwoman of the Management Board of BDIF dated 22 July 2015;
- Valery Dimitrov – member, appointed by Order No. 92-0077 of the Chairman and the Deputy Chairwoman of the Management Board of BDIF dated 22 July 2015.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

Accounting policies

The financial statements were drawn up following the accounting policies listed below. The adopted accounting policies are consistent with those applied in the previous reporting period, unless otherwise stated.

Basis for the preparation of the financial statements

The financial statements of BRF have been prepared in accordance with the International Financial Reporting Standards and the clarifications issued by the IFRS Interpretations Committee as adopted by

the European Union. The EU-adopted IFRS is the generally adopted name of a framework with an overall purpose of trustworthy disclosure equivalent to the definition of the framework introduced by force of § 1, item 8 of the Additional Provisions of the Accountancy Law – 'International Accounting Standards'.

The financial statements are presented in Bulgarian levs (BGN) and all items are rounded to the nearest thousand (BGN '000), unless explicitly specified otherwise.

Historical cost principle

These financial statements were prepared in accordance with the historical cost principle.

Going concern

The financial statements were prepared in accordance with the going concern principle under which the Fund is assumed to continue its existence in the foreseeable future.

2.1. New and amended standards adopted by the Bank Resolution Fund

The Fund applied the following standards and amendments for the first time for its annual financial reporting period starting on 1 January 2018:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- Amendments to IFRS 2 'Classification and Measurement of Transactions on Share-based Payment'
- Annual improvements to IFRS – Cycle 2014-2016
- Amendments to IAS 40 'Transfers of Investment Property'
- IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'
- IFRIC Interpretation 23 'Uncertainty over Income Tax Treatments' (issued on 7 June 2017)
- Amendments to IFRS 9 'Prepayment Features with Negative Compensation' (issued on 12 October 2017)
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' (issued on 12 October 2017)

The Fund amended its accounting policy following the adoption of IFRS 9. The other changes listed above have no significant impact on the amounts recognised in previous periods and are not expected to influence the current or future periods.

As of 1 January 2018 the Bank Resolution Fund classifies its financial assets in the following reporting categories:

- Cash and cash equivalents classified as 'Loans and receivables' and valued at amortised cost under IFRS 9.

BDIF developed and adopted a business model for the management of BRF financial assets.

According to Art. 136, para 3 of the LRRCIIF BRF funds may be invested in debt securities. In relation to the application of IFRS 9, BDIF management has identified the debt securities that may be held by the BRF as a group of financial assets according to the manner they are managed.

The BDIF manages BRF financial assets so as to perform as efficiently as possible the functions assigned to it by the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

BRF resources are invested in observance of the principles of security, liquidity and diversification. Securities in the BRF portfolio are held in order to obtain the contractual cash flows and to derive income from the sale of securities from the portfolio under appropriate market conditions.

In addition to earning income, BDIF management may decide to sell the securities from the BRF portfolio to provide liquidity for resolution financing arrangements of a credit institution under the LRRCIIF. In view of the operational specifics and the short deadlines in which the BRF may need to convert the securities portfolio into liquid cash, securities may be sold at any time prior to maturity.

Both the collection of contractual cash flows and the sales of debt securities are key factors in achieving the model's objective.

(a) New standards and clarifications not yet adopted

Certain new accounting standards and explanations have been issued as non-mandatory for the reporting period as at 31 December 2018 and have not been previously adopted by BRF. BRF's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 'Leases'

IFRS 16 was issued in January 2016. It will lead to recognising almost all lease agreements in the balance sheet of the lessee as the distinction between operating lease and financial lease is discontinued. Under the new standard an asset (the right of use of the leased asset) and a financial liability for lease payments are recognised, the only exceptions being short-term leases and leases of low-value assets.

Impact

The Fund is no party to an operating lease contract. BRF has no leases, so the introduction of IFRS 16 'Leases' does not have an impact on the financial statements.

Date of adoption

The Fund will apply the standard from the date of its mandatory adoption – 1 January 2019.

There are no other standards with pending effectiveness and that are expected to have a significant effect on BRF in the current or a future reporting period, as well as in the foreseeable future transactions.

(b) New standards, clarifications, and amendments pending adoption by the EU

- IFRS 17 'Insurance Contracts' (issued on 18 May 2017) enters into force on 1 January 2021
- Annual improvements to IFRS – Cycle 2015-2017 (issued on 12 December 2017). The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 enter into force on 1 January 2019
- Amendment to IAS 19 (issued on 7 February 2018) enters into force on 1 January 2019
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018) enter into force on 1 January 2019
- Amendment to IFRS 3 – 'Definition of a Business' (issued on 22 October 2018) enters into force on 1 January 2020
- Amendment to IAS 1 and IAS 8 – 'Definition of Material' (issued on 31 October 2018) enters into force on 1 January 2020

2.2. Comparatives

In these financial statements BRF presents comparative information for one prior year. Where necessary, comparative data is reclassified (restated) in order to achieve compatibility in view of the current-year presentation changes.

2.3. Functional currency

The functional and presentation currency of BRF is the Bulgarian lev. The Bulgarian lev was pegged to the euro at a rate of BGN 1.95583 : EUR 1.

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate at the date of the transaction or operation is applied to the foreign currency amount. Cash, receivables and payables, denominated in foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by the Bulgarian National Bank for the last working day of the respective month.

As at 31 December these amounts are presented in Bulgarian levs at the closing exchange rate of the BNB.

Foreign currency translation differences arising from the settlement or recording of foreign currency transactions at rates different from those at which they were converted on initial recognition, are included in the statement of operations (within the result for the year) as current income and expenses at the time when they arise and are treated as ‘other income/(losses)’ from operations and are presented net.

2.4. Contributions income

Contributions income represents the annual and extraordinary contributions to BRF by banks having a license granted by the BNB or a branch of a third country. The payment deadline for annual contributions is thirty days after the date of notification (Art. 139, para 4 of the LRRCIIF).

Where the amount of funds accumulated in the Bank Resolution Fund is insufficient to cover expenses on resolution financing arrangements, extraordinary contributions are collected from banks within a term specified in the BNB decision. Income from contributions is recognised in the statement of operations (under the result for the year) on the date when they enter BRF account, but not later than the statutory deadline. After this date, penalty interest for delay is charged and presented as 'other income/(losses), net’ on the face of the statement of operations. It is calculated on a statutory interest rate basis.

2.5. Investment income

BRF resources may be invested in financial instruments, as follows:

– deposits in levs and euro or other financial instruments offered by the Bulgarian National Bank;

– deposits in euro with foreign banks assigned one of the three highest credit ratings by two credit rating agencies;

– debt instruments in euro, excluding embedded options, issued by foreign countries, foreign banks, foreign financial institutions, international financial organisations, foreign agencies or other foreign companies which instruments or issuers are assigned one of the three highest ratings by two credit rating agencies.

The Bank Resolution Fund has the right to:

– enter in repo agreements in euro with foreign banks, foreign financial institutions or international financial organisations assigned one of the three highest credit ratings by two credit rating agencies;

– lend against equivalent collateral its debt instruments holdings to foreign banks, foreign financial institutions or international financial organisations assigned one of the three highest credit ratings by two credit rating agencies.

Complying with the requirements of the LRRCIIF and the LBNB, the resources of BRF may be awarded for management to the BNB against remuneration.

BDIF Management Board has adopted an Investment Policy of the Bank Resolution Fund, which defines the rules and constraints for BRF investments.

2.6. Financial instruments

Classification

BRF classifies its financial instruments depending on the nature and purpose (designation) of the financial assets and liabilities at the date of their acquisition. The management determines the classification of the financial assets held by BRF at the time of their initial recognition in the statement of financial position. As at 31 December 2018 and 31 December 2017 the financial instruments of the Bank Resolution Fund are cash in a current account and deposit accounts with the BNB classified as financial assets valued at amortised cost in accordance with IFRS 9. Financial liabilities may arise where the BNB, in its capacity as bank resolution authority, takes a decision on using funds from BRF in an amount exceeding the resources available.

Initial recognition

Financial instruments are recognised in the statement of financial position at the time when BRF becomes a party to a contract related to a financial instrument, on 'the date of settlement'. Under this approach, the instrument is recognised on the date when it is transferred to BRF.

Initial measurement

Upon initial acquisition or origination, financial assets and liabilities are measured at their fair value equal to the acquisition cost.

Subsequent measurement

Following the initial recognition, financial assets held by BRF are measured at fair value or amortised cost depending on their classification, while financial liabilities – at amortised cost determined under the effective interest rate method.

Gains and losses on revaluation of fair value

Gains and losses from a revaluation of a financial asset measured at fair value through profit are included on an ongoing basis in the statement of operations (within the result for the year) for the period when they arise.

Impairment

At each financial statements date, BRF assesses whether objective circumstances exist representing indicators for permanent impairment of each individual financial asset, which is not measured at fair value through the statement of operations (within the result for the year). Where a significant and/or permanent decrease in the fair value of a certain asset exists compared to its acquisition cost, it is assumed that impairment has occurred. The impairment amount is equal to the difference between the carrying value of the asset and its recoverable value, which represents its current fair value.

Derecognition

Financial assets or parts thereof are derecognised from the statement of financial position where:

– BRF receives economic benefits from its contractual rights; or

– BRF loses control over the right to receive economic benefits from its contractual rights; or

– the term of such a right has expired; or

– BRF waives such a right.

Financial liabilities are derecognised from the statement of financial position where:

– the liability is settled; or

– the liability is dropped off; or

– the term for settlement has expired.

Types of financial instruments

Cash and cash equivalents

Cash on current accounts and time deposits with the BNB are presented in the statement of financial position at amortised cost determined by applying the effective interest rate method, i.e. together with the accrued interest due.

For the purposes of the statement of cash flows, accrued interest due on non-matured time deposits and on current accounts with the BNB as of 31 December is treated as cash equivalent.

2.7. Property, equipment and intangible assets

BRF uses property, equipment and intangible assets which are presented in the financial statements of BDIF.

2.8. Income taxes

Under the Law on Bank Deposit Guarantee and the Law on the Recovery and Resolution of Credit Institutions and Investment Firms BRF is exempt from state and local taxes as well as from charges on financing resolution actions.

3. ANNUAL CONTRIBUTIONS

Under a Resolution of 18 April 2018 the Governing Council of the Bulgarian National Bank determined the annual contributions of 22 banks for the BRF for 2018 to the amount of BGN 121,956 thousand (2017: BGN 111,274 thousand) which were transferred within the statutory deadline.

4. EXPENSES

Expenses are accrued interest by the BNB on a current account and time deposits.

Interest rates in the original currency – BGN, are within the range from -0.52 per cent to -0.11 per cent.

The expenses related to the management of BRF are part of the general administrative expenses of BDIF and are financed under Ordinance No. 29 on Establishing the Procedure for Financing the Administrative Expenses of the Bulgarian Deposit Insurance Fund. Thus, administrative expenses relating to the operations

of BRF in 2018, reported in the financial statements of BDIF that manages BRF, are in the amount of BGN 169 thousand (2017: 141 thousand).

5. CASH AND CASH EQUIVALENTS

	31.12.2018 (BGN '000)	**31.12.2017** (BGN '000)
Current accounts in BGN	600	80
Annual time deposits in BGN	409,235	288,704
	409,835	**288,784**

As of 31 December 2018 the cash equivalents are available in accounts with the Bulgarian National Bank.

As of 1 January 2016 the BNB has been charging negative interest on the funds available in accounts. In order to minimise the interest expense, contracts for time deposits with lower interest rates have been concluded with the BNB in 2018, too.

6. FINANCIAL RISK MANAGEMENT

The investing of the resources of the Bank Resolution Fund is conducted in accordance with the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

BDIF Management Board takes decisions to invest the resources of BRF in line with the principles of security, liquidity and diversification.

The resources are managed professionally and in a way ensuring confidence in the Bulgarian financial stability system.

The structure of the financial assets and liabilities of BRF as at 31 December by category is presented in the table below:

	31.12.2018 (BGN '000)	**31.12.2017** (BGN '000)
Financial assets		
'Financial assets reported at amortised cost' category		
Cash and cash equivalents	409,835	288,784
	409,835	**288,784**

As at 31 December 2018 and 31 December 2017 BRF has no financial liabilities.

Market risk

(a) Currency risk

The currency risk is related to the adverse movements of exchange rates of other currencies relative to the reporting currency, the Bulgarian lev, in future business transactions on foreign currency assets and liabilities recognised in the statement of financial position. BRF is not exposed to currency risks as the financial instruments it holds are denominated in BGN.

(b) Price risk

As of 31 December 2018 and 31 December 2017 BRF holds no financial instruments exposed to price risk.

(c) Interest rate risk

Interest rate risk arises from the impact that changes in interest rates may have on the future cash flows.

The table below presents the breakdown of financial instruments depending on the type of contractual interest flows.

31 December 2018	with floating interest rate (BGN '000)	with fixed interest rate (BGN '000)	interest-free (BGN '000)	Total (BGN '000)
Financial assets				
Cash and cash equivalents	600	409,235	–	409,835
	600	**409,235**	**–**	**409,835**

31 December 2017	with floating interest rate (BGN '000)	with fixed interest rate (BGN '000)	interest-free (BGN '000)	Total (BGN '000)
Financial assets				
Cash and cash equivalents	80	288,704	–	288,784
	80	**288,704**	**–**	**288,784**

Credit and liquidity risk

Credit risk is mainly the risk that BRF might be unable to collect its receivables within the ordinary envisaged terms. Liquidity risk is the adverse situation where BRF encounters difficulties in meeting unconditionally all its obligations within their maturity. The credit risk and liquidity management policy of the management is conservative. As of 31 December 2018 the cash equivalents are available in a current account and deposit accounts with the Bulgarian National Bank.

The table below presents the financial instruments of BRF classified by their residual term to the maturity on the basis of undiscounted contractual cash flows.

Maturity analysis

31 December 2018	up to 1 month (BGN '000)	1-3 months (BGN '000)	3-12 months (BGN '000)	1-5 years (BGN '000)	over 5 years (BGN '000)	Total (BGN '000)
Financial assets						
Cash and cash equivalents	81,374	–	328,461	–	–	409,835
	81,374	**–**	**328,461**	**–**	**–**	**409,835**

31 December 2017	up to 1 month (BGN '000)	1-3 months (BGN '000)	3-12 months (BGN '000)	1-5 years (BGN '000)	over 5 years (BGN '000)	Total (BGN '000)
Financial assets						
Cash and cash equivalents	81,994	–	206,790	–	–	288,784
	81,994	**–**	**206,790**	**–**	**–**	**288,784**

7. EVENTS AFTER THE REPORTING PERIOD

According to a Resolution of 7 March 2019 the Governing Council of the Bulgarian National Bank determined the total amount of BGN 137,258 thousand of annual contributions for 2019 in the Bank Resolution Fund.

On 8 March 2019 pursuant to Art. 12, para 2 of the Law on the Bulgarian National Bank, BNB submitted to the National Assembly a proposal for electing Radoslav Milenkov as Deputy Governor of the BNB in charge of the Banking Supervision Department. The voting by the National Assembly to elect the new deputy governor of the Bulgarian National Bank has been scheduled for 22 March 2019.

BULGARIAN DEPOSIT
INSURANCE FUND

27 Vladayska Street, 1606 Sofia, Bulgaria
phone: +359 2 953 1217, +359 700 144 03
fax: +359 2 952 1100
e-mail: contact@dif.bg
www.dif.bg