

Annual disclosure of information in accordance with the requirements of Regulation 575/2013 of the European Parliament up to 31.12.2019

I. General information

IB INTERCAPITAL MARKETS AD is a joint stock company, registered in the city of Sofia under company court № 2709/2003 of Sofia city Court. The headquarter address of the company is in Republic in Bulgaria, city of Sofia, "Sredets" municipality and the management address is city of Sofia, "Sredets" municipality, 6 "Dobrudja" street, 3rd floor.

The company has a full license for investment intermediary № ПГ – 03-0204/24.02.2006 approved by a decision of the Financial Supervision Commission.

The scope of business of the company is:

I. Provisions of investment services and performance

of investment activities by occupation on the territory of the Republic of Bulgaria and abroad, as follows: 1.1. acceptance and delivery of orders in connection with the one or more financial instruments, including mediation for the conclusion of transactions with financial instruments; 1.2. implementation of orders for the account of the customer; 1.3. portfolio management; 1.4. provision of investment consultations to customers; 1.5. offering of financial instruments for initial sale, without an unconditional and irrevocable obligation to acquire financial instruments of own account;

II. Performance of the following services on the territory of the Republic of Bulgaria and abroad: 2.1. safekeeping and administration of financial instruments for the client's account, including custodian activities (keeping clients' financial instruments and money at depository institutions) and the services related to them, such as management of cash received/collateral provided; 2.2. granting of loans for the performance of transactions with one or more financial instruments, provided that the person granting the loan participates in the transaction, under terms and conditions established by a regulation; 2.3. consultations to companies concerning the capital structure, the industrial strategy and related issues, as well as consultations and services related to mergers and acquisitions of companies; 2.4. investment research and financial analyses or other forms of general recommendations, related to transactions with financial instruments; 2.5. services related to the offering of financial instruments for initial sale, without an unconditional and irrevocable obligation to acquire the securities for own account.

Turnover size

For the calendar year 2019, the company generated revenue from financial activities in the amount of BGN 4 200 000.

Number of Employees

As of December 31, 2019, the total number of the employees in the company at the headquarters in Sofia is 12 employees working on full-time. 5 employees are working on an employment contract at the branch of IB Intercapital Markets AD in Warsaw.

Pre-tax financial result

For 2019 the company has achieved an accounting financial result - loss amounting to BGN 78 138.

Accrued taxes over the financial result

After the tax conversion, the tax financial result of the company for 2019 is loss in the amount of BGN 78 138, that is why no corporate tax apply

II. Risk management policy and aims

The risk analysis and management policy is an integral part of the general investment policy of Intercapital Markets. The risk factors that influence the activity of the investment intermediary are:

1. Credit risk - the possibility the IB will suffer a financial loss due to a counterparty negligence on a financial instrument, contract, etc.;
2. Currency risk - the possibility the IB will suffer a financial loss as a result of adverse changes in the exchange rates in which the IB holds its assets or has liabilities;
3. Commodity risk - the risk of positions in exchange traded commodities or commodity derivative instruments in the investment portfolio of IB Intercapital Markets AD. The IB does not hold such type of assets in its investment portfolio and therefore it is not exposed to commodity risk, respectively it does not calculate capital requirements for its cover;
4. Concentration risk - risk arising from the applying of credit risk mitigation techniques and large indirect credit exposures;
5. Operational risk - the risk of loss as a result of inappropriate or incorrect internal procedures, errors of persons and systems or internal events, including legal risk and risk of failure to comply with the MFIA obligations.
6. Liquidity risk - the possibility that the investment intermediary may not have sufficient funds to meet its obligations when they become due and the inability to realize its assets at an appropriate price and within a reasonable time.
7. Market risk - the possibility that losses will be incurred or profit will not be realized under the influence of adverse changes in the prices of financial instruments, market interest rates, exchange rates and more.
8. Reputational risk - negative publications and statements in the mass media, electronic media, etc. concerning the investment intermediary, true or false, which may result in a decrease in the client base, revenue or litigation.
9. Risks arising from the macro environment and the phases of the economic cycle. As the investment intermediary is unable to influence either the macroeconomic risk or the phase of the economic cycle in which the country's economy is located, taking action on these risks is limited to reducing their negative impact on the business and financial performance of the company.

The activity of the IB is also exposed to residual risk. The IB monitors and controls the residual risk arising from the lower efficiency than expected of the techniques used to reduce credit risk and the expected loss. Where credit risk mitigation or expected loss is taken into account, the IB undertakes a comprehensive credit risk assessment of the underlying exposure.

The organizational structure of IB INTERCAPITAL MARKETS AD related to the risk management is three-dimensional:

1. Board of Directors;
2. Executive Director;
3. Employees working under a contract for IB INTERCAPITAL MARKETS AD.

The Board of Directors of IB INTERCAPITAL MARKETS AD has the following responsibilities for risk management:

1. Adopts rules and policies for risk management and keeps them up to date;
2. Accepts as elements of risk management policy:
 - a) the level of risk which IB INTERCAPITAL MARKETS AD is ready to accept;
 - b) guidelines for the development of the risk assessment and management system.

3. Establishes specific limits that allow the individual units of the investment firm to operate with the respective autonomy, and sets limits for the main types of risk, in order not to expose IB INTERCAPITAL MARKETS AD to unacceptable risks;
4. Update, if necessary, the maximum levels for the main types of risk;
5. Controls the risk factors for the investment firm by considering reports submitted by the Executive Director and taking decisions within the limits of its powers;
6. Decides on personnel, software and other provision of risk management activities.

The Executive Directors, managing and representing IB INTERCAPITAL MARKETS AD has the following responsibilities for risk management:

1. Organize the work on the proper implementation of the risk management rules and policies adopted by the Board of Directors;
2. Create an organization of work that ensures compliance with the set limits and levels of risk;
3. Ensure that the procedures for measuring, monitoring and assessing the risk used by the respective employees of the investment firm comply with the adopted internal company's documents by the Board of Directors;
4. Enforce the decisions of the Board of Directors for personnel, logistical and methodological provision of risk management activities.

In order to adequately meet the requirements of Ordinance No. 50 on the Capital Adequacy and Liquidity of Investment Intermediaries, IB INTERCAPITAL MARKETS AD establishes an independent risk management department, which reports directly to the management of the intermediary and prepares reports on the state of risk.

The immediate responsibilities of this department are as follows:

- (a) assist with specific developments the Board of Directors and the Executive Director in determining risk management policies and limits for major types of risk;
- b) measure and analyze on an ongoing basis the risks to which IB INTERCAPITAL MARKETS AD is exposed, in accordance with the procedures described hereinafter;
- (c) collect, evaluate and organize the entry into the database of inside and outside information required for risk assessment in accordance with the applicable method of reliability and sufficiency;
- d) adapt ready-made models for measuring risk and monitoring risk factors on the activity of the investment firm;
- (e) monitor the compliance with specified limits and risk levels and report to the Executive Director;
- f) periodically review the risk matrix of IB INTERCAPITAL MARKETS AD as well as the effectiveness of the applying the risk management rules according to market conditions;
- (g) make substantiated proposals for updating or refining the risk management rules and for changing the tolerable risk levels and submit them for approval by the Board of Directors of the investment firm;
- h) participate in the preparation of the report on the capital adequacy and liquidity of the investment intermediary as of the last date of each month and other required documents under Ordinance No. 50 of 2015 on the capital adequacy and liquidity of the investment intermediaries;
- i) prepare and publicly announce the information according to Regulation 575/2013 on its website;
- g) prepare reports of the state of risk and submit them for consideration, discussion and adoption by the Board of Directors of IB INTERCAPITAL MARKETS AD.

III. Capital base

Ordinance No. 50 on capital adequacy, the liquidity of investment intermediaries and the supervision of compliance with them, and Regulation 575/2013 require investment intermediaries to disclose publicly available information on equity at least once a year.

The investment intermediary seeks to maintain stable levels of capital adequacy in view of client requirements, scale of operations and market environment.

Elements of the capital base as of 31.12.2019 are as follows:

Equity (capital base)	Amount in thousand BGN
Registered and deposited capital	1 600 000
Legal reserves	160 000
Undistributed profit from previous years	1 540 253
Uncovered loss	926 428
Accumulated other comprehensive income	0
Capital reductions	
Other intangible assets	0
Base equity from first row	1 915
Additional capital from first row	0
Total capital from first row	1 915
Capital from second row	0
Equity (capital base)	1 915

In compliance with the capital requirements, the investment intermediary must at all times meet the following capital requirements: Tier 1 capital ratio - 4,5%; Tier 1 capital ratio - 6% and total capital adequacy ratio - 8%.

IB INTERCAPITAL MARKETS AD maintains constant internal capital in size, type and distribution so that it is adequate to cover the risks to which it is or may be exposed, depending on the level and nature of those risks, and applies reliable and effective strategies and processes for continually evaluating and maintaining the size and distribution of internal capital. These rules and procedures are an integral part of the investment firm's risk management policy and have been drawn up in compliance with the requirements of Regulation (EU) No 575/2013 and Directive 2013/36 / EU of 26 June 2013.

IV. Types of risks and expositions

1. Information on expositions to credit risk and counterparty credit risk

The credit risk in an investment firm has two main components:

1. Risk of default arising from the general financial position and creditworthiness of the counterparty in capital market transactions;
2. Counterparty risk, which is measured by the eventual loss in default of the counterparty to the transaction.

In order to calculate risk-weighted credit risk exposures, the investment firm shall use the standardized approach under Part Three, Title II, Chapter Two of Regulation 575/2015 on

prudential requirements for credit institutions and investment firms. Counterparty risk is the risk that the counterparty to a particular transaction will default before the final settlement of the transaction's cash flows. The counterparty risk arises by:

1. transactions in derivative instruments;
2. repo deals;
3. securities lending and borrowing transactions;
4. margin loan transactions;
5. transactions with extended settlement.

Derivative instruments are those listed in Annex II to Regulation 575/2015 on prudential requirements for credit institutions and investment firms. The values of exposures in derivative instruments are determined in accordance with Part Three, Title II, Section 4, Chapter 6 of the above Regulation.

The exposure values of repurchase agreements, securities lending and borrowing transactions, margin lending transactions and extended settlement transactions shall be determined in accordance with the rules of Title II, Chapter 4 of Regulation 575/2015 on prudential requirements for credit institutions and investment firms .

In order to cover the credit risk, IB INTERCAPITAL MARKETS AD must have a minimum equity of 8% of the total risk weighted exposure amount. The capital requirement for positions in collective investment schemes is 32%.

2. Information on operational risk expositions

For the purposes of calculating operational risk, the basic indicator method is applied. Operational risk is the risk of loss arising from inadequate or malfunctioning internal processes, persons and systems, or from external events. The capital requirements for operational risk are 15% of the average over the three years of the respective indicator.

3. Information on currency risk expositions

The currency risk is manifested as a change in the exchange rates of the foreign exchange positions held by the intermediary. The capital requirement for foreign exchange risk is 8%.

4. Information on market risk expositions

The market risk includes position, currency and commodity risk. The Company determines the capital requirements for market risk in accordance with Part Three, Title IV of Regulation (EU) No 575/2013.

5. Information on the Remuneration policy

The remuneration policy of the investment intermediary regulates the system of remuneration of the company's employees. The Company establishes clear and objective principles in the formation of remuneration. The Company has not set up a remuneration committee and does not use an external consultant to determine the remuneration policy.

The remunerations are fixed - no variable remuneration (including performance-related remuneration) is applied and no excessive risk-taking is encouraged. For this reason, no additional remuneration is paid which is linked to quantitative measures of their performance and does not provide retirement benefits. Equity remuneration or equity-related instruments do not apply.

The remuneration of the executive members of the Board of Directors is determined by the Board of Directors. The decision of the Board of Directors shall be adopted by a majority of the members represented, unless otherwise is provided in the Articles of Association of the Company. These remunerations do not include the variable part but only permanent remuneration. The remuneration includes gross remuneration, long-time and paid annual leave, as well as temporary disability benefits. It does not include premiums, long-term benefits and song contributions.

Senior management personnel are the individuals with executive functions who represent the investment firm and who are responsible and accountable to the management or control body of the investment firm for the day-to-day management of the investment firm. As such, the company treats the persons entered in its account in the Commercial Register as representing, namely the members of the Board of Directors.

Summarized quantitative information on remuneration, management and staff whose professional activities have a significant impact on the institution's risk profile is presented as follows:

Staff	Gross amount of the remuneration in thousands BGN
Senior management	62
Operative management	255
Key employees	183

In 2019, the investment firm did not pay variable remuneration to its employees. In 2019, there are no persons in the investment firm who have received remuneration of EUR 1 million or more for the financial year.

Investment intermediary IB INTER INTERPITAL MARKETS AD applies the requirements of Regulation (EU) No 575/2013 in a manner consistent with the size, internal organization, nature, scale and complexity of its activities.

March, 2020