

Zornitsa Markova

THE KTB STATE

Sofia, 2017

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THE **KTB** STATE

CHRONICLE OF THE LARGEST
BANK FAILURE IN BULGARIA —
THE WORKINGS OF A CAPTURED
STATE THAT SOLD OUT THE
PUBLIC INTEREST FOR PRIVATE
EXPEDIENCY



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LIST OF ABBREVIATIONS AND ACRONYMS

APIA	Access to Public Information Act
BDB	Bulgarian Development Bank
BEH	Bulgarian Energy Holding
BIA	Bank Insolvency Act
BNB	Bulgarian National Bank
BNR	Bulgarian National Radio
BTA	Bulgarian News Agency
BTC	Bulgarian Telecommunications Company
CONPI	Commission for Withdrawal of Illegally Acquired Property
CPC	Commission for Protection of Competition
GERB	Citizens for European Development of Bulgaria
EC	European Commission
ERM II	Exchange Rate Mechanism
EU	European Union
FIB	First Investment Bank, Fibank
IPK	Publishing and Printing Complex
KTB	Corporate Commercial Bank
MP	Member of Parliament
MEP	Member of the European Parliament
NDSV	National Movement Simeon II
NURTS	Bulgarian Radio and Television Broadcasting Stations Service
DPS	Movement for Rights and Freedoms
NRA	National Revenue Agency
SAC	Supreme Administrative Court
SCP	Sofia City Prosecution
SPV	Special Purpose Vehicle
SSM	Special Surveillance Means
TC-IME	Technology Center – Institute of Microelectronics
CRC	Telecommunications Regulation Commission
CPC	Commission for the Protection of Competition
DANS	State Agency for National Security

EDITOR'S FOREWORD

The *KTB State* is the result of a two-year investigation by six journalists (not counting the baby of the driving force behind the project — Zornitsa Markova), some of whom have had an interest in the topic dating back to 2008 and 2009, when they first put ink to paper.

The investigation is structured as a chronological account of the history of the CORPORATE COMMERCIAL BANK (KTB) from its establishment until its collapse. It tells the story of the largest bank failure in Bulgaria.

The preparatory and investigative work carried out under the KTBfiles project involved more than 250 meetings with different sources, approximately 30,000 pages of documents (reports, contracts, correspondence, lists, registers, financial records, etc.) put under close scrutiny, more than 1,000 phone calls, and at least 50 applications for access to information.

In January 2016, the website www.ktbfiles.com was launched with the original intent of presenting the work of the team and the goals of the investigation. It contains several important elements:

- a full chronology of the events from the establishment of KTB in 1984 until the bank's closure in 2016;
- Radar — a daily media scan software, which uploads all KTB-related materials onto the website;
- a rich selection of KTB-related documents.

Several months later, the website's content was expanded with KTB Top 100 sub-project — a comprehensive, document-based analysis of the bank's 100 biggest borrowers with an aggregate share of more than 80% of its loan portfolio, detailing the loans ob-

tained by each company, the way in which the money was spent, the current financial standing of the borrowers and the assets acquired with the money borrowed. KTB Top 100 project largely answers the question: *Where did the money go?*

During the investigation we extended, either in person or through lawyers and press offices, dozens of interview requests to key players in the events described in the book. Many of them, including Delyan Peevski, Boyko Borisov, Ahmed Dogan and Plamen Oresharski, declined our invitations to share their views on the events.

In late August 2016, after several attempts and two planning visits to Belgrade, the KTBfiles team finally interviewed Tsvetan Vassilev. A full transcript of the interview is available on the website. In terms of content, the first-ever interview with a genuine insider (see annex) is intrinsically invaluable. It contains previously unspoken admissions and explosive allegations that we believe should at least have merited a prosecutorial enquiry.

Although by the end of 2016 work on the book had been completed, it took a further six months to address a host of technicalities before it could go into print. In addition to the core team of journalists who compiled the material in the book, reporters and back-office collaborators (lawyers, technical assistants, web designers, etc.) were also part of our nearly 30-member team. They all deserve acknowledgement for their contribution and courage, and for the work done with the sole objective of eliciting a public reaction.

THE KTB STATE is an example of Spotlight journalism. However, unlike in the *Boston Globe* investigation, the victim of the assault here is the Bulgarian State.

The chain of all-pervasive corruption that links politicians, institutions, regulatory bodies and certain media is no longer merely an unsubstantiated allegation. As can be expected from a professional and independent journalistic investigation, ours answers the question #WHO, but also other important questions, such as how, how much and—most importantly—what must be done if we are to dismantle the toxic model.

SUMMARY

A luxury hotel in Velingrad. A young man hires a room. He travels with a retinue of helpers. A van with dark-tinted windows is parked in front of the hotel. Over the next few days hotel guests see the same scene play out time and again: the man receives a long procession of visitors. After a brief verbal exchange, each visitor steps into the van and leaves it with a bag. The bags—some smaller, others bulkier—are full of money. Each man throws the bag over his shoulder and heads back whence he came.

An election would soon follow. The men with the bags are members of local grassroots organisations of the Movement for Rights and Freedoms (DPS). The origin of the money is open to speculation.

This is eyewitness testimony told independently by several of our sources. The scene paints a picture of political corruption in Bulgaria at the lowest level of daily life, with bags of money intended for unknown recipients changing hands without a trail. However, it has much deeper significance as a poignant symbol of a vicious model of oligarchic rule that has been a work in progress for many years. To make sure that model is fully operational, all vital instruments and mechanisms of the democratic State must be captured and their core function of guarding against violations and abuses of established rules must be compromised.

Thus, slowly but surely, bad guys would gain the upper hand, relying on tactics such as unscrupulous media control and a tight grip over the judiciary, security services, regulatory bodies and entire government institutions, putting these to use as an instrument for pressure, money-making and extortion.

The model is linked to a bank. Albeit small and insignificant at first, it burgeoned and grew rapidly, gaining political approval and attracting public sector clients and their money to fuel even faster growth. Over the years, it gave rise to an amorphous conglomerate of official and concealed interests covering an array of businesses, media and industries, hoarding assets worth billions that subsequently required even more money and stronger political backing to stay afloat.

The model was propelled by a tandem made up of a banker (Tsvetan Vassilev) and a hybrid figure — a cross between a politician, magistrate, business owner and media mogul (Delyan Peevski), both acting as conduits for a hidden political agenda. One partner was tasked with supplying funding and spiralling business growth, the other with garnering State support to prop up the endeavour. The KTB model had something for everyone.

It did not remain confined to the bank but spread out to multiple domains and levels. Bank financing enabled acquisitions of assets outside the statutory framework of existing rules and regulations. Public watchdogs turned a blind eye to some, while rushing to authorise others in a mission to serve. Party functionaries saw to the adoption of manifestly lobbyist laws by Parliament or traded in influence, effectively creating a political shield over the workings of the duo. Government institutions poured even more public money into deposit accounts, buying influence and fuelling further acquisitions. The wheel kept turning.

Corruption took on many shapes and forms — financial incentives, using sensitive information for blackmail, and the security services and prosecution brandishing threats of criminal charges.

The model took shape soon after the bank went into business in the early 2000s, when the first political alliances were being forged. It peaked during the government of Plamen Oresharski, which would go down in history with the label “KTB Government.” Over the years, the model evolved and expanded its reach with support from several successive governments. With Delyan Peevski and Tsvetan Vassilev at the centre, it became a magnet pulling in key political figures and scores of officials from the government of the day. A change of power would trigger a change in partners, but the enabling mechanism would stay intact.

2014 sent shockwaves through the model. The reason was the disentanglement of its two constituent parts — the banker and the politician-cum-investor-cum-business mogul. A deeper look would reveal the true reason, which is that a business enterprise not grounded in market rules and statutory compliance, but in abusive and controlling practices, opaque decisions and machinations, eventually falters, implodes or—at the very least—changes its *modus operandi*.

In KTB case, the latter happened. The duo imploded after one of its halves turned on the other, prevailed and forced it into isolation, laying a claim to (and ultimately acquiring) most of the jointly looted assets. The prevailing party toppled the bank under the nose of watchdogs, the government and the judiciary, each with their eyes wide shut, some playing an active role in the process. The underlying enablers of the model were not rooted out, but simply changed shape and changed hands. Tell-tale signs abound that the model continues to thrive, despite the change in players. Delyan Peevski continues to sit in Parliament. Having had his dealings briefly exposed, he has repeatedly declared his intention to withdraw from business. In the meantime, Tsvetan Vassilev has fled to Belgrade where he awaits a court decision on his extradition to Bulgaria on charges of leading an organised criminal group.

Regardless of the identities of those involved in the model or how we choose to describe the structures or instruments that enable it to operate, KTB is a textbook example of the workings of a *captured state*. Its very existence would not have been possible had the State not been captured, nor would public interest have been pushed from the public agenda for the sake of private expediency.

In a captured state, rules are made to accommodate vested interest. Laws, when they stand in the way of that interest, are violated, eliciting neither responses nor sanctions. Simply put, the environment is distorted beyond recognition. KTB case, among other things, demonstrates a flagrant disregard for banking regulations. The model turned the very perception of banking upside down, propelling the fourth- largest bank in Bulgaria into a vulture investment fund under the silent gaze of watchdogs that had either been staffed by enablers up to the highest level, or which were directly dependent on it.

The goal of the KTBfiles project is to shed light on the model and the process that enabled it to gain sufficient speed, traction and scale to push key government institutions up against the wall. We examine the events and conditions that enable its continued existence and the structured action needed in order to dismantle it. In other words, the KTBfiles is a multi-layered endeavour with a scope that goes beyond that of a mere chronological account of a bank failure, albeit the largest in Bulgarian history.

The model has a clearly visible political and institutional face. Its workings are enabled by the actions (and inaction) of known individuals who have knowingly placed themselves at its beck and call. They are not anonymous clerks, but heads of key government institutions and watchdogs who have been in office for many years, working tirelessly to further its interests. The investigation shines a light on their ties and dependencies, on decisions of vital importance for the bank, and on a host of select businesses bankrolled by KTB.

It suffices to mention the heads of the most important regulatory bodies, such as the Bulgarian National Bank (BNB), the Telecommunications Regulation Commission (CRC), and the Commission for the Protection of Competition (CPC). At different times, all three pushed forward agendas that were either directly or indirectly linked to KTB. The BNB chose to turn a blind eye to the mounting problem of the bank lending money to parties closely affiliated with it. The CRC pushed on with TV broadcasting digitalisation in a manner that catered to the interests of companies similarly affiliated with the bank. The CPC obligingly adopted decisions that also catered to companies in the financial institution's inner circle. Such conduct carries a steep price tag — political corruption. The chief executive officers of all three institutions were virtually irreplaceable and liaised with KTB strictly outside the remit of their official duties. They, along with a slew of helpers, spread the impenetrable political shield that enabled the functioning of the model.

Facts conclusively show that for many years KTB was the bank of choice for many a political party (especially the DPS) as well as senior officials from the innermost circle of government. These symbiotic ties in the public and private sphere further tightened the grip over the State.

We invited both Delyan Peevski and Tsvetan Vassilev, the main characters in our investigation, to meet with the investigation team. The invitation to Delyan Peevski was extended via his lawyer, Alexander Angelov. Our overtures went unanswered. Multiple, insistent invitations finally persuaded Tsvetan Vassilev to speak with our team in an interview in Belgrade at the end of August 2016.

During the investigation we continually sought official comment or meetings with parties either affected by or capable of meaningfully contributing to the topic. The names on the list include, among others, Boyko Borisov, Ahmed Dogan and Delyan Peevski. The former Prime Minister Plamen Oresharski also declined to answer our questions, branding the project a conspiracy against him (we sent our questions during the presidential election campaign in which he ran for office on the Movement for Rights and Freedoms" ticket).

READER'S GUIDE TO THE INVESTIGATION

This book contains a selection of the important facts, documents and information gathered during a two-year investigation of KTB story. The investigation involved dozens of meetings with either participants in or eyewitnesses to events that have occurred over the last 15 years, either linked to or having ramifications for KTB and implicating government officials, political functionaries, watchdogs and other key public stakeholders. Our work has involved the analysis of hundreds of official and unofficial documents, and our team submitted more than 50 applications for access to information to Bulgarian and international organisations.

The book is a chronological account of the history of KTB from its establishment, subsequent sale and divestiture from Bulbank—still government-owned at the time. We examine its development in the period 2000–2014, when the bank was finally declared insolvent. The following pages contain a medley of interviews, analyses and documents, which tell the story of KTB in parallel to that of the now-visible model of the captured state.

The investigation has been structured into six chapters. Each of them—except the first, which deals with the historical background against which the events described in the later chapters played out—details events that unfolded during the successive governments of the National Movement Simeon II (*led by Simeon Saxe Coburg-Gotha*), the Three-Party Coalition (*led by Sergey Stanishev*); the Citizens for European Development of Bulgaria (*first*

Borisov cabinet), the Bulgarian Socialist Party/Movement of Rights and Freedoms (*led by Plamen Oresharski*), and the Citizens for European Development of Bulgaria (*second Borisov cabinet*).

The underlying rationale was that the model existed and continued to operate, regardless of the government of the day, being reinvigorated and gaining strength with each change of government. It culminated during the Oresharski cabinet before imploding, only to reinvent itself and carry on.

The beginning of each chapter sets out a summary, key highlights, and the most important findings and conclusions. All facts have been examined in their proper temporal context.

Multiple links to internal and external sources of information, documents, charts and illustrations have been added to the main body of text for ease of comprehension.

Regrettably, the end of the book is not the end of the investigation. Whether the KTB model will yet again survive remains to be seen in the coming months and years. In the book the story has an open ending. Our hope is that the final full stop will be written by the competent investigating bodies, provided there is sufficient political will to unravel the largest bank failure in Bulgarian history. For the KTBfiles project, this means that more work remains to be done in the future.

1.

HISTORICAL BACKGROUND

DEVELOPMENTS IN THE BULGARIAN BANKING SECTOR THAT PRE-DATE KTB

Until the early 1980s Bulgaria had a rudimentary banking system. The Bulgarian Foreign Trade Bank (BVTB, later renamed Bulbank, and currently Unicredit Bulbank) engaged in and financed foreign trade deals. The State Savings Bank (DSK, currently DSK Bank) lent money and gathered deposits from private citizens. All other bank services were provided by the Bulgarian National Bank via its network of branches across Bulgaria. The Central Bank doubled as a currency-issuing and commercial bank. Government loans from private foreign lenders fell within the domain the Bulgarian Foreign Trade Bank. During the 1980s, with the advent of mass industrialisation and the emergence of large industrial complexes, eight State-owned sectoral banks were established to cater to their needs and handle the loans received by the enterprises operating in the relevant sectors from international lenders. The first one was Mineralbank, established in 1981. The rest were established and began to operate between 1986 and 1987. In 1989, all fifty-nine branches of the BNB were restructured into commercial banks, some with hardly any equity or transactions on their books.

The fall of the socialist regime in Bulgaria did not prompt liberalisation of the banking sector. The *Bulgarian National Bank Act* was enacted in 1991 but the Banks and Bank Lending Act was delayed by a year. Before either law had been adopted, Parliament—giving in to pressure from the Citizens' Business Initiative Association—amended the Constitution and lifted the state monopoly on banking. The first fully private banks—the First Private Bank (PChB) and Agricultural Credit Bank (BZK)—opened their doors in 1990. As no commercial or banking legislation of any description had been adopted, the two banks were established pursuant to Decree No 56 of the Council of State of the People's Republic of Bulgaria.

After the appointment of Professor Todor Valchev as Governor of the Bulgarian National Bank in January 1991, freshly issued banking licences became a dime a dozen. By the end of the year, Bulgaria had no less than ten private banks. By the end of 1992, the BNB had issued 1,352 licences to foreign currency dealers. Although the equity of the newly established private banks largely consisted of loans obtained from the DSK, by the end of 1993 their number stood at no less than eighteen. Only then did the need for stricter regulation of the banking sector and prudential supervision become a public priority. The Banking Supervision Department of the BNB was in the hands of Kamen Toshkov, who remained at the helm until 1997, despite much criticism of the policy of indiscriminate issuance of banking and foreign currency trading licences and the general ineptitude of prudential supervision. By the end of 1995, a total of 47 banks operated in Bulgaria. These included five foreign banks and 29 private banks.

As private banks continued to mushroom, mergers and the consolidation of State-owned financial institutions got under way. To complete this process, in 1992 the government established the Bulgarian Consolidation Company (BKK) and proceeded to transfer its share equity in all State-owned banks to the new company with one exception. The DSK remained fully government-owned and continued to operate under a special law, which remained in force until 1998. Bank consolidation had begun. Five years later, the staggering number of 68 banks in operation in 1990 had been brought down to 13. Despite multiple promises, the BKK had not arranged a single bank sale. In 1995, changes were made in the senior management of several State-owned banks. Until then, all banks had retained the senior management teams appointed during the socialist regime.

HEADED FOR A BANKING CRISIS

Bulgaria was to step into a period that would wreak unprecedented havoc on its banks and economy. With inflation off the charts and a decimated GDP, it saw the failure of 18 banks in a calamitous meltdown compounded by pervasive political turbulence and turmoil in

the years 1996–1997. Several notable features of the period should be highlighted.

First, there was a continued near-total State monopoly, no privatisation, and a weak and vulnerable private sector of the economy. According to World Bank data, in 1995—six years after the fall of communism—the State sector of the economy accounted for 80% of Bulgaria’s GDP. There was plenty of talk about privatisation, none of which was acted upon. The State-owned sector comprised elephantine, unreformed, mostly loss-making enterprises, which employed armies of workers. Most enterprises had arrears dating back to the previous regime, when the official BGL/USD rate of exchange had been two to one. In 1995, the rate of exchange skyrocketed to BGL 65–70/USD 1.

Second, semi-criminal private enterprises stood at the entry and exit points of large State-owned companies (including a handful that operated at a profit), channelling resources, manufacturing output and profit into private hands. This stratagem was devised and employed by Multigroup at Kremikovtzi, the largest steelworks, and at Chimco, the largest industrial chemical plant, among others. Other criminal syndicates embraced similar tactics, often in collusion with the senior managers of the respective State-owned companies. The latter would buy expensive raw materials from certain suppliers and sell them at a loss to a supplier indicated by the syndicate. Profit would thus go into the hands of organised crime, which had no interest in setting up their own enterprises or privatising those that already existed.

Third, financial institutions soon became part of these fraudulent schemes. A leaked report by the National Security Service (NSS), drawn up in the autumn of 1996, mentions a practice that involved what it referred to as high-value parcels—a euphemism for sackfuls of banknotes—as a major reason for the fast-approaching banking crisis. According to the report, “Between 1 January and 30 July 1996, nine private and State-owned banks exported high-value parcels containing foreign currency in cash with a total weight of 2,811 kg via Customs at Sofia Airport’. By way of comparison, the weight of USD 1,000,000 in 100-dollar bills is approximately 8 kg. Elitbank alone exported 1,247 sackfuls of cash with a rough equivalent of USD 156 million in 100-dollar bills.

In parallel, the private banks that had been established with loan financing or money of dubious origin were busy making unsecured loans, typically to individuals linked to their senior management or owners/shareholders.

At the end of 1995, non-performing and borderline non-performing loans stood at BGL 342.7 billion — nearly 40% of Bulgaria's GDP. Commercial banks were in negative equity to the tune of BGL 53.3 billion. This staggering figure largely comprised the negative equity of several State-owned and private banks. According to the cited NSS report these were the Economic Bank (BGL 15.4 billion); United Bulgarian Bank (BGL 14.9 billion); Balkanbank (BGL 14.4 billion); Biochim (BGL 8.2 billion); Mineralbank (BGL 7.7 billion); Agrobusinessbank (BGL 8.2 billion); First Private Bank (BGL 7.3 billion); and the Agricultural Credit Bank (BGL 5.6 billion).

Fourth, at the time Bulgaria had a floating currency exchange rate and a Central Bank vested with broad powers to set that rate. The problems were compounded by towering non-performing-loan portfolios and near-endless possibilities for stupendous profits from currency exchange transactions. A free-floating currency exchange rate is a thoroughly commonplace feature of a functioning market economy. Broadly speaking, when the volume of export goods manufactured by an economy generates enough cash in hard currency to cover foreign debt, the exchange rate is stable. However, failing exports, coupled with no foreign financing and fast depletion of Central Bank reserves, would typically spike foreign currency demand and push down the price of domestic currency. With a handful of serious players on FOREX markets, a currency can lose much of its value for no justifiable reason. The Central Bank must then intervene and sell/buy hard currency from its reserves to prop up the domestic currency and prevent it from sharply diverging from the desired exchange rate.

Until 1996, the policy of the Bulgarian National Bank had a single overriding objective — to ensure that no bank failed. To this end, it extended unsecured short-term loans in domestic and foreign currency to commercial banks to make sure they had sufficient liquidity to sustain operations. There were neither strict rules nor clear criteria for loan approval by the Managing Board. The BNB was effectively boosting the liquidity of banks that were not only short of liquid funds, but plainly insolvent.

On the side, the DSK was bolstering the short-term liquidity of commercial banks through deposit funds. When the crisis finally abated, its losses stood at BGL 70 billion. The cited NSS report further notes that “two months before the First Private Bank was placed under special supervision, it had a shortfall in equity and provisions of approximately BGL 20 billion. In 1995, the DSK was finally forced to cut off refinancing, having already extended loans to the tune of BGL 3 billion. The Bulgarian National Bank had set aside 37% of all refinancing intended for commercial banks for the First Private Bank.”

Fifth, the State-owned sector of the economy, banks and the State budget collapsed almost simultaneously. In 1996, the financial situation of State-owned enterprises was such that they could no longer pay their suppliers, banks or the State budget. Kliment Vuchev, then Minister of Industry, openly advised them to stop paying banks. Thus, even those financial institutions that had no prior history of liquidity problems were no longer able to carry on banking. This triggered a budget crisis — the State had no tax income or other sources of revenue to rely on. The money it needed for salaries, pensions and life-saving medicines came from short-selling treasury bonds — a fall-back option that would soon be depleted. Hardly any cash remained in circulation, inflation went through the roof and the Central Bank had no choice but to raise the base interest rate. Banks had no cash either, and the BNB was flatly refusing to buy treasury bonds in a last-ditch attempt to contain skyrocketing inflation. In 1996, within the short space of twelve months, the State budget was revised twice without a flicker of hope that better times lay ahead. The deficit shot up to more than 11% of GDP, with domestic debt exceeding 160% of GDP on several occasions.

SCORES OF BANKS CLOSE THEIR DOORS

There was no way out. Bulgaria had to act or face the likely outcome of being unable to keep paying pensions or purchasing essential drugs and basic medical supplies for hospitals. A second moratorium on foreign debt payments had become a distinct possibility soon after a restructuring plan had been approved in 1994 in the

wake of Andrey Lukanov's government suspending foreign debt payments in 1990. Bulgaria had run out of options. As a last resort, it turned yet again to international financial institutions (IMF and the World Bank) seeking vital assistance, which it would receive under strict conditions. First and foremost among these was the closure of failing banks.

Broadly speaking, three types of banks failed:

1. Large State-owned banks failing due to chains of bankruptcies in the State sector of the economy. The Economic Bank and Mineralbank are a case in point. Together, they held 20% of the assets and liabilities of the entire banking system and had received 65% of BNB refinancing. Liabilities to international lenders, which the government had failed to renegotiate with the London Club of private lenders, were still on their balance sheets. The unrepaid loans had been used for domestic lending to local companies, making the repayment of the original loans even more difficult;
2. Small local (State-owned) banks driven into the ground by criminal syndicates, such as the Yambol Commercial Bank, the Dobrudzha Commercial Bank, the Bobov Dol Commercial Bank, Crystalbank and Businessbank;
3. Private banks, typically established with loans, which were in dire financial straits due to reckless lending and a portfolio almost exclusively comprised of non-performing loans extended to affiliated companies and individuals, such as the First Private Bank, Agrobusinessbank, Commercial and Economic Bank, Private Agricultural and Investment Bank, Crystalbank, Elitbank, Businessbank, Slavyani Commercial Bank and Moll-ov Commercial Bank.

Bank closures sent shockwaves through Bulgarian society and the Central Bank. For years on end, the BNB had refused to act, adamantly refusing to even acknowledge that it had a problem on its hands. Hence Bulgaria had failed to enact bankruptcy and depositor protection legislation before 1996, while the BNB's policy of avoiding bank failures at any cost had resulted in pouring money into dysfunctional banks in an attempt to shield them from insolvency.

At the end of 1995, in a further attempt to contain the crisis, the BNB acquired the failing Agrobusinessbank for BGL 1 and practically handed it over to receivers. The attempted rescue failed, and

the bank was declared insolvent in June 1996. In September 1996, the BNB purchased, again for BGL 1, shares in the failing Bank for Agricultural Credit, which only months later was placed under special supervision.

Small banks present an even more striking case. The Yambol Commercial Bank became insolvent in 1992, soon followed by the Bobov Dol Commercial Bank, which was declared insolvent in 1993. During the first half of 1993, Crystalbank followed suit, discontinuing all banking operations. According to the BNB, the reason for the insolvency in all three cases were large loans extended to individual borrowers (1993, *Essay on the Financial Crisis by the Economic Analysis and Forecasts Agency*). The BNB appointed trustees to oversee the affairs of the three banks. In the case of the Yambol Commercial Bank, a refinancing consortium was set up following a proposal from the Central Bank. The banking licence of the Bobov Dol Commercial Bank was revoked, but the bank remained to function until 1997, when insolvency proceedings were instituted. In the case of Crystalbank, a solution based on market economy principles was attempted. The share equity was increased by attracting small private investors and the banking license of the financial institution, which had been briefly revoked, was reinstated. It is nevertheless a paradox that the BNB did not see a conflict in the new shareholders of the bank being the same individuals and legal persons who had the highest exposures to the banks in unrepaid loans. Until it was declared bankrupt in 1996, Crystalbank continued to experience liquidity problems due to extending large new loans to its shareholders.

Acting under pressure from the impending financial and economic crisis, in May 1996 Parliament amended the *Banks and Lending Act*, introducing bankruptcy provisions. To quell rising panic, Zhan Videnov's government hastily prepared and submitted to Parliament a *Bill¹ on Guarantees for the Deposits of Natural and Legal Persons in Banks Placed under Special Supervision*. According to the bill, the deposits of natural persons were fully guaranteed and

¹ Olga Raeva, "The State Budget To Cover the Deposits of Private Individuals in Failed Banks," *Capital Weekly*, May 20, 1996. http://www.capital.bg/politika_i_ikonomika/1996/05/20/1024683_bjudjetut_poe_depozitite_na_grajdani_yuv_faliralite [01.08.2017]

those of legal persons were guaranteed at a rate of 50% of the deposit amount. The State undertook a commitment to provide treasury bonds to the DSK and the Post Bank, propping up the repayment of deposits.

However, an even deeper crisis set in. At the end of 1996, Mineralbank, the First Private Bank and the Private Agricultural Bank were placed under special supervision. With impending multiple bankruptcies, the BNB attempted to convince smaller banks to sign agreements setting out measures to restore their viability, which failed to achieve the desired outcome. On 23 September 1996, eleven more banks went into receivership.

To cover the banks' deposit liabilities, treasury bonds in the amount of BGL 19.5 billion were issued in 1996 and a further BGN 69 billion were issued in 1997. In total, the USD-denominated bonds issued in 1996 stood at USD 79.1 million, along with a further USD 88 million issued in 1997.

The *Banker Weekly* cited a World Bank report according to which the costs arising directly from the crisis stood at USD 1.8 billion or 18% of Bulgaria's GDP. These put further strain on the State budget and spurred unprecedented inflation. In 1996, cumulative inflation stood at 310%. In February 1997 alone, prices saw an increase of 200%. At the beginning of 1996, the BGL/USD exchange rate was BGL 70 to USD 1. In February 1997, it had increased to BGL 3,000 to USD 1.

Bulgaria was gripped by widespread panic. The government resigned. Long queues in front of bank offices gradually transformed into violent protests in front of Parliament. Students and protestors raised barricades in the streets and the Bulgarian Socialist Party threw in the towel and refused to form a new government. The then-President, Peter Stoyanov, appointed a caretaker government led by Stefan Sofiansky and scheduled a general election. A new government was formed, led by Ivan Kostov from the Union of Democratic Forces (SDS) in coalition with the People's Alliance of Anastasia Moser and the Internal Macedonian Revolutionary Organisation (VMRO) of Krasimir Karakachanov. In 1997, Bulgaria introduced a currency board and adopted a new *Law on the Bulgarian National Bank*. A new governor and managing Board of the Central Bank were elected and the old Bulgarian Lev (BGL) was denominated.

FIRST PRIVATE BANK — BACKED BY THE POWERFUL, FAVOURED BY THE GOVERNMENT

It is tempting to seek parallels between the immediate aftermath of the 1996 bank crisis, including its most poignant symbol — the First Private Bank — and developments in the context of KTB twenty years later.

The First Private Bank (PChB) was undoubtedly a favourite of banking supervision officials, central bankers and a succession of governments. They all chose to disregard certain violations in its original registration as a financial institution and the multiple issuing of shares through which it increased its share equity and financed its indefensible expansion at a later stage.

In the autumn of 1989, the Citizens Business Initiative Association (SSIG) was established. One of the founding members of the organisation was Valentin Mollov. The SSIG was established pursuant to Decree No 56, which provided for the registration of “associations of companies”. According to its by-laws its main task was to protect the interests of its members. Valentin Mollov was generally considered to be a close ally of Andrey Lukanov.²

The PChB was formally established at the First SSIG Congress in April 1990 with the provisional name Commercial and Credit Bank. By the time its court registration was completed, the name had been changed to First Private Bank. Its initial equity was BGL 10 million. The PChB had a two-tier management system. The first supervisory board had the following members: Valentin Mollov, Ilko Ashkenazy, Hristo Marinov, Alexander Cherpokov, Dimitar Zvezdev, Stefan Filev and Vladimir Karevsky. Ventsislav Yosifov was appointed president of the Managing Board, whose members included Mihail Stefanov and Emilian Dimitrov. The first shareholders of the Bank were Ventsislav Hristov Marinov (BGL 6,000); Valentin Mollov (BGL 8,000), and other SSIG members. The list of shareholders included companies such as Metalsnab and Korekom, each with a share of BGL 300,000, Inflot (BGL 200,000), and Izotimpex with a share of BGL 300,000.

² A politician from the Bulgarian Communist Party, later renamed the Bulgarian Socialist Party (BSP), prime minister of Bulgaria in two successive governments in 1990. He was assassinated in front of his home on 2 October 1996.

According to an article published in 1996 in *Capital Weekly*, Ventsislav Yosifov was taken to one of the meetings of the SSIG by Valentin Mollov and introduced as “our bank man’.

There is widespread speculation that despite the name of the bank, public funds were used to set it up, although the subsequently issued shares were registered to private companies. Over a period of five years the PChB grew exponentially, its shareholding capital increasing from BGL 10 million to BGL 2 billion, and its assets registering an increase from BGL 169 million to BGL 62 billion. During the same period, the bank opened 81 branches across Bulgaria, along with 260 offices, divisions and representation offices. By 1995, it had 44,000 loans in its portfolio in the total amount of BGL 100 billion.

In five years, the PChB built a powerful empire of subsidiaries and affiliated companies, some of which operated in strategic sectors of the national economy and had significant market shares. Aided by the PChB and businessmen with close links to the bank, the first companies that would come to be inextricably associated with the PChB were established— the Bulgaria Insurance Company, the First Financial Broker House, the Bulgarian Investment Fund, the First Western Financial House, the First Investment Bank, Agrobusinessbank, the Mollov Bank, Sinit, a handful of advertising agencies, the First Private Investment Fund, and TBS Hotels. In terms of directly controlled business undertakings in Bulgaria, the PChB was rivalled only by Multigroup -- the most powerful criminal syndicate of the 1990s — and the Commercial and Economic Bank.

Rapid expansion went hand in hand with aggressive lending. Most loans were unsecured. At the same time, the close ties of the bank’s top tier to political circles, and more specifically to politicians from the Bulgarian Socialist Party, senior government officials (Andrey Lukanov) and key watchdogs (BNB and its Governor Todor Valchev), meant lax supervision, if any, and an endless supply of refinancing. In exchange, the First Private Bank continued to make loans, including to State-owned companies.

The First Private Bank, as KTB would do twenty years later, had a retinue of faithful media to rely on. At the time when the bank was established, the SSIG created the 168 Hours Press Group as an official body of the association. In turn, the media group was one of the shareholders of the bank. In 1991, one of its founding members,

Petyo Blaskov, was even appointed to the Supervisory Board of the financial institution. The press group and the bank would remain inseparable until the very end.

In 1995, the PChB encountered serious financial difficulties. Ventsislav Yosifov struck a deal with the BSP and ran for mayor of Sofia in return for a promise that the socialists would rescue the failing bank. It is ironic that the genie of panic among the Bank's depositors would be released from the proverbial lamp by an ill-advised public statement made by the Central Bank Governor during Yosifov's election campaign. The situation quickly spiralled out of control.

By the end of the year, the bank's NPL portfolio stood at BGL 3.2 billion, while problem loans on the books amounted to a staggering BGL 27 billion. At the beginning of the following year, the bank was plunged into chronic liquidity shortfalls, which were refinanced by unsecured loans from the BNB. Mounting macroeconomic pressures, deteriorating liquidity, and the reaction of international financial institutions ultimately forced the BNB to withdraw refinancing support. The DSK followed suit.

In 1996, the BNB officially acknowledged that the PChB had liquidity problems and placed it under special supervision. The first private bank in Bulgaria, seen as the flagship of the new financial and economic reality at the time, lost its banking licence in 1997, plunging the entire banking system into utter chaos. The crash had momentous consequences because both then, as well as 20 years later as KTB case shows, the bank had close ties to and was strongly dependent on political parties and an array of affiliated businesses and media.

CRIMINAL SYNDICATES AND THEIR BANKS — THE BIRTH OF A STATE WITHIN THE STATE

In parallel to the expansion of the first private bank in Bulgaria's recent history, other private conglomerates emerged, backed and financed by their own banks and propped up by powerful allies in politics. In this sense, KTB crash ushered in a crisis that Bulgaria had already seen. An analogy to the Multigroup – Balkanbank alliance is the most recent example that comes to mind.

In addition to having its own bank (Credit Bank), in 1994 Multigroup —announced that it was considering the acquisition of the then State-owned Balkanbank. The deal was to be one of the first attempts to push forward with the privatisation agenda in the financial sector. At the time when the intended privatisation was announced, Multigroup was already a minority shareholder of the bank. The two arms of the conglomerate — Credit Bank and the holding company — had set up several joint ventures. These were primarily used as a vehicle for gaining a foothold in key sectors of the economy. In addition, the bank extended loans to companies in which Multigroup either had a share or was interested in privatising. Thus, Multigroup became a key player in the banking sector, the food industry, machine building, agriculture and tourism.

In most cases, neither the loans nor the interest accruing on them were repaid and Balkanbank experienced chronic liquidity problems. These ultimately translated into losses that exceeded the bank's equity several times. The BNB had to step in and refinance it in exchange for the bank agreeing to a plan intended to restore its financial viability.

In 1996, when the bank crisis was already in full swing, Balkanbank—Multigroup's milking cow—had 16 large debtors on its books with a joint share of 80% of its non-performing or problematic loans portfolio. Six out of the total number were Multigroup subsidiaries. At the time, the syndicate's outstanding loans to the Balkanbank alone stood at BGL 10 billion, approximately one-third of the total debt owed to the financial institution.

In fact, Balkanbank's turn to be privatised never came. This did not curb Multigroup's appetite for further expansion of its business using public funds. When the list of so-called credit millionaires (persons who took significant amount of credits from the banks in the period 1991–1996 and never bothered to pay the money back) was published in 1998 and the entire bank system lay in ruins, the name of Ilia Pavlov, Multigroup's notorious boss, topped the list. The total outstanding debt of all Multigroup's subsidiaries to banks stood at BGL 91.185 billion.

Throughout this period, Multigroup nurtured close ties in government circles, continually strengthening the backbone of its empire with political support. It should be noted that weak and inefficient public governance at the time left plenty of room for the syndicate to fill in the vacuum, effectively building a parallel state

within the State, complete with its own enterprises, sources of funding, security firms and means of keeping politicians, public institutions and watchdogs on a leash.

The 1990s bank crisis shook the stability of the criminal syndicates that emerged during the transition period and ultimately led to their demise, putting in motion a new process of the redistribution of public funds. In 1996, the then-chairwoman of the Managing Board of the DSK, Bistra Dimitrova, tried to rescue Credit Bank by offering to supply it with hard currency bonds in exchange for a fresh supply of money. The BNB did not respond at the time, but only three years later did it send the bank into receivership, withdraw its licence and declare it insolvent. In the next few years, Multigroup was to come under attack from Prime Minister Ivan Kostov, who favoured a rival business group.

In 2003, the president of Multigroup, Ilia Pavlov, was fatally shot outside his office and the syndicate's prominence gradually faded. All that remains of the once-powerful business conglomerate is now family-owned. The assets, mainly in the tourism sector, are managed by a professional asset management company.

Never losing sight of the early blueprint of Multigroup, each powerful new business group realises the importance of two essential items on its payroll — a bank and a political lobby. Although Emil Kyulev already owned Touristsportbank (TSBank) when he rose to prominence, he was quick to establish the Bulgarian-Russian Investment Bank, which prospered after the bank crisis abated. In the early 2000s, Kyulev added further acquisitions to the Roseximbank Group, including the State Insurance Institute (DZI), the Riviera Beach Complex, and Interhotel Sandansky. However, in 2005 he was also assassinated, and his heirs sold off most of the businesses he had acquired.

A POST-CRISIS CHANGE OF PLAYERS

In the following years, partly giving in to pressure from international financial organisations, state-owned banks were privatised in rapid succession and international banks entered the market either through subsidiaries of the parent companies registered in Bulgaria or through the acquisition of Bulgarian banks. In July 1997, the

United Bulgarian Bank (UBB) was sold to the European Bank for Reconstruction and Development (EBRD), Bulbank and the Oppenheimer Fund. The investors sold their shares to the National Bank of Greece in two transactions in 2000 and 2002.

Post Bank was sold to ALICO and the Consolidated Eurofinance Holdings in 1998 and was subsequently acquired by the Greek Eurobank.

In 1999, the Varna-based Expressbank was acquired by the French Société Générale.

In the same year, Hebrosbank was privatised by the offshore company Regent Pacific. In 2004, the bank was sold on to Bank Austria.

In 2000, in the wake of a series of scandals, the government-controlled Bank Consolidation Company (BKK) sold Bulbank to Unicredito Italiano for EUR 350 million. Bulbank's CEO at the time, Chavdar Kanchev, stated publicly that the bank's real value exceeded the sale price by at least EUR 100 million, insinuating that the Deputy Prime Minister, Peter Zhotev, was incompetent. Shortly before the privatisation, Bulbank sold its shares in the UBB, KTB and HypoVereins Bank Bulgaria.

In 2002, Biochim Bank, which many had written off after a series of unsuccessful privatisation attempts, was sold to Bank Austria. In 2006, Biochim Bank and Hebrosbank merged with Bulbank, currently known as Unicredit Bulbank, which remains Bulgaria's largest bank.

In 2003, the State Savings Bank (DSK) was sold to the Hungarian OTP. The privatisation came on the heels of countless scandals and an acrimonious exchange of allegations of unlawful competition between the two main contenders in the bid — the Hungarian OTP and the Austrian Erstebank.

By the turn of the 21st century, Bulgarian banks had cleaned up their act. On the heels of a conservative fiscal policy, a stable currency board, strict prudential supervision by the Central Bank and sound government policy, public trust in banks was steadily on the mend and deposits on the increase. Interest rates were low because lending had practically come to a halt. The memory of bankruptcies in the banking sector lived on and banks' risk appetite was at an all-time low. No sector of the economy was perceived as sufficiently profitable to warrant financing. Privatisation in the real economy

sector had been accomplished, but had failed to deliver perceptible economic growth. Households loans were also difficult to obtain. It was in this environment of highly conservative lending and rigorous prudential supervision that the Corporate Commercial Bank (KTB) stepped onto the stage.

Each government in power since the earliest days of Bulgaria's transition to a market economy has favoured a particular business conglomerate. When Lyuben Berov's government was in power, the business conglomerate in question was Multigroup. This was later replaced by the Orion circle during Zhan Videnov's government, and Slavcho Hristov and his Olympus circle cronies under the premiership of Ivan Kostov. The longer a government stayed in power, the more the favoured business conglomerate would expand, the more assets it would acquire, and the more business it would rake in, evolving into the most influential business group in Bulgaria.

In this sense, KTB conglomerate did not appear out of thin air. The truly surprising aspect of the story is the effortless and scale of the essentially oligarchic model that emerged and annihilated the fragile foundation of the rules put in place, damaging the institutional environment in crucial domains, such as the environment for doing business, justice, media, finance and security. The key feature that sets the KTB model apart from other business and political conglomerates is that it survived a succession of governments, emerging stronger and more resilient each time a new government took office. The State was fully disarmed and forced to bend the knee to a group of individuals and their vested interests. Where Multigroup had manage to carve out a territory in which it built a state within the state, in KTB case, the state totally abdicated from its sovereign duties and functions.

A FRESH START FOR THE FLEDGLING KTB

BULBANK SELLS ITS SUBSIDIARY TO A GROUP OF ANONYMOUS BULGARIAN BUSINESSMEN OPERATING THROUGH OFFSHORE COMPANIES

When, in the summer of 1993, the then Deputy Prime Minister of Russia Boris Fyodorov visited Bulgaria, he learned, not without a measure of surprise, that a joint Bulgarian-Russian financial institution had been operating in Bulgaria for many years. The institution in question—Bulgarsoinvest—had been established in 1988 as a joint venture of the Bulgarian Foreign Trade Bank (currently Unicredit Bulbank) and Vnesheconombank (VEB).

Bulgarsoinvest was a non-banking institution handling business transactions governed by the *Banks and Lending Act*. Its equity was BGN 60 million, divided in 50% shares held by the two shareholders. Although the name of the financial institution does not contain an indication that it is a bank, Bulgarsoinvest effectively provided the full range of payments services available from a bank operating under a full licence. The services in question included payments in currencies used in the former Soviet Union. In 1994, the Executive Director of the institution, Valentin Stanchev,³ said: “We are the only institution that makes payments in RUB, LTL, UAK, etc. on behalf of our clients.”

As a financial institution, Bulgarsoinvest was one of a kind in the entire former Soviet bloc in Eastern Europe.

In 1994, Bulgarsoinvest was restructured and officially registered⁴ as a bank under the name Corporate Commercial Bank AD. Its shareholding equity was 500,000 non-denominated Bulgarian Levs (BGL), divided between the Bulgarian Foreign Trade Bank (with a share of 61%) and the VEB (with a share of 39%).

³ Edwin Sugarev, *The KTB Affair* (Sofia: Nest Press Publishing, 2015).

⁴ “Corporate Bank Gets a Fresh Start,” *Capital Weekly*, May 9, 1994.

Until then, the bank had exclusively dealt with corporate clients and intended to keep this model following the restructuring. In a statement made at the time, Valentin Stanchev said that the bank intended to follow the steps of “the traditional geography of foreign trade”.

Following the restructuring, Kiril Kalinov, Lyudmil Gachev, Valentin Stanchev and two Russians—Evgeniy Krasavtsev and Alexey Simakov were appointed to the Board of Directors.

Valentin Stanchev had a relatively short association with the bank. A year later he was dismissed. According to an article published in the *Presa Daily*, the reason for the dismissal were violations of lending rules. The article cited Chavdar Kanchev, then Executive Director of the State-owned Bulbank, saying that Mr. Stanchev had failed to justify the trust placed in him. Ventsislav Antonov replaced him on the Board of Directors.

Over the next few years, Valentin Stanchev was an associate in several companies, together with former athletes and sports managers. In 2002, he was already working for Zora Holding in partnership with Dimitar Dzhamov, formerly of Bulgaria’s national wrestling team and driver of the departed Ilia Pavlov, the notorious crime boss of Multigroup. The other partners in the holding were the football players Lyuboslav Penev and Yordan Lechkov. According to the Company Register Mr. Stanev is the current sole shareholder of R Sys and Sofftech 2011.

Two months later another member of the Board of Directors was dismissed — **Lyudmil Gachev**. He would later join the senior management team of Hebros Bank and the Austrian HypoVereinsBank Bulgaria. Gachev was subsequently exposed as a collaborator of Department IV (Economic Department) of the Communist-era State Security Service who had worked under the alias Mihail.

Another member of the Board of Directors had also collaborated with the former security services during the communist regime—**Kiril Kalinov**. He would stay on with the Bank until it was privatised in 2000. Kiril Kalinov (alias Filipov) had been recruited in 1984 by the Second Chief Directorate (Counterintelligence) of the State Security Service and then transferred to the First Chief Directorate (Foreign Intelligence) as a secret collaborator.

In 1995, **Alexander Pravchev**, another former employee of the State Security Service who consecutively worked for the Second and then the Fourth Chief Directorate, was appointed to the Board of Directors. Pravchev remained with the Bank until 2000.

KTB SALE

Bulgaria's Company Register records shows that in 1998 the share equity of the Bank was increased, and the Russian shareholders sold their shares. A year later, shortly before its own privatisation, the parent company Bulbank launched a tender, inviting bids for the acquisition of 99.98% of KTB.

Despite this, the Corporate Commercial Bank was only sold in 2000. Instead of ensuring that the sale went through transparently and conformed to a set of clear rules, the privatisation of what had, until then, been a *boutique* bank was shrouded in a veil of mystery. The new owners remained anonymous, choosing to conceal their identity behind the anonymity of offshore companies, which meant that the origin of their money was untraceable – at least as far as the competent regulatory body was concerned.

In 2000, ten offshore companies acquired a total of 99.99% of the shareholding equity in the bank. The remaining 0.1% was owned by Eurofinance — a financial brokerage house. The Bank was sold for BGN 12.8 million. Each offshore company acquired a 10% share of the equity. The regulations in force at the time stipulated that when an owner acquires less than 10% of the equity of a bank's equity, the new owner was exempt from scrutiny and approval by the Prudential Supervision Department of the BNB. This meant that in KTB case, the BNB would merely receive⁵ a letter notifying the Central Bank of the transaction but no information about the new owners, the origin of their money or their plans for the development of the financial institution would follow.

The KTBfiles requested information (pursuant to the *Access to Information Act*) about enquiries conducted by the BNB in connec-

⁵ "The Corporate [Bank] inspires the BNB to seek an amendment to the Banking Act," *Capital Weekly*, June 23, 2000.

tion to KTB acquisition in 2000. In its reply, the Central Bank stated⁶ that in 2000 a supervisory check was carried out prior to the transfer of shares, which did not find any irregularities. Despite this, in 2000 the entire KTB acquisition case-file was requested by and turned over to the National Service for Combat against Organised Crime (NSBOP). In response to our enquiry, the Ministry of Internal Affairs (MVR) replied that no information was available to it. The KTBfiles is currently investigating whether the case-file has been lost and, if so, whether the loss was properly documented.

The new nominal owners of the Bank's equity after the sale were:

RENDAR LIMITED, England — 99,995 shares;
SHANNON INTERNATIONAL LLC, USA — 99,995 shares;
WYMOND TRADING CORP., Virgin Islands — 99,995 shares;
ABOT LIMITED, England — 99,995 shares;
WERNEL INVEST & TRADE LIMITED, Oceania, Niue —
99,995 shares;
IRIS CONTINENTAL LIMITED, the Bahamas — 99,995 shares;
LEONARD INVEST & TRADE CORP., Oceania, Niue — 99,995 shares;
BOSI HANDELS GmbH, Germany — 99,995 shares;
DRACO HOLDINGS LIMITED, Malta — 99,995 shares;
MIBO, Liechtenstein — 99,999 shares.

The ten offshore companies were represented by Bulgarian nationals who, in some cases, represented more than one shareholder. These include the attorneys Vladimir Kinkin and Rumen Lyutskanov and Tsvetan Vassilev. At the time of acquisition, the bank's Supervisory Board had the following members: Ivan Konstantinov, Rumen Lyutskanov and Ilian Zafirov. Tsvetan Vassilev and Kamen Genov were members of the bank's Board of Directors. Kamen Genov had joined KTB before the acquisition and left it shortly after the sale went through. According to the public statements made by the buyers' representatives at the time, the Bbank had been sold to foreign companies that wished to remain anonymous. In the next few years, it would become crystal clear that the owners of the offshore companies that has acquired KTB were Bulgarian nationals.

⁶ Letter Reference No BNB – 66753 of 18 July 2016.

We repeatedly sought an interview with Chavdar Kanchev, Executive Director of Bulbank at the time, who had effectively chosen the buyer. He declined our invitation.

The story spun for the sake of regulatory compliance and to quench public thirst for information aside, the shareholders who had acquired the bank as a group were named by a party involved in the events who wishes to remain anonymous. The individuals in question were Nikolay Velkov, Tsvetan Vassilev, Rumen Lyutskanov and Zlatozar Surlekov. The negotiations with Bulbank were handled by Nikolay Velkov, who had invited the other shareholders, including Tsvetan Vassilev, to join the venture. Nikolay Velkov confirmed this in an interview with our team.

Nikolay Velkov is an attorney-at-law and instructor at the Higher School of Insurance and Finance. His name came to be notoriously associated with several criminal affairs, which attracted media attention in the context of several prosecutorial investigations and trials. One of them is the *Opitsvet Affair*.

In 1998, Nikolay Velkov was detained in custody in his capacity as managing director of the Junona Moneta Financial Brokerage House, which was later restructured. The new company in which Velkov was a shareholder continued to operate under the name Fininvest. Junona Moneta is commonly associated⁷ with the financing of synthetic drug production at the Opitsvet plant. This allegation is corroborated by the indictment filed by the prosecutor in the case Margarita Popova. The investigation had established that the tablet press found in the synthetic drugs laboratory had been purchased with a loan provided by Junona Moneta. During the trial, Margarita Popova maintained that Junona Moneta, along with the Opitsvet Plant, were links in a money laundering chain. The alleged link between the Pazardzhik-based financial brokerage house and the synthetic drugs laboratory failed to be proven in court. According to the indictment⁸ filed by Prosecutor Popova, Nikolay Velkov was a strawman for the real owner of the companies — the Leba-

⁷ “Stanimir Florov and the Opitsvet operation,” Bivol (an investigative journalism website), April 23, 2013. <https://bivol.bg/florov-opicvet.htm> [01.08.2017]

⁸ Boryana Bozhilova, Lyubo Ilkov, “The Accused Velkov Alleged to Have a Shareholding Interest in a Hospital,” *24 Hours Daily*, February 13, 2010. <http://24chasa.bg/Article/379489> [01.08.2017]

nese national Abdel Sarkis widely considered a drug kingpin. However, the investigators failed to gather conclusive evidence of the alleged link between the Lebanese national and Velkov.

In 2010, Nikolay Velkov was yet again taken into custody, this time on charges of being a member of the organised criminal group dubbed Octopus and widely associated with Alexey Petrov.

Speaking in an interview for the bTV in May 2010, the then Minister of Interior, Tsvetan Tsvetanov, speculated that Velkov was wrongly acquitted in the Opitsvet trial. Velkov filed a lawsuit for defamation against Tsvetanov by reason of having never been on the list of those indicted in the trial in question.

“The buyers were ten offshore companies. At the time, we decided to take advantage of a loophole in the law that allowed us to conceal the identities of the real shareholders. We were merely trying to pre-empt speculation about political and ideological affiliations. The shareholders included Tsvetan Vassilev, with a small minority share, myself and a legal firm,⁹ among others. Our plan was to build a legitimate bank that would serve business clients, providing tailored services with a personal touch”, Nikolay Velkov told the KTBfiles.

The other key player in the new KTB was **Yanko Ivanov**. He was a banker who, prior to joining KTB, had worked at the Raiffeisenbank in Varna and the Central Cooperative Bank (which was still state-owned at the time). Ivanov had met Tsvetan Vassilev while working at KTB. His first appointment at the bank was as signatory. He would later purchase one of the shares held by Tsvetan Vassilev and join him as member of the two-man Board of Directors.

In the spring of 2002, Yanko Ivanov became the second authorised bank signatory. The first was Tsvetan Vassilev.

Yanko Ivanov was thought to be well-connected at various levels of government, sources from his inner circle have revealed. It was he who would later introduce Tsvetan Vassilev to Ahmed Dogan (an influential Bulgarian politician, chairman of the Movement for Rights and Freedoms (DPS) 1990–2013). At the time, he was considered part of the inner circle of the then Prime Minister Ivan Kostov. Bogomil Manchev, the energy sector entrepreneur, was also said to be on his list of contacts. It was Manchev who would lat-

⁹ Dobrev, Kinkin, Lyutskanov & Partners.

er become one of the bank's major clients, blazing a trail for nearly all big companies in Bulgaria's energy sector.

The money that financed KTB acquisition was largely raised by Nikolay Velkov, 90% being a loan from the Cyprus office of the First Investment Bank. In its early days, KTB attracted several large companies as corporate clients, which supplied it "long money." These included a handful of state-owned companies, meaning that KTB relied on public sector funding from the very beginning.

THE BULGARIAN NATIONAL BANK WITH TIED HANDS

At the time, the head of the Banking Supervision Department of the BNB was Emilia Milanova. On learning that the identity of the new bank owners had been concealed, she responded by ordering an investigation. That investigation failed to turn up any useful information, except for the names of the bank's nominal shareholders. Firstly, banking laws and regulations in force at the time allowed a minority shareholder to conceal their identity behind an offshore company, provided their share did not exceed 10 of the bank's equity. The institution responsible for supervision had its hands tied. Although the sale had sounded alarm bells, the Central Bank had no proof of wrongdoing.

In response to KTB acquisition, the Central Bank proposed amendments¹⁰ to banking regulations, notably lowering the ceiling for anonymous bank equity ownership to three percent. Any acquired share exceeding that ceiling was subject to approval by the supervisory arm of the BNB. However, the amendment in question would come into force years after the new shareholders had effectively gained control of the bank, their identities concealed behind offshore companies.

¹⁰ Ivan Mihalev, "The Corporate Bank inspires the BNB to seek an amendment to the Banking Act," *Capital Weekly*, June 23, 2000, http://www.capital.bg/biznes/finans/2000/06/23/203650_korporativna_vduhnovi_bnb_za_promeni_v_zakona_za [01.08.2017]

“We subsequently amended the law, lowering the ceiling to 3%. This would have enabled us to take an insider look at the companies’ dealings and investigate the origin of the money. We had our hands tied by the law. We could not invalidate the acquisition. The only available option would have been to insist on full disclosure of the shareholders’ identities over time,” Emilia Milanova, head of the Banking Supervision Division and deputy governor of the Central Bank between 1997 and 2007, explains and continues: “Tsvetan Vassilev and his company Bromak, along with several others that had officially acquired KTB shares, began to gain prominence at about the same time. The shares were sold at extremely low prices. However, the origin of the money used to acquire them was perfectly legitimate. It was backed up by competently prepared and audited balance sheets that clearly showed that the companies did indeed have sufficient funds. We would never have tolerated an increase in the shareholding equity of the bank using loans the bank had extended to its shareholders, which evidently happened.

There were several other banks with shareholding structures that were not entirely clear and above board. However, we could not afford to force them into bankruptcy. All we could do was gradually convince them to disclose their shareholders or find suitable investors who would pass a money origin scrutiny test. The number of legitimate shareholders increased over time, setting a positive trend.”

WHO IS TSVETAN VASSILEV

At the first post-sale general assembly of KTB shareholders, members of the governing bodies of the bank were elected. **Tsvetan Vassilev** was appointed to the Board of Directors.

Tsvetan Vassilev (born on 12 August 1959) commenced his university studies in Łódź, Poland, where he enrolled in an undergraduate programme in Economy and Foreign Trade Organisation. According to university records he studied there from October 1980 until October 1981 as a scholarship student.

In the autumn of 1981, he returned to Bulgaria and obtained a letter¹¹ from the Ministry of Science and Education enabling him to enrol as a sophomore at the Karl Marx Higher Institute of Economy (currently University of National and World Economy). In April 1985, he graduated in International Economic Relations. The archives of the Ministry of Education do not contain any documents relating to the scholarship that enabled Tsvetan Vassilev to study in Poland. After submitting a request for information under the *Access to Information Act*, we learned that the records had either been destroyed or handed over to the National Archive with thousands of others.

Between 1985 and 1992, Tsvetan Vassilev was a research assistant at the former Centre for Foreign Trade and International Markets.

In 1992, he registered Bromak EOOD and Fina-S AD. In Bromak he was initially in partnership with Maxim Dimov, a DPS Member of Parliament throughout the 1990s who later took the reins of the financial affairs of the newly established National Movement Simeon II (NDSV), and Krasimir Iliev, former CEO of the failed Elitbank. Both were allegedly on the list of “credit millionaires” compiled after the demise of Slavyani Bank.

¹¹ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Zapoved-zapriemane-na-Tsvetan-Vassilev-v-UNSS.pdf>

“The principal dealings of the two brokerage houses involved financial and foreign currency transactions. We were a small team. Tsvetan Vassilev had always had an entrepreneurial mind-set. He had a quick mind and a healthy risk appetite. These have always pushed him forward,” one of his earliest employees in the 1990s explains.

“Between 1995 and 1999 Tsvetan Vassilev was the head of the Foreign Currency Transactions and Liquidity Department of the Central Cooperative Bank and in 1997 he was appointed to the Board of Directors. In parallel, he continued to develop his private business in Bromak and Fina-S. He’d spend the day at the bank and attend to any company business in the evening,” his former employee said.

In the late 1990s, Vassilev was briefly head of the Markets and Liquidity Division of the Bulgaria Invest Commercial Bank (Allianz Bank Bulgaria). His association with KTB dates back to this period.

Interestingly, at that time Tsvetan Vassilev built a team that would follow and support him in all his future business endeavours. Ilian Zafirov remained Executive Director of KTB until the end. He was a defendant in the Sirbank insolvency case for several years until the lawsuit fell through, along with Nikolay Pavunchev, another senior employee of KTB. Another member of KTB’s Supervisory Board, Zlatozar Surlekov, had also met Tsvetan Vassilev at the CCB and remained on his team until KTB was placed in receivership. “Tsvetan Vassilev never even changed the head of his security team,” the insider added.

This is an important detail, which explains the fierce loyalty of the former executive directors and other indicted parties to their former boss. According to our sources they have all refused to testify against Tsvetan Vassilev, with one exception. In 2016, the Prosecution Service dropped¹² the charges against one of KTB’s former directors — Orlin Rusev. KTBfiles sources believe that he has agreed to become a witness for the prosecution and will testify against his former colleagues, including Tsvetan Vassilev.

¹² “Charges in Respect of the Embezzlement of BGN 206 Million against Former KTB Director Dropped,” bTV NOVINITE, August 10, 2016. <http://btvnovinite.bg/article/kriminalno/direktorat-na-ktb-veche-ne-e-obvinjaem-za-prisvoeni-206-mln-iv.html> [10.08.2016].

2.

KTB AND THE NDSV GOVERNMENT

EARLY DAYS — THE SAXE COBURG-GOTHA GOVERNMENT

Several important events in KTB's early history happened while the NDSV government was in office (2001–2005). The mist surrounding the bank's ownership began to lift, revealing the identity of the shareholders concealed behind the offshore companies. In those early days, KTB had already raised long-term deposits from several state-owned companies. In other words, it had a pot of cash to rely on in the long-term. One of the early shareholders and executive director of the Bank, Yanko Ivanov, played a key role during this period.

Tsvetan Vassilev and Delyan Peevski also met at this time. Their meeting would evolve over time into a multi-layered partnership and pave the way for the model that later gained notoriety under the hashtag #WHO.

Indications of a protection racket at the political level were there from the very beginning, especially in a handful of real estate transactions. The acquisition of the Universiada Hall by Delyan Peevski's family with KTB financing is a case in point. Another example is the former building of Bulgarplodexport, which currently houses the Sofia Province Administrative Court, the Supreme Administrative Prosecution Service, the Sofia Province Prosecution Service and the Metropolitan Prosecution Service.

STEPPING OUT INTO THE LIGHT

Until 2005, ownership of KTB¹³ gradually changed¹⁴ hands and the offshore companies disinvested, selling their shares to Bulgarian nationals. Tsvetan Vassilev, acting through the companies Bromak and subsequently Victoria Insurance became the bank's principal stockholder. Nikolay Velkov and Yanko Ivanov also became shareholders. Rumen Lyutskanov, who had brokered the acquisition of KTB from Bulbank, was appointed to the Supervisory Board. Yanko Ivanov served as executive director¹⁵ from 2002 until the autumn of 2004.

For a couple of years or so, the US citizen James Howe¹⁶ also appeared on the list of stockholders with a significant share acquired against a contribution in kind of the building housing KTB's head office in Garibaldi Square. He subsequently sold his share. According to a KTBfiles source, his presence was intended as reassurance by having a foreign national as a shareholder.

THE FIRST LONG-TERM DEPOSITS ATTRACTED

When the new stockholders took over KTB in 2000, the bank had a trifling BGN 300,000 in its accounts, a handful of desktop computers and even fewer employees. The crucial task at hand was raising long-term deposits. Yanko Ivanov set out to raise deposits from corporate clients that had previously banked with Raiffeisen and the Central Cooperative Bank (Ivanov was a former employee of the Varna branches of the two banks). These were mostly insolvent companies with money sitting intact into their bank accounts while bankruptcy proceedings were ongoing. Yanko Ivanov also brought in the first corporate clients from the energy sector. Being on good terms with Bogomil Manchev probably helped. According to a KTB files source, this proved an easy task on account of the bank's fa-

¹³ "KTB Stockholders 2000 – 2014," (Table) <https://drive.google.com/file/d/0B9Y6sbedirJ5anZndFd0eEtDb0U/view>

¹⁴ Ivan Mihalev, "The Corporate Bank Waves Good-Bye to Its Off-Shore Stockholders," *Capital Weekly*, June 15, 2002.

¹⁵ "Governing Boards and Stockholders of KTB 1999–2014," (Table) <https://drive.google.com/file/d/0B9Y6sbedirJ5c2xFN0lLenl0OG8/view>

¹⁶ "Banks on the Threshold of the Purgatory," *Capital Weekly*, February 15, 2003.

mously accommodating approach. Unlike the approaches pursued by other financial institutions, a flexible attitude got things done quickly.

Other companies followed suit with long-term deposits, such as Opitsvet and Grisha Ganchev's Litex. Grisha Ganchev alone opened a USD 3 million long-term deposit with a due date in 2005. A year later, he sold his shares in the Queens juice-processing plant and deposited even more money. Ganchev was on excellent terms with KTB from the very beginning and after Vassilev and Peevski parted ways, he remained friends with the banker.

VASSILEV MEETS PEEVSKI

A fateful meeting took place during this period that would decide the future of the bank until 2014 and afterwards. In 2001 and 2002, the privatisation of Incoms Telecom Holding had hit a difficult patch, although the company was eventually sold to Peter Tankov, a Bulgarian national holding an Austrian passport. Years later, he would resurface in the acquisition of the Bulgarian Radio and Television Broadcasting Stations Service (NURTS) from the Bulgarian Telecommunications Company (BTC) during the first Borisov government. The sale was a step in the process of broadcasting digitalisation in Bulgaria. KTB backed up the acquisition of both Incoms and NURTS, with Vassilev bankrolling many of Tankov's other business endeavours over the years.

According to one of our sources, Peter Tankov arranged a meeting between Delyan Peevski and Tsvetan Vassilev in connection with the privatisation of Incoms. The meeting reportedly took place in either 2001 or 2002. At the time, the young and ambitious Peevski was already Parliamentary liaison officer at the Ministry of Transport and Communications, which had to give final approval on the privatisation of Incoms. The idea was to push the deal through with financial backing from KTB. The bank, which was small and volatile, needed political protection itself. This first contact between Peevski and Vassilev would gradually progress to occasional meetings until both parties realised they needed each other. One could help the other with his contacts in political circles. In exchange, the latter would bankroll the whimsical business endeavours of his associ-

ate. Over time, this partnership evolved into an inseparable tandem that finally became too big for its boots and imploded.

Many years later, Tsvetan Vassilev would admit in an interview: “[Delyan Peevski] has helped me in many ways. He’s full of energy and ambition. In 2003 and 2004 he somehow got in cahoots with Dogan who was, in a manner of speaking, the go-between the DPS and the Bank. I felt more comfortable in my relationship with the DPS that way. The Turkish party’s role as an essentially corporate entity was well known.

KTB has often been dubbed the bank of the Movement for Rights and Freedoms without any link having existed between the two either before or after the sale of the bank. I used to depend on DPS in the sense that every big business in Bulgaria is dependent—at least to a degree—on one or several of the more aggressive players on the political arena. Putting in a good word when the going gets tough can make a world of difference.’

The burgeoning friendship between Vassilev and Peevski caused a rift between the banker and his former partners — Yanko Ivanov and Nikolay Velkov. They both sold their shares in the bank on the heels of multiple disagreements. These were cleverly engineered by Peevski, who never shied away from intrigue — a favoured pressure tactic he used to weave a web of dependencies around him.

In the years that followed, Vassilev would remain on good terms with Ivanov. The two were yet again in touch at the time when the bank came under attack. Despite this, in his interview for the KT-Bfiles Tsvetan Vassilev said: “The bank went through really difficult times. In 2004, the then Chairman of the Managing Board who held 20% of shareholding equity attempted extortion. I am talking about Yanko Ivanov who was acting at the behest of the energy sector lobby around Bogomil Manchev. I refused to play along. Peevski did help me out *vis-à-vis* the DPS. At the time, I did seek political backing to pre-empt a harsher blow.’

We approached Yanko Ivanov with a request to answer our questions. He refused, stating that his association with the bank had ended more than ten years ago.

Asked how the DPS helped him at the time, Vassilev says: “It wasn’t anything specific, but in business and in politics political intervention doesn’t have to be specific. In my mind’s eye, I picture this

as someone saying: “Fine, leave well enough alone because this might be DPS territory.” I have no idea how things played out in reality.”

“Likewise, pressure¹⁷ ran high in 2008 when Alexey Petrov attempted to take over the bank during the term of Stanishev’s government. Peevski was again highly energetic and enterprising. Looking back on events, I am no longer sure about how much truth there was in the rumours that Petrov was trying to take over the bank. The State Agency for National Security (DANS) and the Prosecution Service certainly saw him as Public Enemy No 1 at the time, as they see Peevski now. The National Security Agency was in the hands of Petko Sertov and the Prosecution Service had bent a knee to Roman Vassilev and his make-believe commando task force’.”

¹⁷ Sasho Dikov, “The Octopus — Tsvetan Vassilev Paid EUR 300,000 to Have Me Arrested,” Interview with Alexey Petrov for BiT, Part 1, YouTube, March 9, 2017. <https://www.youtube.com/watch?v=jzXfCiIUb4> [01.08.2017]

FIRST INDICATIONS OF HIGH-LEVEL PROTECTION

TWO REAL ESTATE DEALS CLEARLY SHOW THAT KTB RELIED ON POLITICAL BACKING FROM THE GET-GO.

In these early years, KTB was a small, *boutique* bank with an insignificant role and a matching share of the market. Yet, as the NDSV government's term drew to an end, the first signs of protection were already visible. Two cases vividly demonstrate how companies with links to KTB, having secured political backing, made deals that catered to the bank's vested interests.

THE UNIVERSIADA HALL — A GIFT FROM LUCIANO

“Let's not talk about Delyan Peevski. We are close, and I have the utmost respect for him. I can even say that I have raised him as if he were my own flesh and blood.” These words¹⁸ were spoken by the former Minister for Sport, Vasil “Luciano” Ivanov, at the beginning of 2015 and would earn him a reputation as “one of the fathers of the DPS Member of Parliament Delyan Peevski.”

In 2003, that is, some ten years earlier, Luciano was still Minister for Sport overseeing the hushed privatisation by his Ministry of the Universiada Hall — one of the largest sport halls in Bulgaria at the time. The privatisation was bankrolled by KTB.

The Universiada Hall was acquired in two stages—the first was completed during the term of office of the NDSV government, and the second during that of the Three-Party coalition government.

¹⁸ “Vasil Ivanov – Luciano Claims to Have Raised Delyan Peevski as His Own Flesh and Blood,” [mediapool.bg](http://www.mediapool.bg/vasil-ivanov-luchano-obyavi-chetoi-e-otgledal-peeovski-news229464.html), January 18, 2015. <http://www.mediapool.bg/vasil-ivanov-luchano-obyavi-chetoi-e-otgledal-peeovski-news229464.html> [01.08.2017]

In 2003, the Ministry of Sport set up a new company under the name Sports Hotels Olympica Bulgaria AD. The Universiada Hall and the Totoshans Sport Centre in Zlatni Pyasatsi (a seaside resort also known as Golden Sands) were both contributed in kind to the equity of the company. The reason given at the time was that the Ministry for Sport was unable to develop the facilities on its own. A small but significant detail is that until then the two properties were booked as assets belonging to the State-owned Olympica AD — a company in which Irena Krasteva, Delyan Peevski's mother, held a senior management position.

Ownership of the new company, Sport Hotels Olympica Bulgaria AD, was divided equally between the Ministry for Sport and the private company Proekt Stroy BG AD. In a statement made at the time, Vasil Ivanov explained that the company had been chosen without tender purportedly on account of having the financial capability to invest in sports. The company would later be acquired by Velder AD, a KTB-controlled company that had borrowed heavily from the bank.

The hushed privatisation did not go unnoticed and a spotlight was soon shone on some of the company's less than honourable dealings. According to an article published in the *Capital Weekly*,¹⁹ in 2005 Proekt Stroy BG failed to contribute its share to the new joint-stock company.

The authorised share capital of Sport Hotels Olympica Bulgaria was BGN 7.34 million, half of which (BGN 3.67 million) was to be paid by Proekt Stroy BG. Instead of doing so, the company paid a quarter of the amount, the remainder remaining a promise written on a piece of paper. According to the article published in the *Capital Weekly*, the company's bank statements showed that it had contributed the amount of BGN 917,500.00. The three further instalments in the same amount to be remitted were financed by loans which Proekt Stroy BG received from the joint-stock company. As soon as the private company received the "loan," it paid it back into the account of the joint-stock company as equity contribution. An investment that never materialised was thus given the appearance of having done so.

¹⁹ "The Universiada Hall Privatized for a Song," *Capital Weekly*, November 12, 2005.

At the same time, the private company lodged a VAT refund claim for more than BGN 700,000, the amount being the VAT component of the price of the properties contributed in kind. This means that in 2003 Proekt Stroy BG effectively acquired the Universiada Hall for approximately BGN 200,000.

According to the article²⁰ published in the *Capital Weekly*, these transactions were orchestrated by the Youth Section of the NDSV. The tenancy agreements of Proekt Stroy BG were signed by Margarita Donkova, former secretary of *Novoto Vreme* website — a brainchild of the Youth Section of the NDSV. The leaders of the organisation at the time were Rosen Dichev, son of Galya Dicheva, former spokesperson of Simeon Saxe Coburg-Gotha, and Delyan Peevski.

THE LAND BENEATH UNIVERSIADA HALL

Although a prosecutorial enquiry was launched to investigate the low-key privatisation of the Universiada Hall, no public information about its outcome is available. The next step was the acquisition of the land beneath the Universiada Hall. The 1.9 ha plot situated along the outer rim of Sofia's historical centre was acquired in 2005 for BGN 1.6 million. For the plot to be sold, a larger plot, on which the complex of the Ministry of Foreign Affairs is situated, had to be divided. This happened with lightning speed within the short space of several days. At the time, the plot was owned by the government through the state-owned company Natsionalna Sportna Baza EAD.

The land purchase was yet again bankrolled by KTB through a loan, which three years later the government would use as an excuse to transfer its 50% share in Universiada Hall to companies with links to KTB.

The Minutes from the General Assembly of the shareholders, which took place on 22 July 2005, reveals an interesting detail. The GA approved a reshuffle of the Board of Directors of Sport Hotels Olympica Bulgaria. The representative of Natsionalna Sportna Baza (*National Sports Base, NSB*), Lyubomir Lazarov, on the board was dismissed and Executive Director Mario Primdzhanov, the govern-

²⁰ "The Illustrious Mr. Peevski," *Capital Weekly*, April 27, 2007.

ment's representative on the board, proposed that Irena Krasteva be elected to the vacant seat.

In November 2008, the government took the last step in the privatisation of Universiada Hall. In parallel, other changes were in progress: Proekt Stroy BG was first renamed to Proekt Stroy Group and then, again, to Velder Bild EAD. This company was the sole shareholder of Velder BG. In 2006, Sport Hotels Olympica Bulgaria was renamed to Universiada AD.

Natsionalna Sportna Baza EAD, which exercised the government's ownership rights in Universiada AD, endorsed a temporary certificate, transferring its 50% share to Velder Bild. KTB had brought Velder Bild back under its control and continued to bankroll it. The share was transferred against BGN 9.5 million — money that came from another KTB loan. Shortly after the temporary certificate was endorsed,²¹ it was pledged in favour of the bank.

Thus, at the beginning of 2009 Velder Bild became the sole shareholder of the Universiada Hall and the land plot beneath it, and the company registration of Universiada AD was modified to reflect the change in ownership.

At the time when the deal was publicly announced, the executive director of Velder Bild, Ivan Dzhidzhev said²² that the company planned to invest in a series of improvements to upgrade the building and the facilities. Seven years later, nothing has been done. KTB's insolvency wiped out the loans. All that remains is the old dilapidated sports hall and the expensive plot of land underneath it.

²¹ An endorsement is an abstract transaction whereby securities are transferred by an individual or a legal person to another with the signature of the owner of the securities. It is a unilateral agreement written on the back of the security by the person whose name appears thereon. By endorsing a security, its owner transfers it to another person. The endorsement is effected through the signature of the security owner on the back of the security or on a separate sheet of paper called an allonge, which is attached to the security.

²² Eleonora Tarandova, "Universiada Hall Fully Private Now," *Capital Weekly*, January 19, 2009.

VELDER BG AND KTB

Velder Bild and Velder Properties, which is on the list of KTB's largest debtors,²³ are owned by Velder BG. Velder Properties was declared insolvent and has been dissolved.

According to the report drawn up by Alix Partners, the three companies—Velder BG, Velder Group and Velder Properties—must be seen as a single corporate entity due to the multiple ties between them that became all the more evident once the loans received from KTB were tracked down. KTB essentially used the companies as a vehicle for bankrolling a handful of select projects. According to the report, Velder Bild received two loans from KTB for a total amount of BGN 20 million. At the time of KTB's closure, an outstanding loan of BGN 7 million remained on its books. For example, in 2009 KTB authorised a BGN 2 million loan to a company called Aquanada, which immediately remitted the entire loan amount to Universiada EAD. The money was then immediately wired to Velder Bild as "partial repayment in accordance with the terms and conditions of a loan agreement."

Velder Bild is a wholly-owned subsidiary of Velder BG. In turn, the latter is wholly owned by Success Invest, a company established in Switzerland.

Correspondence exchanged between Tsvetan Vassilev and Delyan Peevski, which has been made available to the KTBfiles, mentions the Universiada Hall as a KTB-financed project and a source of friction between the two partners who were unable to split their ownership interests and influence. According to the document in question, during the last seven years of its existence KTB had spent BGN 22 million on facility maintenance.

The future of the sports hall remains shrouded in mystery. In February 2016, the National Revenue Agency (NAP) issued a garnishing order to (purportedly) secure outstanding tax and other liabilities from Velder Bild. The garnishment order covers the company's shares in Universiada EAD.

New members on the Board of Directors — Constantine ("Titi") Papazov, Stefan Mihaylov and Borislav Hadzhirusev — had already been appointed in 2015.

²³ <http://www.ktbfiles.com/ktb-top100/velder-propertis-ead>

According to the records kept by the Company Registry at the end of 2016, the building and the land plot were still on the books of the company, meaning that their ownership had not yet changed hands. The Property Registry²⁴ further shows that both are subject to separate garnishment orders issued in June and August 2016, respectively.

In the meantime, on 7 June 2016 a five-year tenancy agreement for the Iztok Hall (an element of the building) with an area of 480 m² was concluded with the tenant Pro Entertainment. The company is owned by Oleg Velinov and Peter Dzhidzhev, the son of Ivan Dzhidzhev who sat on the Board of Directors of Universiada EAD until November 2015.

A BUILDING IN THE HISTORICAL CENTER OF SOFIA

Another property deal gripped public attention several weeks before the outgoing NDSV government left office. A month before the Saxe Coburg-Gotha government was disbanded, the state-owned company Bulgarplolexport, nominally under the jurisdiction of the Ministry of Economy, sold its head office situated in 7 Saborna Street in the historical centre of Sofia. According to the title deed of record, the sale price of BGN 1.8 million had been determined by three licensed valuers from the Privatisation Agency (AP). The building has six storeys and a ground floor with ample space to accommodate several stores. Its total surface area is 404 m².

According to real estate professionals²⁵ the building was sold at a price several times lower than prevailing markets prices at the time. Its real value was estimated at approximately BGN 5 million. After the sale went through the Privatisation Agency revoked the licenses of the three valuers. Despite this, no legal challenge against the sale was mounted. According to the *Dnevnik Daily*²⁶ the

²⁴ http://www.ktbfiles.com/wp-content/uploads/2016/01/Universiada_imo-ti_imotoen_registr-PDF-732-KB.pdf?x21734

²⁵ Maria Totomanova-Shahamova, "Milko Kovachev Embroiled in Scandal Days before Leaving Office," <http://www.priv.government.bg/news/pressmonitor/D5CA2FA3-DDFA-409F-9CEA-2A159D83D405> [01.08.2017]

²⁶ Tsvetelina Katanska, "Bulgarplolexport to be sold," *Dnevnik Daily*,

sale had gone through with the blessing of the Ministry of Economy. The Minister of Economy at the time was Milko Kovachev.

The building of Bulgarplodexport was acquired by Alinex, subsequently renamed as APA Trading. The company was dissolved in 2006. Its sole shareholder was Alipi Alipiev, a banker and member of the Supervisory Board of KTB from June 2003 until September 2004. Several days after Alinex purchased²⁷ the building in Sabor-na Street from the state-owned company, it contributed it in kind to the equity of Translat — a company whose sole shareholder is Yanko Ivanov, one of the founding shareholders of KTB.

In 2008, the Sofia Province Administrative Court, the Supreme Administrative Prosecution Service, the Sofia Province Prosecution Service and the Metropolitan Prosecution Service moved into the building. A tenancy agreement was entered into the records of the Property Register without an indication of the tenants. The lessor under the agreement is Translat.

The official opening ceremony of the new building was attended by the then Minister of Justice Miglena Tacheva. According to KT-Bfiles sources it had long been known that the minister and Yanko Ivanov were on friendly terms.

²⁷ http://www.ktbfiles.com/wp-content/uploads/2016/01/Bulgarplodeksport_imoten_registr-PDF-801-KB.pdf?x21734

3.

**KTB AND THE THREE-
PARTY COALITION
GOVERNMENT — THE
BIRTH OF A MODEL**

During the term of the Three-Party Coalition government (2005–2009)²⁸ KTB gained both scale and traction, becoming a major player.²⁹ The entire banking sector was growing rapidly and so did KTB's assets,³⁰ reaching BGN 2 billion and propelling it into the Top 10 Banks in Bulgaria. The term of the Three-Party Coalition government would prove vital for KTB. In the short space of four years, the bank would change unrecognisably from an insignificant market player into a force to be reckoned with in all sectors of the economy. It would develop symbiotic ties with political players and hoard assets, becoming a magnet for the money of state-owned companies. Most importantly, the Vassilev-Peevski tandem would emerge.

The period also saw the birth of Delyan Peevski's media empire — an endeavour wholly financed by KTB. The media shopping spree would continue with a takeover of the fledgling process of broadcasting digitalisation. To achieve this, KTB needed and obtained significant support from several watchdogs. Rosen Karadimov, advisor to Prime Minister Sergey Stanishev, played an important role in this, being on friendly terms with Delyan Peevski. At the end of the period, KTB had convinced a new investor to join — the State General Reserve Fund of Oman.

In April 2007, Peevski was dismissed as Deputy Minister on the heels of a corruption scandal involving the then state-owned Bulgartabac. The company's Director, Hristo Lachev, accused him of twisting his arm into signing contracts with construction companies with close ties to Peevski. Cornelia Ninova, Deputy Minister of Economy at the time, declared that she was under pressure to authorise deals that depleted the state reserve.

²⁸ The Cabinet of the Bulgarian Socialist Party (BSP), the National Movement Simeon II (NDSV) and the Movement for Rights and Freedoms (DPS).

²⁹ www.ktbfiles.com/wp-content/uploads/2016/01/Kak-raste-KTB-2005-2009.pdf

³⁰ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Depoziti-v-KTB-2007-2009.pdf>

Finally, in 2007 a new Deputy Governor responsible for prudential supervision was appointed. With the new senior management team in place, the Central Bank would develop a permanent blindness to the nefarious practices in the banking sector.

WHO IS DELYAN PEEVSKI

Delyan Peevski (born on 27 July 1980) started his career early. During the term of the NDSV government, he was among the founders of the Youth Organisation of the political movement, together with Rosen Dichev, son of the spokesperson of then Prime Minister Simeon Saxe Coburg-Gotha. The 21-year-old Peevski became the youngest member of the political cabinet after Plamen Petrov appointed him parliamentary liaison officer of the Ministry of Transport. Soon after, he was appointed to the Board of Directors of Varna Port, but was later dismissed on account of not meeting the educational and qualification requirements for the job. According to a KTBfiles source, Delyan Peevski was able to broker deals between private companies and the Ministry of Transport even in those early days.

The first indications that Delyan Peevski and his family enjoyed high-level political protection were clearly visible even in those early days (see the hushed privatisation³¹ of the Universiada Hall in Sofia).

According to the author of Peevski's biography,³² in 2006 he was a PhD student in administrative law procedure at the South-western University in Blagoevgrad. However, no such information is available in the official records³³ of the Ministry of Education and Science. According to the same biography, after graduating from law school, Peevski worked as a corporate lawyer at Tivi Globus for several months before an equally short stint as a lawyer.

On 13 April 2005, the Supreme Judicial Council (VSS) appointed Delyan Peevski an investigating magistrate at the Metropolitan Investigation Service, although he did not satisfy the requirements for length of service as a legal practitioner to even apply for the

³¹ See „The Universiada Hall — a Gift from Luciano“, p. 58.

³² “Who Is the New Head of the State Agency for National Security (DANS) Delyan Peevski?,” *Capital Weekly*, June 14, 2013, http://www.capital.bg/politika_i_ikonomika/bulgaria/2013/06/14/2081416_koi_e_noviiat_predsedatel_na_dans_delian_peekski [01.08.2017].

³³ <http://www.mon.bg/?go=page&pageId=8&subpageId=78>

position. He owes his appointment to the Investigation Service in Sofia to Angel Alexandrov, who put forth his nomination and brokered his appointment “by way of exception.”

The young law school graduate was appointed to the Economic Crime Department of the Metropolitan Investigation Service. There, he reported directly to Petyo Petrov (aka *Pepi Euro*) — the Deputy Head of the Service at the time, who would subsequently be promoted to the highest ranks of the organisation. Peevski’s career as an investigating magistrate lasted seven months. In November 2005, the SJC suspended his magisterial appointment to enable his appointment as Deputy Minister of the Ministry for State Policy on Emergency Situations and Industrial Incidents with special responsibility for the State Reserve. According to an article published in the *Capital Weekly*, the State Reserve Bureau was under investigation by the State Agency for National Security at the time, though no charges were subsequently filed.

In the spring of 2007, Delyan Peevski was a central figure in a wide-reaching corruption scandal, along with the then Minister of Economy Rumen Ovcharov, his Deputy Minister Cornelia Ninova, the Executive Director of Bulgartabac, Hristo Lachev, and the Head of the Metropolitan Investigation Service, Angel Alexandrov. At the time, Lachev directly accused Peevski of forcing him to sign contracts with companies the young Deputy Minister had close ties to. Rumen Ovcharov resigned. Cornelia Ninova and Delyan Peevski were dismissed from the government.

Peevski then promptly applied to the SJC to be reinstated as magistrate, but the SJC rejected his application, arguing that if Peevski failed to satisfy the requirements for holding a deputy ministerial position, he then also fell short of the integrity requirements for a magisterial appointment. Peevski appealed that decision before the Supreme Administrative court, which in October 2007 revoked the decision of the SJC. The Supreme Administrative Court bench had the following composition: Stefka Stoeva, presiding judge, and Zaharinka Todorova, Nadezhda Dzhelepova and Mariana Decheva.

In November 2007, Peevski was reinstated as an investigating magistrate on the strength of the SAC judgment. Three weeks later, his magisterial position had to be suspended again to enable his appointment as Deputy Minister responsible for State Policy on

Emergency Situations and Industrial Incidents under Minister Emel Etem. After the Three-Party Coalition government stepped down, Delyan Peevski was elected Member of Parliament on a ticket of the Movement for Rights and Freedoms, but never showed up in Parliament. In 2013, the SJC yet again reinstated him as investigator only to suspend his magisterial appointment shortly after to allow him to run for Parliament in the early general election.

In the period after 2007, Delyan Peevski and his family embarked on an asset accumulation campaign,³⁴ taking over media³⁵ and subsequently landmark companies with structural significance for the Bulgarian economy. The same stratagem was used without variation: Peevski's name would not appear in official records as direct company owner and acquisitions would be primarily bank-rolled by KTB. By the time Delyan Peevski was appointed Head of the State Agency for National Security (DANS), he controlled³⁶ a wide network of media, Bulgartabac, construction companies and multiple properties.

THE TALENTED MR. PEEVSKI

Collaboration between KTB and Peevski's family pre-dates the Three-Party Coalition government. In those early years, the bank's name popped up in connection with the dealings of Minister Vasil "Luciano" Ivanov- at the end of 2003, which enabled the under-handed privatisation of the Universiada Hall by the state-owned company Olympica. The director of Olympica at the time was Irena Krasteva, Delyan Peevski's mother, and the buyer is thought to be a party closely connected with Peevski and a fellow activist and founding member of the Youth Organisation of the NDSV. Later, Vasil "Luciano" Ivanov would publicly confess to "having raised" Delyan Peevski.

One of the links in the chain connecting Vassilev and Peevski is Maxim Dimov (who, among other things, did a U-turn in his po-

³⁴ Nikolay Stoyanov, "The KTB State," *Capital Weekly*, March 23, 2013.

³⁵ Dimitar Peev, "The Industrial Laundromat," *Capital Weekly*, August 28, 2015.

³⁶ http://www.ktbfiles.com/wp-content/uploads/2017/05/Korespondentsiya_KTB.pdf

litical career by joining the parliamentary group of the NDSV after running for and winning a Parliamentary seat as a Member for the Movement for Rights and Freedoms). He and Tsvetan Vassilev had established the banker's first financial brokerage house Bromak back in 1992. According to Osman Oktay,³⁷ the former trusted aide of the irreplaceable leader of the DPS, Ahmed Dogan, it was Dimov who had proposed Irena Krasteva's appointment as Head of the National Lottery and that of her son as an investigating magistrate.

This is the explanation offered by Tsvetan Vassilev when asked who had created Delyan Peevski in an interview³⁸ with Lyuba Kulezic. "Peevski rose to eminence over several years and had many a "father," including yours truly. But there were others — from His Majesty and Ahmed Dogan to Borisov and Tsvetanov...a motley crew of "fathers," indeed, each making sure that plenty of opportunities landed at his doorstep and Peevski seizing each of them and making the best of it."

³⁷ Osman Oktay, "Peevski Was Dogan's Revenge," *Vesti*, June 23, 2013.

³⁸ Lyuba Kulezic, "Interview with Tsvetan Vassilev," // <https://www.youtube.com/watch?v=QCh70km65r0> [01.08.2017].

IT NEVER RAINS BUT IT POURS — PUBLIC MONEY FLOWS INTO KTB

The overconcentration of public money in deposits opened by state-owned companies with KTB first became publicly known in 2009. It was backed up by official data in the years that followed, and addressing the situation became a priority for the first Borisov government. At the time, the caretaker government appointed by President Rosen Plevnenliev was explicitly tasked with developing rules that would mitigate the risk and address the overconcentration of public money in KTB.

THE EARLY DAYS

KTB financial reports (page 26)³⁹ show that at the end of 2002, the bank had raised BGN 59 million in deposits by state-owned companies, out of a total of BGN 101 million in total deposits raised from private individuals and institutions other than banks. That amount was equal to 38% of the bank's total assets and 51% of the total deposits raised. In 2003, it increased to BGN 122 million, the ratio remaining substantially the same. The amount continued to register annual increases, reaching BGN 172 million in deposits of state-owned companies out of a total of BGN 307 million in deposits raised in 2004, and BGN 191 million out of a total of BGN 453 million in deposits raised in 2005 (page 36 of the file).⁴⁰

The figures show that the bank had been reliant on public funds ever since it was privatised in 2000, when the governments formed by the NDSV and the DPS were in power. No information is

³⁹ <http://www.ktbfiles.com/wp-content/uploads/2016/01/KTB-Godishenotch-et-2003.pdf>

⁴⁰ <http://www.ktbfiles.com/wp-content/uploads/2016/01/KTB-Godishenotch-et-2005.pdf>

available in official sources about the state-owned companies that first decided to open deposits with the bank and the reasons that prompted their managers to do so. We attempted to collate information by sending applications to all ministries under the *Access to Information Act*, but it appears that no aggregate data exists. The first survey of the distribution of public money in bank deposits, conducted after the first GERB government had already taken office, gave a snapshot of the landscape in mid-2009.

According to unofficial accounts, public money first began to pour into KTB during the early years of the NDSV government by way of energy sector companies opening long-term deposits. The propeller rocket at the time was Bogomil Manchev, who began to bank with KTB from the word go. It was largely happenstance that Bogomil Manchev knew one of KTB's founding shareholders Yanko Ivanov⁴¹ who later introduced him to Tsvetan Vassilev.

The deposits raised in those early days, although in amounts that were significant relative to the size KTB at the time, were in fact modest and failed to attract any attention. It is conceivable that at least the initial deposits were opened by *bona fide* companies and that the money tied in them was a small part of the disposable cash available to the depositors. No information is available about the share of total deposits of SOEs in Bulgarian banks, which the amount in question represented.

QUANTUM LEAP

Public money deposits in KTB peaked in 2007 and 2008, receiving an additional boost from a direct deposit of state budget money. Thus, in 2007 public money deposits totalled nearly BGN 650 million (see page 52)⁴² and in 2008 nearly BGN 800 million (see page 47).⁴³

⁴¹ See footnote 14.

⁴² <http://www.ktbfiles.com/wp-content/uploads/2016/01/KTB-Godishenotch-et-2007.pdf>

⁴³ <http://www.ktbfiles.com/wp-content/uploads/2016/01/KTB-Godishenotch-et-2008.pdf>

There were several contributing factors. Firstly, these were peak years for the Bulgarian economy as a whole — state-owned companies simply had more disposable cash even after paying the statutory 50% dividend to the government.

Secondly, the Vassilev-Peevski tandem — likely fully formed by then — had a powerful lobby. This is clearly evident from the fact that as the end of the term of Stanishev's government approached, state-owned companies operating in all sectors of the economy had 35% of their total disposable cash in deposits with KTB.

Thirdly, the government of the day took the view that this was a form of support for local privately-owned banks that had no backing from parent financial institutions abroad. Toward the end of the term of the Three-Party Coalition government, the list of favoured financial institution also included Investbank and the Central Cooperative Bank. The First Investment Bank (PIB) also received undisclosed liquid support from the central budget. On the brink of the impending global financial crisis, the government clearly intended to strengthen local privately-owned banks by any means.

Last but not least, a changing of the guard took place at the Bulgarian Central Bank. In 2007, the term of the Deputy Governor responsible for prudential supervision, Emilia Milanova, expired, and Rusi Simeonov was appointed in her place. The outgoing Deputy Governor had had a strained relationship with KTB, at least in the immediate aftermath of the bank's acquisition by Tsvetan Vassilev through ten offshore companies without seeking approval from the Central Bank. In the following years, after the fog over beneficiary ownership began to lift, the initial animosity subsided. Following KTB's closure, Emilia Milanova showed up on the list of the bank's depositors and promptly turned into a vocal advocate for saving the bank with public money — hardly surprising given that her private deposit exceeded the statutory limit of deposit funds guaranteed by the state. Clearly, she must have had a change of heart along the way.

Despite this, it is matter of general agreement in the banking sector that until 2007 robust prudential supervision was in place. Our sources reveal that the Central Bank was fully aware of both the overconcentration of public money in the bank and the large exposures to related parties.

LEGACY OF THE THREE-PARTY COALITION GOVERNMENT

The GERB government came to power on the heels of a promise of transparent government and the distribution of public money in bank deposits gradually climbed to the top of the public agenda.

In August 2009, the then Finance Minister Simeon Dyankov asked all ministries to disclose the banks in which the state-owned companies under their jurisdiction had deposits. With assistance from the Access to Public Information Programme we were able to obtain the entire correspondence on the matter between the Ministry of Finance and other ministries under the *Access to Information Act*.

Our findings show that the overconcentration of public money in KTB during the term of the Three-Party Coalition government was not a matter of policy pursued at the level of central government, but a decision left to the discretion of individual ministries and even individual companies.

This is what the Minister of Finance in the first government of Boyko Borisov had to say: “When we received the open letter from the publishers in the spring of 2010, we checked the banks in which state-owned companies kept their money and found out that more than 50% had indeed been tied in KTB deposits. I then asked myself when these companies had first started banking with KTB. Our analysis showed that for energy sector companies, the trend went back to 2005 and 2006. State-owned companies from the military industrial complex had opened deposits at roughly the same time. Companies from the transport sector, such as the Air Traffic Control Administration, the Bulgarian Railway Company and the National Railway Infrastructure Company had become clients of the Bank much later, and to be more specific immediately before the 2009 general election.”

According to reliable KTBfiles sources with insider knowledge of the process and wishing to remain anonymous, the deposits were moved to KTB in response to an incentive offered by the bank. The decision as to which bank a State-owned company keeps its money in is in the hands of either the executive director or the board of directors. As an incentive to choose KTB, the directors received cash bonuses from the bank on a regular basis. The financial incentives were determined as follows: SOEs, particularly during the earlier

years of the model, when the overconcentration of public money was not yet public knowledge, would open checking accounts (as the information to the Ministry of Finance shows) or deposits at interest rates lower than those prevailing on the market. Lower interest rates naturally meant losses for the companies, but a profit for the bank. A percentage of the difference would then be paid back to the company directors as a sign of gratitude for choosing KTB. Naturally, there is no written record or evidence of how the model operated. The source of cash, however, ties in neatly with the gaping holes in cash balances and other cash shortfalls established after the bank's closure and attributed to the loans made to affiliated companies at the time.⁴⁴

The truth is that fierce competition over public money is not a KTB trademark. "It is public knowledge that we, banks, pay decent commissions for cheap money. There is a reason why state-owned banks keep huge amounts in checking accounts in a handful of banks. I mean serious amounts, not just a small change', the executive director of a small foreign-owned bank told⁴⁵ the *Capital Weekly* in August 2009. Vying for influence has similarly not been patented by KTB. The local branch of BNP Paribas, for example, hired the former Minister of Energy as a consultant, most likely seeking to gain a foothold and influence in the energy sector. While Kovachev was Minister, the French bank was awarded two consultancy agreements in the sector. Such tactics became an issue only after KTB became the preferred financial institution for public money in a blatantly obvious manner.

TOP-PERFORMING SECTORS OF THE ECONOMY

A sweeping statement that the entire pot of public money, or most of it, was concentrated in a single bank would be misleading because some institutions did have a policy of diversification in place. This being said, the top-performing sectors of the economy did have a preference for KTB (available information fully corroborates this assertion).

⁴⁴ See „A Patchwork Pyramid“, p. 158.

⁴⁵ Dimitar Peev, „Suspiciously Likeminded,“ *Capital Weekly*, November 27, 2009.

The distribution of public money at the end of the term of the Three-Party Coalition government and the beginning of the term of the first GERB government is set out below.

A significant share of the money came from the Ministries of Economy and Energy, Transport and Defence. The concentration of public money from energy sector companies may be attributed to a decision taken at a higher level. For example, nearly 90% of checking accounts in national currency, 70% of USD accounts and 60% of EUR accounts of the Ministry of Energy were in KTB. The same applies to nearly half of the Ministry's BGN and more than 70% of its EUR deposit accounts. Companies such as the Bulgarian Energy Holding, the National Electricity Company, the Kozloduy Nuclear Power Plant, Bulgargas and Bulgartransgas, with cash flows to the tune of hundreds of millions, are all under the jurisdiction of the Ministry of Economy. By way of example, in mid-2009 the Bulgarian Energy Holding alone had BGN 210 million—nearly all company cash—deposited in a checking account. At the same time, the National Electricity Company had BGN 37 million (80% of its cash in national currency intended for payments to clients and suppliers) in its checking account, in addition to EUR 60.5 million (76% of its entire cash available in EUR) in a deposit account. Another company that banked with KTB was the Maritsa Iztok II Thermal Power Plant with BGN 5.6 million in a checking account and EUR 10.8 million in a deposit account.

The then Minister of Economy and Energy, Peter Dimitrov, declined our invitation for an interview to discuss the matter.

“If I told you that no one ever approached me, asking which financial institution this company or that banked with, I'd tell a lie. I had informally instructed colleagues at the ministry to quietly investigate the matter. But while I was in office, there was never a direct order or instruction for banks to move or keep their money in a particular bank,” a former Minister of Economy and Energy who wishes to remain anonymous explains. His words were indirectly echoed by other ministers who held office at different times. If these assertions are true, then the choice of banks was a decision taken by the companies alone. How those decisions were made or rather how much or what type of incentives were offered to secure the desired outcome is a moot point.

The transport sector also directed significant cash flows to KTB. Our data analysis⁴⁶ shows that only 5% of cash was kept in checking accounts at the bank. However, between 30 and 40% of EUR and USD deposit accounts were in KTB. For example, the Air Traffic Control Administration had a EUR 29 million deposit and Sofia Airport a EUR 18.5 million deposit with KTB.

An interesting development occurred on the cusp of change in government, shortly after Alexander Tsvetkov had been appointed Minister of Transport in the GERB government. In 2010, the Bulgarian Railway Company had also joined KTB, having moved from Allianz and the Bulgarian Development Bank. In the early days of the GERB government, 16% of the checking accounts and 80% of the deposit accounts of the BDZ were transferred to the Corporate Commercial Bank.

The Ministry of Defence also jumped the bandwagon. According to the information available to the Ministry of Finance in mid-2009 the largest deposit holder was Terem—the aviation, ship, armoured equipment and small arms repair plant—with a deposit of BGN 37 million (practically all of the company's disposable cash). Another company under the jurisdiction of the Ministry of Defence that banked exclusively with KTB was Supply & Commerce, which had deposited all its money in KTB. It had BGN 708,000 and EUR 381,000 in two deposit accounts, respectively.

The linked document⁴⁷ sets out a detailed breakdown of the information we obtained from the various ministries.

THE CURTAIN LIFTS

The overconcentration of public money in a single bank first became public knowledge in the autumn of 2009. At the time, several major problems emerged. First and foremost, the market was distorted. This situation occurs when a bank has a reliable supply of cheap money available to it for the medium- to long-term, mostly sitting in checking accounts earning very low interest. This allowed KTB to lower its interest rates on loans and embark on an aggres-

⁴⁶ <https://drive.google.com/file/d/0B9Y6sbedirJ5U09GYnN5dWVhMzg/view>

⁴⁷ <http://www.ktbfiles.com/dokumenti>

sive expansion, raising further deposits from private individuals and businesses.

To curb this trend, the government announced that it intended⁴⁸ to introduce rules for the selection of banks by state-owned companies. This led to a hostile exchange of opinions in the fledgling media empire of Delyan Peevski and his mother Irena Krasteva.

At the beginning of 2010, the editors-in-chief of 11 newspapers and members of the Bulgarian Printed Press Association, sent an open letter to the then Minister of Finance, Simeon Dyankov, requesting information⁴⁹ about the deposits of state-owned companies in banks pursuant to the *Access to Information Act*. The Ministry of Finance complied with the request and provided the information sought.

The application was lodged on the initiative of Ivo Prokopiev, co-publisher of Economedia and Deputy Chair of the Bulgarian Printed Press Association at the time. This marked the beginning of the acrimonious conflict between Ivo Prokopiev the Vassilev/Peevski tandem. Shortly after the first clash, the tax authorities, the prosecution service and other government institutions mounted an orchestrated campaign of attacks against Economedia and Ivo Prokopiev, with several tabloids controlled by Peevski and KTB stoking the fire.

The newspapers *Capital* and *Dnevnik* were the first—and for a long time the only—Bulgarian media that openly opposed the KTB model and systematically shed light on the bank's underhanded dealings and its involvement in the concentration of public money, the acquisition of media and other assets by politicians and the financing of affiliated parties. An interesting detail is the fate of the eleven newspapers that signed the letter sent to Minister Dyankov. In the next three years, Delyan Peevski and Tsvetan Vassilev either acquired or otherwise drew all but three—*Capital*, *Dnevnik* and *Sega*—into the sphere of influence of KTB.

⁴⁸ "Rules on Bank Selection by State-owned Companies to be Put in Place," PROFIT.BG, May 19, 2010, <https://profit.bg/balgariya/podgotvyat-pravila-za-izboranabanki-na-darzhavni-firmi> / [01.08.2017].

⁴⁹ "Editors-in Chief Demand Transparency for Public Money," *Capital Weekly*, April 22, 2010.

The report on public money deposits reveals that in December 2009 and March 2010 the total amount of deposits in KTB had decreased while concentration had increased, with more than half of the money of State-owned banks being deposited into low-interest checking accounts in KTB.

“No one—absolutely no one—had an interest in this information seeing the light of day. There were discussions in government, in Parliament and in Parliament’s financial affairs committee. We practically talked about it all the time. And everyone—not just the ruling party, but other political parties as well—wanted to know who needed the information and why it should be made public,” the then Minister of Finance Simeon Dyankov told the KTBfiles. “We were under enormous pressure from Parliament. MPs are typically far removed from the realm of public finance, but the topic somehow got their full and undivided attention. All political groups in Parliament—GERB, BSP, DPS, and even Ataka—were suddenly keen on telling us what information we could and could not disclose,” Dyankov reminisced.

The Minister’s initiative to introduce mandatory rules was blocked by the government and the instructions developed were subsequently downgraded to recommendations for the managers of state-owned companies. These were adopted in the summer of 2010 and failed to produce any perceptible change.

KTB AND THE GERB GOVERNMENT

After a lot of empty talk at the beginning of the Boyko Borisov Government, the focus of public attention shifted away from public money concentration and reporting trickled down to occasional statements of where one ministry or another kept its money. The only response the follow-up enquiries to the Ministry of Finance elicited is that the enquiry would be forwarded to the respective ministry, as no such information was gathered as a matter of policy. The sectoral ministries would then forward the enquiries to the respective companies, which declined to disclose it with the argument that it was commercially sensitive. *Sega Daily* managed to obtain information from the Ministry of Economy according to which at the end of October concentration was yet again on the increase.

At the end of 2011, the trend was corroborated by information⁵⁰ received by the website livebiz.bg (no longer in business). This was the last official data that would become available before the first Borisov government stepped down.

During the first half of the government's term, the Ministry of Finance drew significant amounts from KTB accounts on two occasions.

"While I was in office, we first drew approximately BGN 200 million and then, at the beginning of 2011, a further BGN 300 million in dividends from KTB accounts of state-owned companies. In any case, according to our budget estimates at the time 80% of SOE profits would be paid into the budget. However, the companies were reluctant to part with their money, and the withdrawals by direct debit from their accounts were initiated by the Ministry of Finance, which could do so because the new budget law had been adopted by Parliament," former Minister Dyankov recalls.

"Out of BGN 2.4 billion of public money in bank deposits, the government withdrew approximately one-fifth in dividends. Our actions at the time invited public attacks in the media that had already been brought into the sphere of influence of Peevski.

Drawing money was met with resistance from line ministries, the state-owned companies and KTB. Vassilev and Ivan Iskrov (then Central Bank Governor) spent hours on the telephone. Iskrov would then complain to the Prime Minister that the MoF actions jeopardised the bank and could ultimately cause it to fail. The Financial Affairs Committee of Parliament also decried our decision and loudly proclaimed that we were sabotaging the banking system," Dyankov continues.

"We stopped compiling data about the bank deposits of state-owned companies after receiving a strong-worded letter from the BNB, which told us in no uncertain terms that the Ministry of Finance had no business collecting such data and that if we needed the information, we should send an official enquiry to the Central Bank. They did have a point and we had to call it a day," the former Minister adds.

⁵⁰ Desislava Nikolova, "The State-Owned Energy Sector Companies with BGN 630 million in KTB Deposits," *Capital Weekly*, December 5, 2011.

Several enquiries made under the *Access to Information Act* during the investigation have revealed the state of play in terms of public money deposits in the later stages of the first Borisov government. Data conclusively shows that the ministries that had banked with KTB during the term of the previous government continued to do so. In some cases, even more money had been poured in.

In the autumn of 2013, the SOE Terem had approximately 25% of its money (more than BGN 22 million) in checking and deposit accounts with KTB. At the end of 2014, that percentage had increased to 75% of the total. In 2014, the SOEs under the jurisdiction of the Ministry of Defence had a total of 44% of their money in KTB deposit accounts.

The SOE Snabdyavane i targovia – MO (Supply and Commerce — Ministry of Defence) presents an interesting case. In the autumn of 2010, the company conducted a tender for the selection of a bank services provider. The stated selection criteria were in line with the good practice recommendations issued by the Ministry of Finance. The protocol setting out the ranking of applicants clearly shows that KTB’s proposal ranked fourth.

A letter sent by company’s Managing Director to the Deputy Minister of Defence Radev a year later reveals that the management had requested an “improved offer” from KTB, having banked with the company for several years. The bank modified its initial offer and the SOE remained on the bank’s list of clients, disregarding the outcome of the ranking. As a result, in the autumn of 2013 the defence-sector SOE had all its money (more than BGN 3 million) in a KTB deposit account. After the new government took office a year later and a new Managing Director (Dimitar Minev) was appointed, the deposited amount went down to 33% of the company’s total disposable cash.

In reply⁵¹ to our enquiry, the company stated the following: “In 2006, a Loan Agreement was concluded between Snabdyavane i targovia EOOD and KTB in connection with the intended purchase of a company office on the most economically favourable terms. In 2008, the company transitioned to electronic banking as a significant step forward to facilitating business transactions. Follow-

⁵¹ Snabdyavane i Targovia – MO, Letter Ref. No V-832 of August 3, 2016.

ing the tender conducted in 2010 in which KTB's offer was ranked fourth, the company management appropriately took into account the company's long-standing partnership with KTB and asked it to improve on the terms and conditions set out in the initial offer. KTB modified the parameters that were not acceptable to the company and its offer was subsequently ranked in the first place. The service agreement with KTB was thus renewed." We submitted a second enquiry about the parameters of the improved offer to which the company did not respond.

During the later years of the first Borisov government, the Ministry of Economy and Energy's strong preference for KTB became even more pronounced. A snapshot as of September 2013 shows that, in percentage terms, sectoral money was split as follows: BEH—91%; NEC—39%; Bulgartransgas—96%, Electricity System Operator—98%, State Consolidation Company—99%. Naturally, the list does not include all SOEs under the jurisdiction of the Ministry of Energy, but does contain those handling the largest cash flows.

In correspondence on the matter exchanged⁵² between the Ministry of Finance and KTB, the bank argued that its cooperation with state-owned companies did not only involve raising deposits, but also making loans and issuing bank guarantees for the business transactions of the companies that banked with KTB. This is a key argument that Tsvetan Vassilev and other key figures in the bank would subsequently repeat on many occasions, stressing that KTB unfailingly supported Bulgarian industry at a time when no foreign bank would either lend local businesses money or issue bank guarantees they needed in the course of ordinary business.

In the following years the topic would occasionally resurface in the context of the Vassilev/Peevski media war (*Telegraph* and TV7) and Donev/Pavlov (*Trud* and *24 Hours*). At the time, a complaint alleging unlawful state aid through the concentration of cash in KTB was even sent to the European Commission. Neither the complaint nor the occasionally restated intentions of Minister Dyankov to introduce rules achieved much. KTB continued to grow exponentially, raising deposits from private individuals and corporates, offering

⁵² <http://www.ktbfiles.com/wp-content/uploads/2016/01/Otgovor-na-KTBdo-Simeon-Dyankov-po-povod-signala-do-EK-2010.pdf>

interest rates several percentage points higher than average market levels. Thus, the total share of government money deposited in the bank decreased over time.

While the European Commission enquiry was ongoing, the Ministry of Finance was asked to provide information and documents, which required it to liaise with KTB.

According to the reply⁵³ of KTB to the European Commission:

“The property of SOEs, including their cash funds, are not government-owned but owned by the companies themselves. State-owned enterprises (SOEs) have been established as legal entities that are independent of the state. They (state-owned enterprises) are not an instrument of state and cannot be held accountable for the way in which they conduct their affairs [...].

During the period in question, various private investors also deposited money with KTB, which means that the bank did not solely raise deposits from companies in which the government is the majority shareholder.”

Regarding Terem, KTB explained that the company had opened deposits with the bank in connection with the forthcoming sale of company shares for which KTB had issued a bank guarantee.

The European Commission enquiry lasted approximately two years and was ultimately terminated by reason of the absence of strong evidence, which warrants the conclusion that the state had been actively involved into the channelling of state funds into a single economic entity (KTB).

RULES FINALLY PUT IN PLACE — TOO LITTLE, TOO LATE

The model of government-propelled business was finally dismantled during the caretaker government led by Marin Raykov in the spring of 2013. President Rosen Plevnenliev formed the government with the explicit mission and mandate to address and analyse the concentration of government money in banks — a problem that had already been extensively documented and discussed in media.

⁵³ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Otgovor-na-KTBdo-Simeon-Dyankov-po-povod-signala-do-EK-2010.pdf?x21734>

As a result,⁵⁴ binding rules were adopted, requiring SOEs to conclude contracts with financial institutions, having first concluded a tender, and to spread their cash deposits in a manner ensuring that no more than 25% of available cash was kept in deposits in a single bank. Furthermore, SOEs were to submit quarterly reports to the competent sectoral ministry and, if the limit had been exceeded, provide a justification and propose corrective action to address the overconcentration. The new rules envisaged penalties for the heads of non-compliant companies.

With much screeching and a significant delay, the measures taken did ultimately achieve their intended effect and by the end of 2013 most companies had either selected other banks by tender or were in the process of doing so.

Thus, the rules became a reality with a delay of five years, although the idea had been bandied about since 2009. In the meantime, however, KTB — having propelled its business sky high on the back of cheap government deposits — had grown its portfolio by BGN 5 billion, starting from BGN 2 billion to reach almost BGN 7 billion before it crashed.

The rules ultimately had a positive effect. Following the closure of the bank, less than BGN 250 million in government funds remained in deposits, with some companies managing to withdraw significant amounts immediately prior to closure. Given that in peak periods SOEs had more than BGN 800 million in KTB deposits, the rules effectively prevented scores of companies from incurring significantly greater losses.

⁵⁴ Decree No 127 of the Council of Ministers of May 27, 2013.

GOVERNMENT RESERVE FOR PRIVATE USE

THE PEEVSKI/TSVETANOV FALL OUT BRINGS THE STATE RESERVE EMBEZZLEMENT SCHEME INTO THE LIMELIGHT

In the spring of 2007, during the second half of the term of the Three-Party Coalition government, a grave conflict emerged involving the BSP and the MRF, and in particular the Minister of Economy and Energy, Rumen Ovcharov, and his deputy, Cornelia Ninova, and the Executive Director of the then state-owned Bulgartabac, Hristo Lachev, the Deputy Minister for State Policy on Accidents and Natural Disasters, Delyan Peevski, and the Head of the National Investigation Service, Angel Alexandrov.

Two weeks into the scandal, the Head of the National Investigation Service, Angel Alexandrov, a former State Security officer before the fall of the communist regime, wrote a classified memo to the Prosecutor-General, Boris Velchev, giving his version of the events underway. At the end of the document, he discussed his relations with Delyan Peevski, who had been appointed to the NIS two years earlier without meeting the stated requirements for length of service following a proposal by Angel Alexandrov.

“Peevski has shared his vision for the State Reserve with me,” he wrote. “He developed a concept for the sector, which has been approved by the Council of Ministers. Owing to this, the State Reserve will make a profit for the first time in many years, although I have no personal knowledge of any specific transactions conducted by the Reserve,” he continued.⁵⁵

All involved in the scandal, including Angel Alexandrov, resigned. Ultimately, a criminal investigation against an unknown

⁵⁵ Angel Alexandrov, “Memo to the Prosecutor-General,” // <http://parliament.bg/pub/cW/20130208055538aaaa.pdf> [01.08.2017].

perpetrator was launched, petered out and closed due to lack of evidence. Angel Alexandrov was appointed Head of the Economic Crime Department of the National Investigation Service and Peevski was reinstated as deputy minister under Emel Etem [Minister for the State Policy on Accidents and Natural Disasters] with responsibility for the state reserve. At the time, the affairs of the institution were managed by Nikolay Borshukov and Valery Tomov, both closely associated with Delyan Peevski.

The State Reserve worked in close cooperation with KTB, and the transactions involved swaps of wheat, fuel and other commodities. They first came on the radar of the security services because of the consistently applied principle of selling cheaply and buying dearly.

Tsvetan Vassilev has repeatedly alleged, including in the interview for the KTBfiles, that the scheme was designed to “bleed the reserve dry” and operated for many years.

THE WHEAT SWAP

As Deputy Minister in the Three-Party Coalition government, Peevski was responsible for the State Reserve. The contracts concluded by the State Reserve are considered a matter of national security, hence the derogation excluding them from the scope of public procurement legislation. During our investigation, we filed an application for information pursuant to the *Access to Information Act*, which the institution did not reply to within the statutory 14-day period, which expired on 27 September 2016.

However, documents have been made available to the KTBfiles, which throw some light on how Peevski took advantage of his position. Correspondence exchanged between Vassilev and Peevski in the last months of their so-called partnership reveals how they attempted to unbundle their various business interests. In the e-mails exchanged they discuss many of their joint projects, with one referring to *Zaguba zhito* [Wheat loss], which incurred a loss of BGN 18 million for the bank. According to a source of the KTBfiles, the loss resulted from a State Reserve wheat swap. While Delyan Peevski was Deputy Minister, one of the companies linked to him, namely

the Peevski-controlled⁵⁶ Vodstroy 98,⁵⁷ was actively engaged in the transactions of the State Reserve as a consortium in various configurations with other companies. According to official documents, Vodstroy 98 is not owned by Peevski. However, articles published in the *Capital Weekly*⁵⁸ and Club Z⁵⁹ have linked the company to the MP⁶⁰ for the MRF. In a TV interview,⁶¹ Tsvetan Vassilev has also alleged that the construction company is owned by Delyan Peevski. The company was supposed to sell the wheat at a high price and then purchase it back at a lower price, with the net profit going straight into Delyan Peevski's pocket.

Unexpectedly, however, the price of wheat increased sharply and instead of making a profit the State Reserve incurred a massive loss. The letter of guarantee for the transaction had been issued by KTB. These events took place in the spring of 2007, at the same time when the Bulgartabac scandal involving Hristo Lachev, Rumen Ovcharov and Delyan Peevski was in full swing.

At the time, Tsvetan Vassilev thought it better to cover the loss instead of defaulting on the guarantee and exposing the bank to risk, thus shielding and ultimately saving his partner.

The correspondence⁶² further reveals that a similar loss to the tune of BGN 10 million was incurred in another transaction involving the sale of metals.

⁵⁶ Kalina Goranova, "Naturally Peevski. The Vodstroy 98 Consortia Top of List of Contractors Selected in the Tenders of the National Railway Infrastructure Company for Works to Be Financed from the State Budget," *Capital Weekly*, March 26, 2016.

⁵⁷ Desislava Leshtarska, "National Railway Infrastructure Company Awards Another Contract for More than BGN 28 Million to Vodstroy 98," *Capital Weekly*, September 13, 2016.

⁵⁸ "Who is the King of Construction," *Capital Weekly*, June 13, 2014.

⁵⁹ "Who Is the Owner of Vodstroy 98 and What Do We Know about the Company?" Club Z, February 18, 2016.

⁶⁰ "Vodstroy 98: All Roads Lead to KTB," *Capital Weekly*, March 21, 2014.

⁶¹ Sasho Dikov, "Mafia Lessons—an Interview with Tsvetan Vassilev," Simply Dikov, BIT TV, Part I, November 20, 2016, <http://www.bitelevision.com/mafiofski-urotsi-tsvetan-Vassilev-v-spetsialno-intervyu-za-sasho-dikov> [01.08.2017].

⁶² Correspondence exchanged between Vassilev and Peevski over the last months of their partnership in which they discuss how to split the business. The topics are wide-ranging and cover many of their joint projects. For more details, see the annex.

Both transactions, among many others, were handled by the Ruse Commodity Exchange, a self-styled *boutique* establishment. Our investigation indicates that hardly any information about the forthcoming transactions was available — for this reason it did not reach a wide range of prospective buyers.

In 2009, these transactions triggered an investigation⁶³ by Directorate K of the State Agency for National Security (DANS) called *Drugari* [Comrades], which was brutally quashed almost immediately after its launch without any actual investigative work being done.

WAREHOUSE RENOVATION PROJECT

Peevski-controlled companies are also linked to the renovation of the petrol and wheat storage facilities of the State Reserve. In his interview for the KTBfiles, Tsvetan Vassilev dropped a hint or two about these as well.

“At least BGN 100 million was stolen from this project during the Stanishev and the first Borisov government. The prices quoted by the contractors hired to carry out the renovation works on the petrol and wheat storage facilities were several times higher than the going market rate. I will not give precise estimates to avoid being accused of inaccuracy. But since the term of office of Emel Etem as Minister, Delyan Peevski has always controlled the State Reserve. Yet another example of grand theft of petroleum products,” Vassilev added.

A KTBfiles source reveals details about the contracts in question. A consortium, including Vodstroy 98 as one of the partners, was given a contract for the renovation works to be carried out on the petrol storage facilities of the State Reserve in Sliven during the term of the Three-Party Coalition government. However, after the first Borisov government came to power, the contract not only failed to be terminated, but Peevski was tasked with renovating the wheat storage facility of the State Reserve. According to our source the first contract was worth approximately BGN 150–200 million, and the second an additional BGN 50–60 million. The consortium

⁶³ Georgi Filipov, “Peevski’s Ministry,” *Capital Weekly*, July 29, 2013.

made a net profit of more than BGN 71.4 million, if the correspondence between Vassilev and Peevski is to be believed. In addition, generous “gifts” for the political blessing of the contracts were also involved.

According to documents⁶⁴ available to the KTBfiles, the Peevski-controlled⁶⁵ Vodstroy 98 had a 50% stake in the consortium, along with ENSTROY DZZD. The other partner was Enemona AD. On 29 October 2008, the consortium signed a framework agreement with the State Reserve for construction and renovation works, engineering services and the installation of equipment, including technical design, reconstruction and conversion of the storage facilities owned by the State Reserve and Wartime Stockpiles Agency in line with the requirements laid down in national law. On 27 April 2009, the consortium gained access to the Donchevo Wheat Storage Facility in order to commence renovation works. According to a letter⁶⁶ from the head of the State Reserve Agency to the State Financial Inspection Agency dated February 2013, the renovation works were carried out in two stages — between May 2009 and March 2010 and July 2011, with a scheduled completion date at the end of 2013.

The Peevski-linked company was part of yet another consortium, which had signed a contract with the State Reserve — MKM-Vodstroy DZZD in which Vodstroy 98 and Montazh Komplekt Engineering EOOD each had a stake of 50%. In 2007, the consortium signed a framework agreement with the State Reserve regarding the design and construction of petrol containers and the conversion and renovation of the storage facility in line with the requirements laid down in EU and national law. The petrol storage facilities were owned by the State Reserve and the Wartime Stockpiles Agency.

Peevski’s influence in the security services is crucial here because in order to be given a contract, each company needed an industrial security certificate, which is a legal requirement to carry out work for the State Reserve.

⁶⁴ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Kredit-po-sdelki-sdrzhavniya-rezerv-PDF-8.7-MB.pdf?x21734>

⁶⁵ Nikolay Stoyanov, “Peevski’s New Building Company,” *Capital Weekly*, September 11, 2016.

⁶⁶ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Doklad-ot-proverkana-Drzhavniya-rezerv.pdf>

Another interesting development was that in April 2015, another company with close links to Peevski—Aston Optimum—mortgaged⁶⁷ the building of Sofia Press, which had been acquired with a KTB loan, in favour of the First Investment Bank. The mortgage was security for a loan of BGN 5.3 million granted to Aston Optimum. The security covered guarantees issued by the bank to the consortia in which Vodstroy 98 was a partner.

The security in question was essential because it demonstrated an important point, notably that years after Delyan Peevski had been a deputy minister, he continued to have strong influence over the State Reserve. There was no change in the situation after the statement made by Prime Minister Borisov saying that the DPS MP intended to leave Bulgaria. Apparently, this is not the case. Peevski continues to do business with the government, having simply switched to another bank.

⁶⁷ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Kredit-po-sdelki-sdrzhavniya-rezerv-PDF-8.7-MB.pdf?x21734>

MEDIA EMPIRE

This period saw a crucial development in the history of the bank — the KTB Group embarked on a concentration of media ownership and built its own media empire.

Freedom of speech is rightly recognised as a measure of democracy in a country. The party having control over the flow of information has control of the state. For this reason, one of the first key steps in the evolution of the KTB model was to gain control of the media — directly (through ownership) and indirectly (by means of making media financially dependent on the bank).

The KTB model had two prongs—the banker Tsvetan Vassilev and the DPS MP Delyan Peevski. However, their interests and functions were distinctly different. Nowhere was this more apparent than in the media projects undertaken by the duo. Vassilev financed the acquisitions, but Peevski controlled them.

For this reason, after the rift between the two former business associates became irreparable, the media group carried on owned and controlled by Peevski. And it did so officially.

First, in 2014 Peevski referred to *Monitor* and *Telegraph*, among others, as “my printed media.” A year later, Peevski’s mother transferred 50% of the ownership of the media to him. He thus became *de facto* and *de jure* owner of the papers concerned.

After the conflict between Vassilev and Peevski had become public knowledge, the banker openly distanced himself from the media of his former business associate. In an interview⁶⁸ given in Vienna in mid-2014, Vassilev stated that he had bankrolled the acquisition of the newspapers of Petyo Blaskov (a Bulgarian journalist and media publisher from the early 1990’s) and had later expressed an interest in acquiring the plot of land on which the shell

⁶⁸ The interview was given to the bTV. Vassilev talks about the media shopping spree of the New Bulgarian Media Group between minutes 16:03 and 18:05 of the video. Available at: <http://www.btv.bg/video/shows/120-minuti/videos/ekskluzivno-cvetanVassilev-ot-viena.html>

of the Rodina Printing House stood. He admitted that his goal had always been to finance the acquisition of media, which would then remain the property of Peevski and his mother. His interest was limited to the development potential of the land. Nevertheless, Vasilev used KTB to bankroll the acquisition of the newspapers formerly owned by Petyo Blaskov, and he did not stop there.

MEDIA FIRST

Media were a privileged component of the model, which gave rise to and propped up the now-failed bank and corporate group. It sprang into existence with the onset of the media shopping spree Peevski and his mother embarked on. His influence continued to increase exponentially with the simultaneous acquisition of TV stations, news websites, distribution agencies, digital broadcasting infrastructure, etc. The media arm of the business was controlled primarily by Peevski and Krasteva whose projects continued to be bankrolled by KTB. According to conservative estimates in a period of seven to eight years, the group poured more than BGN 500 million into their media empire. After the failure of the bank, some media followed suit and disappeared from the market, while others changed hands. Some BGN 300 million were invested in TV7 alone; an additional BGN 120 million were channelled into the newspaper arm of the business; and a loan of BGN 80 million was provided for the development of the former Print House situated in Tsarigradsko Shose Boulevard (Peevski's Print House). On a broader scale, if the acquisition of the National Radio and Television Broadcasting Company (NURTS), plus financing provided to cover loan interest, were to be added to the bill, the total would probably reach BGN 800 million or approximately 10% of the Bank's assets. It should be emphasized that the bulk of the money was not invested in a productive, efficient business but as an instrument for manipulation of the public environment. The poisoning and fragmentation of the media environment, even as a standalone effect, reveals the vicious and ruinous nature of the KTB model.

The investment was not driven by desire to develop a successful and profitable printing business. Media were simply an instrument to manipulate the public agenda, destroy the credibility of

opponents or push forward a private agenda vying to control the information in the public domain.

This self-same instrument ultimately precipitated the failure of KTB in 2014, on the heels of an aggressive media campaign including front-page headlines, alleging that the bank was being robbed by its Executive Director Tsvetan Vassilev, and showing varying photographs of depositors queuing up outside its offices. A few days later, the bank had no choice but to admit that it was experiencing serious liquidity problems.

It is difficult to speculate as to whether and to what extent the “revelations” published in Peevski’s media, which relied almost exclusively on investigations that had already been published in other media, were the tipping point that precipitated the fall of KTB. In any case, it was clear that Peevski had openly declared war on Vassilev.

EARLY ROMANCE

Shortly after the privatisation of the bank in the early 2000s, KTB began its first dalliance with the media world. In 2003, Petyo Blaskov was the editor-in-chief of *Monitor*; Lyben Dilov Jr. oversaw editorial policy at *Novinar*; and Peter Mandzhukov was the owner and editor-in-chief of *Duma*. The owners of The Banker, through the *Obedineni balgarki vestnitsi* (United Bulgarian Newspapers, UBN) consortium, were the only buyer who expressed interest in the privatisation of IPK Rodina—the largest print house in Bulgaria. The consortium was one step away from acquiring ownership of the print house with KTB financing. The bank had approved a loan for the acquisition and issued a letter of guarantee to serve before the Privatisation Agency. However, KTB demanded higher collateral, which the consortium did not agree to, thus the bank eventually refused the loan. The First Investment Bank (PIB) stepped in, agreeing to finance the privatisation and recouping its investments five years later, when the UBN consortium was acquired by Vassilev and Krasteva.

A DECISIVE STEP FORWARD

In 2007, the Three-Party Coalition government was at its height. Delyan Peevski had just been dismissed as Deputy Minister of National Policy for Accidents and Natural Disasters on the heels of the scandal involving the Executive Director of Bulgartabac Hristo Lachev.⁶⁹

At the same time, most of his newspapers were in dire financial straits and were in revolt over the monopoly of the media distribution market.⁷⁰ This weakened their position and made them a prime target for acquisition. Vassilev and Krasteva grabbed the opportunity and made a decisive step toward gaining near total control of the media market, embarking on a newspaper shopping spree.

They first acquired Petyo Blaskov's *Monitor*, *Telegraph* and *Politika*, which were experiencing serious financial difficulties. Blaskov had just slashed the salaries of the journalists working for the newspapers when he struck a deal, agreeing to sell them to the recently established New Bulgarian Media Group Holding (NBMGH) owned by Irena Krasteva. In March 2009, for a short spell after the sale was finalised, ownership was officially split equally between Irena Krasteva and Vives, one of the companies gravitating around KTB and used by Tsvetan Vassilev to channel funds to various projects he had a vested interest in.

In an interview for the KTBfiles, Petyo Blaskov admitted that there were other potential buyers who had made an offer of BGN 6 million, but Irena Krasteva outbid them.

According to the terms of the contract, the sale price was BGN 10.6 million and included the distribution companies Press Market and Press Traffic. This acquisition was the group's first step to gaining control of the media and distribution market.

In 2007, *Capital Weekly* quoted Tsvetan Vassilev saying that the acquisition was bankrolled by KTB, adding that the press group could have been declared insolvent at any time, as it had huge debts to paper suppliers and the Rodina Print House. He described the ac-

⁶⁹ See „Key Deals – Bulgartabac“, p. 175.

⁷⁰ Having acquired most printed media, the family of the MP Delyan Peevski set its sights on a number of distribution companies. Thus, a market monopoly was created.

quisition as a routine business transaction for which the necessary securities were in place.

NEWSPAPER ACQUISITION AD LIB.

A period of vigorous acquisition and consolidation of media followed. In 2008, the NBMGH acquired the Veliko Tarnovo-based newspaper *Borba* for BGN 1 million, the *Meridian Match* sports daily as well as the satellite companies in the portfolio of its publisher—the company Compact Meridian—for BGN 16.5 million. Thus, the holding gained control over the UBN Group and its distribution arm UBN Bliznatsi (the newspapers acquired by Krasteva owned newspapers published by the UBN and distributed by UBN Bliznatsi) for BGN 30 million. A share of the purchase price was used to increase the share equity of UBN after Vassilev and Krasteva acquired a share of the company.

At the same time, CD Developments⁷¹ acquired PM Project, a company owned by Peter Mandzhukov (the publisher of *Duma*, who wanted to leave the publishing industry) and *Novinar Media* Projects for the total amount of EUR 13.5 million. CD Developments was jointly controlled by Vassilev and Krasteva and had its head office in 8 Hubcha Street in Sofia (where most of Vassilev's companies had their registered address). The loan for the transactions was provided by TXVA, one of the companies controlled by Tsvetan Vassilev and bankrolled by KTB.

Thus, in exchange for more than BGN 57 million Irena Krasteva and her son, bankrolled by Tsvetan Vassilev, gained full control of five newspapers and the landmark Rodina Print House, as well as the UBN Holding. The latter was comprised of the largest newspaper distribution companies, including the National Distribution Agency and the National Distribution Agency 1, which had previously been under the control of several publishers within the United Bulgarian Newspapers consortium.

⁷¹ At the time when the company was established in 2007, it was owned by the TXVA AF and the Balkan Media Company of Irena Krasteva. In 2008, TXVA acquired the remaining 50% of the capital from the BMC for BGN 53 million.

At the same time, the UBN changed its ownership and came under the management of Irena Krasteva, Tsvetan Vassilev, as a representative of *Novinar* and creditor of the NBMG Holding, and Alexander Angelov, an attorney, as a representative of the *Standart News* daily. At the time, the *Standart News* was still under the control of Todor Batkov—the owner of the law firm for which Alexander Angelov worked before becoming closely affiliated with Delyan Peevski and Tsvetan Vassilev.

Shortly thereafter, at the beginning of 2009, Tsvetan Vassilev confirmed in an interview for *Capital Weekly* that the newspaper acquisition project was indeed a crucial undertaking. He said: “The newspapers are indeed a serious endeavour—my project—which I am working on together with Irena. This is how I operate in other sectors, too: I have people taking care of daily business, and I provide the financing.”

DISENTANGLING IDENTITIES

The time came when the involvement of KTB as a financial institution bankrolling exclusively media projects began to raise uncomfortable questions and concerns about an impending monopoly on the market. In 2010, it was already known that the state was unlawfully pouring significant amounts of money into the bank through the largest public-sector companies. This was a wake-up call for Tsvetan Vassilev, who changed his model of involvement in the media sector.

First, Irena Krasteva made a public statement denying any links to KTB. “We categorically deny the slanderous allegations that the NBMG is in any way controlled by the Corporate Commercial Bank (directly or indirectly through third parties holding share interests in its equity) ... the NBMG is financially independent,” Irena Krasteva wrote in the summer of 2010 in an open letter to the media after the Ministry of Finance under Simeon Dyankov, Minister of Finance and Deputy Prime Minister in the first Borisov government, first disclosed that SOEs kept their money in deposits in KTB.

Second, the group of companies with close ties to KTB put in place a more intricate scheme for continued acquisition and con-

trol of printed and other media, which is significantly more difficult to prove. This involved a number of dummy companies bankrolled by KTB, which in turn continued the acquisitions, putting the companies under the control of the first lender. A decade later these tenuous links are difficult to substantiate due to the rigorous requirements of bank secrecy but also due to the lack of documented collateral or other forms of security, which might hint at the dependence of the media in question on KTB.

THE FINANCING MODEL

The fraudulent scheme only became apparent after the closure of KTB in 2014, when the loans were called in and an all-out fight to plunder what remained of KTB-controlled assets was in full swing, with many insolvency claims filed against the respective media inundating the courts. It became apparent that the media had simply not repaid any portion of the loans that they had indirectly received from KTB, which—after the closure of the bank—were included in the estate of the insolvent financial institution. Multiple companies from the group were involved in insolvency proceedings, including flagship newspapers, such as *Standart*, *Presa*, *Tema*, as well as *Trud* and *24 Hours*, under the management of Slavka Bozukova, Toshō Toshev, Valeri Zapryanov and Venelina Gocheva, respectively.

According to the notarised letters of default inviting the debtors to repay their loans, which were leaked to the press, KTB extended a BGN 6 million loan to GM Press⁷² via the dummy company Bilit 2007. GM Press held shares in the equity of *Standart News* and in Intermedia—the publisher of the newspapers *Show*, *55+* and the website *blitz.bg*. For a short time, the editor-in-chief of *Standart*, Slavka Bozukova, was also a senior manager of GM Press.

A similar scheme was used in the case of Sayga Consult, which had extended a loan of BGN 6.5 million of KTB money to Venelina Gocheva's Pro News Bulgaria⁷³ (this became publicly known in

⁷² <http://www.ktbfiles.com/wp-content/uploads/2016/01/Notarialna-pokanaot-Bulit-2007-do-GM-pres-2014.pdf?x21734>

⁷³ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Notarialna-pokana-Sajga-Konsult-do-Pro-Nyuz-Blgariya-2014.pdf?x21734>

2014). The loan to Pro News Bulgaria was extended at the same time when Gocheva acquired the newspapers *24 Hours* and *Trud* from Ognyan Donev and Lyubomir Pavlov.

To our team, Venelina Gocheva categorically denied that the loan was in any way linked to the acquisition of the *24 Hours* and *Trud*.⁷⁴ According to her, in 2012 Pro News had signed a preliminary contract with Sayga Consult for the sale of the Varna Print House, owned by the Media Group Bulgaria Holding at the time, for EUR 7 million. She claims the money received from Sayga Consult represented a down payment for the real estate transaction.

HOW ABOUT A NEWSPAPER ALL YOUR OWN?

BG Corporation, yet another dummy company, which, according to the report of the Parliamentary Enquiry Committee on KTB failure, had obtained multiple loans from KTB, extended a loan of BGN 2.5 million to the publisher of the newspaper *Presa* and *Tema Magazine* — United Free Media.⁷⁵ This is clear from case-file documents, which show that BG Corporation had filed a lawsuit against the United Free Media in 2014. The default on this loan was the reason for the closure of the newspaper and magazine in the summer of 2015.

This is what we learned from a source who wishes to remain anonymous about the events that unfolded shortly before the emergence of the *Presa Daily*: “The former publisher and editor-in-chief of *Trud*, Tosho Toshev, left the newspaper in 2011, after ownership changed and the daily was acquired by Lyubomir Pavlov and Ognyan Donev. Toshev then received an offer from Tsvetan Vassilev and Delyan Peevski to launch a new daily as a joint project, in which the latter two of the trio would invest against a minority share. A promise was made that Toshev would have freedom in the pursuit of an independent editorial policy and high standards of journalism without the investors intervening in content matters. Asked by a witness of the events why he wanted a minority share in the un-

⁷⁴ See „The Dailies — *24 Hours* & *Trud*“, p. 202.

⁷⁵ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Notarialna-pokan-aot-BG-Korporejshn-do-Obedineni-blgarski-medii-2014.pdf?x21734>

dertaking, Delyan Peevski said that he was offering only as much money as would last them a year and the newspaper would then have no choice but to toe the line.”

At the time, Tosho Toshev established the United Free Media—the publisher of *Presa* and *Tema* as a joint venture with Valeri Zapryanov. Each held a share of 50% of the company’s equity, as recorded on 19 July 2011. A curious detail is that four days earlier, on 15 July, Tosho Toshev had sold⁷⁶ his building at 119 Ekzarh Yosif Street to the construction company CD Developments 1. The building was sold by TT 2010, a sole-shareholder limited liability company owned by Tosho Toshev. Until the sale, the company had housed the editorial rooms of several former WAZ Group-owned newspapers. According to the title deed, the tax valuation of the property was slightly over BGN 2.9 million. The amount probably represents the share of Tosho Toshev in the new media project.

In April 2012, the Balkan Media Group of Irena Krasteva (ownership of which was subsequently formally transferred to Delyan Peevski), which included several newspapers, including *Monitor* and *Telegraph*, changed its registered address and moved into the building in 119 Ekzarh Yosif Street, which it continues to occupy to date.

In May 2012, Toshev and Zapryanov announced that a foreign investor had an interest in the acquisition of the group. This was PTC Presse-, Televisions- und Communications Beteiligungs AG. The company was owned by Harald von Seefried. At the time, von Seefried was a shareholder in Media Holding—the publisher of *Trud* and *24 Hours*. He had held a share interest since 1999, when the two flagship newspapers were owned by the German Press Group WAZ. A list of the shareholders of the United Free Media dated published in the Company Register in July 2012 reveals that the Swiss-based company held 3,500 shares in the company publishing the *Presa* and *Tema*, while Tosho Toshev and Valery Zapryanov each held 100 and 500 shares, respectively.

Following the closure of KTB in 2014 and the request for the opening of insolvency proceedings against the United Free Media, the financial flows that had previously been channelled to the two

⁷⁶ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Imoti-na-Tosho-Toshev.pdf>

newspapers dried up. Minutes filed on record in the Company Register a year later show that the new sole shareholder of the two companies was the company Integrated Road Systems to which the two owners—Toshev and Zapryanov—had transferred⁷⁷ their shares. Von Seefried was no longer mentioned as an owner. At the time, the company got in touch⁷⁸ with Biser Lazov—the former close aide of KTB’s owner Tsvetan Vassilev—who later defected to the camp of the DPS MP Delyan Peevski. Integrated Road Systems itself was heavily in debt—it owned BGN 13 million to the National Revenue Agency and BGN 100 million to KTB. Two weeks later, the newspaper and the magazine vanished without trace from the media landscape. In January 2016, the court declared United Free Media insolvent and opened insolvency proceedings.⁷⁹ The case-file shows that between November 2011 and February 2012 the company had received a loan of BGN 3 million in five tranches from KTB.

BUYING EDITORIAL POLICY

In 2009, it became clear that the KTB Group was about to acquire the tabloid *Weekend*. At the time, one of its owners — Nedyalko Nedyalkov, son of the poet Nedyalko Yordanov—confirmed that a sale was in the pipeline but asserted that it had not yet been finalised.

Sometime later, Company Registry entries show that ownership did indeed change hands, but that Nedyalkov had in fact sold his share of 50% to his partner Miroslav Radoslavov. In reality, a different transaction had taken place. It was Peevski who purchased Nedyalkov’s 50% share and 25% of the share held by Radoslavov. In other words, Peevski acquired 75% of the shares, and Radoslavov retained a 25% share. The deal was a matter of a gentleman’s agreement, and the actual distribution of shares was never disclosed or properly documented. Peevski had, in fact, bought control over

⁷⁷ “KTB Debtor Buys the Financially Constrained Newspaper of Tosho Toshev,” OFFNews, July 10, 2015, <https://offnews.bg/medii/dlazhnik-na-ktb-kupi-zadlazhneliavestnik-na-tosho-toshev-530695.html> [01.08.2017].

⁷⁸ Vesislava Antonova, “The Company Publishing *Presa* and *Tema* Has a New Owner, Deal Does Not Include the Brands,” *Capital Weekly*, July 10, 2015.

⁷⁹ <http://www.ktbfiles.com/wp-content/uploads/2017/03/str.66-Reshenie-nesstoyatelnost-Presa-PDF-258-KB.pdf?x21734>

editorial policy and spent more than BGN 10 million of the bank's money to do so, according to one of our sources who wishes to remain anonymous.

At the beginning, Peevski's interest in *Weekend* was genuine, although he later changed his preferences to the websites blitz.bg and pik.bg and used them extensively before the former partners Nedyalko Nedyalkov and Ivaylo Krachunov had a falling out. The editorial policy of *Weekend* is based on a list of individuals who cannot in any way be criticised or presented in a negative light. It includes the names of Ahmed Dogan, Lyutfi Mestan (before he was expelled from the DPS), Sotir Tsatsarov, Boyko Borisov (with exceptions, depending on the prevailing government configuration), Kiril Domuschiev, Georgi Parvanov, Plamen Oresharski, etc. At the same time, there is an alternative list of "enemies" to be attacked at every opportunity, which includes Tsvetan Vassilev, among many others.

Further proof of the deal between the two publishers of *Weekend* and the KTB Group is contained in leaked bank statements from KTB accounts of Radoslavov⁸⁰ and Nedyalkov⁸¹ for the period July 2008 – November 2014, which our sources have confirmed as genuine.

These show that between 2008 and 2010 Martin Radoslavov and Nedyalko Nedyalkov received and remitted⁸² dozens of millions of euros, ultimately retaining EUR 2.25 million (Martin Radoslavov) and EUR 4.25 million (Nedyalko Nedyalkov) or BGN 12.7 million in total. Some of the transfers were received 23 September 2009 from the offshore company Ingray Holdings. Minutes from the General Assembly of the shareholders held on September 2009 shows that the only shareholders, each with a share of 50% in the company, were Nedyalkov and Radoslavov. According to the 2009 annual report on activities of New Media Group—the publisher of *Week-*

⁸⁰ <http://www.ktbfiles.com/wp-content/uploads/2017/03/Smetka-Martin-Radoslavov-PDF-645-KB.pdf?x21734>

⁸¹ <http://www.ktbfiles.com/wp-content/uploads/2017/03/Smetka-Nedyalko-Nedyalkov-PDF-4-MB.pdf?x21734>

⁸² <http://www.ktbfiles.com/wp-content/uploads/2017/03/Uikend-shema-plashhaniya-PDF-606-KB.pdf?x21734>

end—dated March 2010⁸³ Ingray Holding OOD already held 75% of the company's shares.

A witness of the events told the KTBfiles that the sale contract was signed in the head office of KTB and that both Tsvetan Vassilev and Delyan Peevski were present.

The BGN 12.7 million purchase price paid for *Weekend* is corroborated by yet another document⁸⁴ available to the KTBfiles. It sets out information about money, originating from KTB, that was channelled into various companies acquired over a period of several years.

THE MOVE TO TELEVISION

After the decisive step to penetrate and gain control of much of the printed press segment in 2007 and 2008, the KTB Group went into television. The biggest coup involved TV7, which several years later would emerge as one of the channels with highest audience ratings on the market (at least according to the people-metrics firm GARB, which would also land under the control of Tsvetan Vassilev). The channel doubled as the TV platform for Vassilev's political project, which later came to be known as Bulgaria Without Censorship and its landmark figure—the TV host and presenter Nikolay Barekov.

The acquisition came in the form of a package deal that included the channel TV7 and the company Express BG, which published a newspaper of the same name and was also experiencing financial difficulties due to the printed press in Bulgaria generally failing to generate revenue that was adequate and capable of sustaining their continued existence. In the case of TV7, the previous owners had another incentive for the sale. Despite several previous attempts, the channel was never granted a nationwide broadcasting licence.

The licensing issues were swiftly resolved after the acquisition of the TV channel by the KTB Group. This happened several months

⁸³ <http://www.ktbfiles.com/wp-content/uploads/2017/03/Godishen-doklad-Nyu-mediya-grup-AD-za-2009-PDF-525-KB.pdf?x21734>

⁸⁴ See „The Face of Political Corruption“, p. 332.

before the end of the term of the Three-Party Coalition government, which last reshuffled TV broadcasting frequencies, predetermining the broadcasting landscape and the key players for many years to come. The *Public Broadcasting Bill* was submitted to Parliament by Sergey Stanishev, then prime minister, after his cabinet approved had approved the bill in an unexpected move at the end of May 2009. The biggest surprise was that in addition to the three existing TV channels with nationwide broadcasting licences, the list of TV stations to be granted digital broadcasting licences was expanded to include TV7.

Unlike the acquisition of the newspapers, in which the roles of Irena Krasteva and Tsvetan Vassilev were clearly visible, the stragem employed in the case of TV7 was much more sophisticated and guarded.

The TV channel was sold by the former CEO of the Municipal Bank—Lyubomir Pavlov. The three media — TV7, the newspaper *Express* and the website *express.bg* — were the brainchild of Dilyana Grozdanova, managing director of TV7 until the autumn of 2008, her husband Lyubomir Pavlov and his brother Yuliy Pavlov. Initially, TV7 and Express BG were owned by Crown Media AD, which in turn was owned by Crown Media Limited, England and Wales, a company represented by Lyubomir Pavlov. Six months before the transfer of ownership, a change in the ownership of Crown Media occurred. At the end of November 2008, the sole shareholder reshuffled the Board of Directors. All current directors were dismissed, including Dilyana Grozdanova, replacing them with brand-new figures, including Irena Krasteva and Teodora Taneva. The latter was the long-time managing director of TXVA, controlled by Tsvetan Vassilev, which would then handle the cash flows that kept the TV channel going.

Six months later, in May 2009, ownership of the UK-based Crown Media was transferred to a Cyprus-based offshore company of the same name—Crown Media Limited. Krasteva left the board, but Taneva retained her position.

Vassilev denies any involvement in the deal, including the allegation that it was bankrolled by KTB. He did, however, admit that he consulted the TV channel in the subsequent transfer of ownership to Alegro Capital in 2012. “We did not bankroll the acquisition of these media nor did we set up separate companies to do so.

This was strictly outside of the remit of the bank's business and this information is simply ridiculous," Tsvetan Vassilev said in an interview for *Dnevnik* at the time. Later events would expose this as a lie. Furthermore, in 2015 the Parliamentary Enquiry Committee would include Crown Media EAD in the list of companies linked to and directly financed by KTB in its report.

Several years later, Tsvetan Vassilev was ready to admit his ties to TV7 and the fact that the bank had indeed invested in it. For example, in one of his last interviews for Sasho Dikov and BiT, he claimed that TV7 had cost KTB a total of BGN 300 million. According to Vassilev, Nikolay Barekov, then executive director of TV7 who would later become the face of Vassilev's political ambitions, had convinced him to sign a loss-making rental agreement for the studios used by the channel, which had cost the bank USD 10,000 a month. The studios were owned by Alexander Staliyski, the closest aide of Prime Minister Borisov, and his girlfriend Violeta Sechkova.⁸⁵

At the same time, Irena Krasteva was busy with the acquisition of Balkan Bulgarian Television (BBT) from its then owner Peter Mandzhukov.

According to the report by Alix Partners the two television channels received more than generous financing from KTB. The owner of the TV channels—Crown Media—received a total of BGN 254 million through TXVA. Out of these, BGN 210 million were remitted to TV7, and approximately BGN 23 million to BBT.

The two TV channels additionally received direct loans from KTB — in the case of BBT a loan of BGN 9.8 million, which had not been repaid as of the date of closure of the bank. TV7 received a loan of BGN 5.1 million, of which BGN 4.4 million were still outstanding in February 2013.

Thus, at the end of the term of the Three-Party Coalition government (2009), the KTB Group owned two TV channels with nationwide broadcasting licences, six newspapers, key distribution companies and a large print house, along with valuable real estate situated along Tsarigradsko Shose, Sofia's major thoroughfare. The acquisition of the newspapers alone had cost KTB BGN 80 million.

⁸⁵ See „The Companies Around TV7“, p. 353..

The bank now had to cash in the influence that the media gave it, in order to start recouping on its investment.

The group then began to eye online media, buying existing ones and pouring money into new projects. Gradually, it would expand its portfolio to include econ.bg, originally created by Alexander Bozhkov and subsequently acquired by 3Bay.BG, and the newly-registered inews.bg, which it also acquired from 3Bay.BG. The company was rumoured to have been “shopping” for journalists with generous promises and the assurance of having solid financial backing from KTB.

KTB-BACKED MEDIA AFTER THE BANK’S DEMISE

After the bank’s demise, Krasteva and Peevski gained full control of the media empire. Those media they did not manage to gain direct control over ceased to exist. However, they did retain full control of the newspapers. Having failed to gain control over the two TV channels, they copied and pasted the TV7 model in the acquisition of Kanal 3, formalising the link in 2015, when NBMG, controlled by Irena Krasteva and her son, applied to the Commission for the Protection of Competition, seeking authorisation to acquire the company from its owner.

Other examples include the newspapers *Vseki Den* and *Week-end*. Without disclosing the identity of the proprietary owner, the group had gained control of the website vsekiden.com as early as 2009. The website had been created by Miroslav Borshosh (who would later become executive director of the National Palace of Culture). According to an investigation published in *Capital Weekly*, Borshosh negotiated the sale of the web portal with Delyan Peevski in person. However, the shares are registered to the bearer, meaning that the identity of the owner of vsekiden.com is unknown.

Shortly after Nedyalko Nedyalkov had sold his share in *Week-end*, he created Pik News, the publisher of the website pik.bg. The latter swiftly gained momentum as a new instrument in the hands of Krasteva, Peevski and Vassilev (until he fell into disgrace) used for influence peddling, smear campaigns and blackmail. In 2015, Nedyalkov worked actively with Slavka Bozukova to develop the

content of blitz.bg, which now had official access to indirect KTB financing. This was the final touch in the march to gain control of *vox populi* media.

An event that took place in mid-December 2014 was particularly revealing. At the time, one issue of the *State Gazette* was distributed along with a copy of *Telegraph* and its supplement *Telegraph Fact* whose headline shouted that it contained “The Whole Truth about KTB,” which it described as the heist of the century. The *State Gazette* is published by the National Assembly and fully financed from the state budget. According to the law, the *State Gazette* may be issued with a supplement with a smaller print run, which must be indicated in the respective issue of the newspaper. Such supplements are typically published when voluminous international treaties, compendia of international treaties or laws are promulgated. Promulgation in the supplement of the *State Gazette* has the same legal effect as that in the main body of the paper. The law contains an express provision prohibiting the publication of notices, announcements and other advertising content.

At the time, the *State Gazette* was distributed by Dobby Press. Dobrinka Alexova, then managing director of Dobby Press, told⁸⁶ the journalist Miroslav Ivanov that the company had been commissioned to distribute a copy of *Telegraph* and its supplement to all subscribers of the *State Gazette*, adding that *Telegraph* had been distributed to all subscribers of the company, and not just those subscribing to the *State Gazette*.

Several months later, the Speaker of Parliament, Tsetska Tsacheva, ordered an investigation into the case. In June 2016, in her reply to an enquiry from the *We, the Citizens* platform, she stated that a fine of BGN 600 had been levied on the distribution company for a breach of the contract concluded with the National Assembly following a tender conducted under the *Public Procurement Act*. The case remains a glaring example of how vested interest can gain access to and speak with the voice of the official *State Gazette* and evade liability, except for a fine of BGN 600.

⁸⁶ Miroslav Ivanov, “How Peevski Took Over the *State Gazette*,” *Finansovi smislitsi*, December 19, 2014, <http://miroivanovv.blogspot.bg/search?q=Как+Пеевски+и+взе+и+„Държавен+вестник> [01.08.2017].

DIGITALISATION — CONTINUED EXPANSION OF THE BUSINESS EMPIRE

Multiplexes are not a particularly popular topic. Although they affect all end viewers of TV programmes in Bulgaria, they have somehow remained on the periphery of public attention. One of the reasons for this may be that the topic involves a great deal of technical complexity, detail, complicated terminology, and a long series of legal amendments.

At the same time, the way the Bulgarian television broadcasting market was digitalised is telling in more ways than one. It is a glaring example of how the state, acting through the Three-Party Coalition government in the last days of the outgoing Cabinet, pushed through Parliament a series of legislative amendments and imposed a series of events in order to cement the landscape of the television market in Bulgaria for years to come, making room for a new player.

A central player in this story is the group of companies gravitating around KTB, and more specifically around Tsvetan Vassilev and his then-business associates Irena Krasteva and her son Delyan Peevski. The main players in the government at the time were the Prime Minister Sergey Stanishev; his adviser Rosen Karadimov;⁸⁷ the head of the Telecommunications Regulation Commission, Veselin Bozhkov, and all MPs and ministers who gave political backing to the proposed legislative amendments. Another important player in the event was Georgi Petkanov, Constitutional Court Justice, who delayed a Judgment of the Constitutional Court to tacitly render a service to KTB, which had set its sights on the digital TV market.

⁸⁷ See „Political Friendships“, p. 120.

BROADCASTING NEXT IN LINE TO FALL

Having concentrated influence and ownership in the newspaper segment, the Peevski—Krasteva—Vassilev trio set its sights on electronic media. Having whetted their appetite with the acquisition of TV7 and BBT, they grew more ambitious and chose a much larger-scale project — the digitalisation of radio and TV broadcasting.

In 2009, Bulgaria was on the threshold of digitalisation, which it had to undertake in order to comply with EU law. From the beginning of 2012, analogue radio and TV broadcasting was to be abandoned on the presumption that digital broadcasting would be rolled out (Bulgaria subsequently failed to comply with the relevant requirements). There were two important factors at play in this process. The first were the operators of the so-called multiplexes, which would act as the platform for digital broadcasting and host the media content. The other were the transmitting antennas. The KTB Group had its sights set on both.

Unlike the strategy deployed in the earlier newspaper acquisitions, this was a significantly bigger undertaking. A large investment to the tune of EUR 100–200 million was needed. Digitalisation was also closely monitored by the European Commission. International stakeholders had also expressed interest in the process. Solid backing at legislative level was a must, which the undertaking subsequently obtained with no questions asked.

THE ACQUISITION OF TRANSMITTING ANTENNAS

The natural monopoly, made up of 800 terrestrial TV and radio signal broadcasting antennas and relay stations, had been built with public funds by the communist political regime. It operated as an arm of the state-owned Bulgarian Telecommunications Company (BTC) under the name of the National Company for Radio and Television Broadcasting (NURTS). The antennas were used to broadcast the channels of all television and radio broadcasters with nationwide licences. In other words, the infrastructure was used by the two public broadcasters — Bulgarian National Radio (BNR) and Bulgarian National Television (BNT) and the two largest TV

channels — Nova and bTV. The infrastructure operated by NURTS was additionally used for collocation by the telecoms operating in Bulgaria, enabling them to place cell signal transmitters in key locations to boost network coverage. In other words, the NURTS antennas were essential for content transmission. In addition, the company owned expensive properties, including the TV Tower in the Borisova Gradina Park in central Sofia and the TV tower on Snezhanka Peak, near Smolyan in the Rhodope Mountains. They were the ideal “rocket propellant” for the forthcoming digitalisation.

Despite this, after yet another change in the private ownership of BTC in 2007, when the company was acquired by the investment arm of the US-based AIG, the telecom had to streamline its operations and raise sufficient funds to lower its indebtedness. This precipitated the sale of NURTS, which was approved during the third year of the term of the Three-Party Coalition government.

The first sale was negotiated with the Austrian ORS, a subsidiary of the Austrian public broadcaster ORF. The company had a wealth of experience, having recently successfully completed the process of digitalisation in Austria. It expressed a strong interest in digitalisation in Bulgaria, respectively in NURTS. The two companies negotiated a deal, reaching an agreement in December 2008. Although the price of the transaction was never publicly disclosed, the deal is thought to have been in the ballpark of EUR 80 million.

Three months later, the Commission for the Protection of Competition conveniently delayed granting an authorisation for the transaction by making a public announcement that it needed more time to conduct an “in-depth enquiry”.⁸⁸ At the same time, the Three-Party Coalition government proposed key legislative amendments in Parliament, which rearranged the digitalisation map in Bulgaria and ultimately led to Bulgaria being taken to court by the European Commission in 2015 over infringements of the requirements laid out in three EU Directives, for which the country was subsequently convicted.

⁸⁸ “The Commission for the Protection of Competition to Investigate the Radio and TV Broadcasting Arm of the BTC,” *Dnevnik Daily*, March 10, 2009.

THE STATE AT YOUR SERVICE

The delay by the CPC and the legislative amendments submitted to Parliament both happened in the spring of 2009. The Stanishev government hastily proposed, and Parliament lost no time in rubber-stamping the amended *Electronic Communications Act* and the *Radio and Television Act*. These amendments introduced three limitations, which automatically excluded several prospective buyers (including ORS).

One of the amendments envisaged that only two companies—one at the first stage, and another at the second stage of digitalization—would be granted broadcasting frequencies, i.e. would be granted permission to build multiplexes. The second amendment prohibited the companies that had already been selected by tender to build the multiplexes from also building proprietary electronic communications networks, i.e. from installing their own antennas. Furthermore, multiplex operators that had TV channels, including in other countries, and any companies linked to them were prohibited from participating in the tenders to be launched for the multiplexes.

A group of MPs challenged the amendments before the Constitutional Court, which delivered a judgment recognising that some of the contested provisions were indeed unconstitutional. For example, the Court ruled that the limitation according to which only one licence would be issued to each operator of initially two and subsequently three digital networks in the first and second stage of digitalisation, respectively, was anti-constitutional. It further held that the restriction barring the same legal entity from owning antennas and from being selected as a multiplex operator was also unconstitutional.

The judgment of the Constitutional Court was published on the date when the Telecom Regulator selected the operators and would only become effective a week later after being published in the *State Gazette*. In other words, the judgment could not come into full force and effect retroactively.

The judge-rapporteur was Georgi Petkanov, who according to sources from *Capital Weekly* intentionally delayed the judgment.

CLEARING THE WAY FORWARD

Thus, the Three-Party Coalition government effectively removed ORS from the multiplex tendering game, triggering a complaint to the European Commission and making NURTS the sole network through which the digitalisation project could be implemented.

At the same time, the government pushed ahead with yet another change that had implications for the television market. During the first three years of the Stanishev's government's term, the telecom regulator consistently blocked all attempts to obtain new broadcasting frequencies on the strength of the argument that the market should first be digitalised. With the then-government having only several months left in office, in addition to pushing the proposed amendments to the top of the Parliament's agenda, a decision was unexpectedly made to free up the broadcasting market, with rules hastily drawn up by the telecom regulator. The reason for the sudden change of heart by the telecom regulator was that the government had proposed that new TV channels be granted nationwide broadcasting licences and be included in the allocation of radio frequencies, which would subsequently be digitalised. It hardly came as a surprise that one of the TV channels that was granted analogue frequencies for broadcasting in almost 60 towns across Bulgaria only several months later was TV7.

In parallel, in March and April 2009 the Telecommunication Regulation Commission conducted the requisite tenders and granted licences to the selected multiplex operators — two newly-registered companies without any history or experience, which did not even attempt to disguise the business interests of the Vassilev—Krasteva—Peevski trio. We will revisit the issue shortly.

KTB'S LINK TO BROADCAST RELAY STATIONS

Unsurprisingly, ORS withdrew from the planned transaction in September 2009, when the Commission for the Protection of Competition was playing for time and the restrictive legislation had already been adopted.

However, the company reappeared on the stage only several months later when the first Borisov government was already in

office. This time, however, it had had secured a partner and intermediary — the Bulgarian company Incoms Telecom Holding, which was financially backed by KTB.

Incoms Telecom Holding was represented by Peter Tankov, who had several joint projects with Tsvetan Vassilev in the works; their business dealings dated back to the privatisation deal for Incoms.

Tsvetan Vassilev also admitted that he would finance a deal through the bank because he had already had business dealings with Incoms Telecom. In an interview for *Capital Weekly* at the time, he confirmed that he would “finance half of the agreed-upon price” without disclosing any figures.

This indirectly confirmed the rumours circulating in political and business circles in the spring of 2009 that the planned sale of NURTS had been scrapped because of the business interests of the Krasteva—Peevski-Vassilev trio.

Ultimately, no deal with ORS was struck. A sale would only take place in April 2010, but the company would be sold to Mancelord Limited, an offshore company registered in Cyprus. The latter bought 50% of the share equity of NURTS from BTC. In Bulgaria, the offshore company was represented by Tsvetan Vassilev’s company Bromak, through which he also held a majority share in the capital of KTB. When asked about the origin of the money, Vassilev replied that the owners were “people who did not trust banks and funds, who wished to put their money into an idea.”

The report⁸⁹ by the ad hoc Parliamentary Enquiry Committee set up to investigate KTB affair reveals that Mancelord Limited was an indirect recipient of KTB funds. For example, in 2012 Nikkomers 01 EOOD, a company linked to KTB which had received a loan of EUR 10.2 million, remitted the money to Mancelord on the day it received it from KTB.

One month later, in an interview for the business daily *Pari*, Vassilev stated⁹⁰ that an investment fund acted as a consultant in the NURTS sale: “I have convinced a fair number of people to invest in the project. They know me in an international setting and are

⁸⁹ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Doklad-navremen-nata-parlamentarna-komisiya-prilozheniya-II-chast-pr-I.pdf>

⁹⁰ Vesislava Antonova, “All According to Plan. Half of NURTS and Two Multiplexes Sold to NURTS,” *Capital Weekly*, June 25, 2010.

confident of my abilities.” The article noted that the investor would pay 50% of the sale price for the NURTS acquisition (the deal was estimated at approx. EUR 50 million), adding that loan financing would then be sought for network development. Vassilev let it slip, as a possibility, that the company might be financed by KTB, saying: “This is yet another project that could potentially be handled through the bank, which is in my best interest.”

A year later, in 2011 Vassilev brokered the sale of the remaining 50% of the share equity of NURTS to the Dubai-registered Bluesat Partners. This is what he said⁹¹ at the time: “I could have bought the remaining share of the company, but my clients ultimately preferred to split the risk that the investment carries.”

Thus, Vassilev gained full control of NURTS as early as 2010. At the time, Emil Atanasov was appointed executive director of the company, having worked for various companies linked to Vassilev for many years. For twelve months before the appointment, Atanasov had been the deputy chairperson of the Financial Supervision Commission (2009–2010); in the period 1996–2001 he was on the board of directors and executive director of Fina S (linked to KTB); and between 1993 and 1996 – he was the principal financial broker at Bromak and Fina S. After a deal was struck with Bluesat, a former employee of the Telecom Regulator, Svilen Shopov, was appointed as the second executive director of NURTS. The two directors could only manage the affairs of the company jointly, not having authorisation to approve transactions exceeding EUR 100,000 without having first obtained the consent of all board members.

Not that this meant that the “clients” or other unnamed parties behind Bluesat had seized control of NURTS from KTB – on the contrary. Immediately after the deal with Bluesat went through, NURTS obtained a EUR 40 million loan from KTB as Vassilev had predicted a year earlier. The loan was refinanced in 2012 with corporate bonds, some of which were subscribed to KTB. Thus, the money financing the company always originated from KTB, simply changing the form in which it left the bank.

⁹¹ Miroslav Ivanov, “The NURTS to Seek a BGN 120 Million Bank Loan,” *Capital Weekly*, November 10, 2011.

MULTIPLEXES TAKE CENTRE STAGE

In 2009, the Telecom Regulator launched competitions and selected multiplex operators for the two stages of digitalisation. The selected contractors were Towercom and Hanu Pro Bulgaria. However, both purportedly international companies poorly disguised the threads linking them to KTB, which the events that unfolded in the following months and years served to corroborate.

Towercom was granted a licence to build two out of the six future multiplexes to be used for the digital broadcasting of private TV channels in Bulgaria. For the purposes of the 2009 tender, Towercom was presented as a Czech-owned company without any links to Bulgarian investors. This being said, the representative of the purportedly Czech owner—the Bulgarian national Bozhidar Miladinov—also represented another investor on the board of NURTS—Mancelord Limited and Vassilev's company Bromak. The two events—the tender launched by the telecom regulator in 2009 and the NURTS deal struck in 2010—took place only a year apart, meaning that the Regulator could not have failed to spot the links and make the connection. At the same time, the regulator could have also ascertained that Miladinov had strong ties to a significant number of companies gravitating around KTB and that the accounting firm hired to produce the group's financial reports—Financial Consulting, along with the companies Interhotels and Burgas Meat—had received loans from KTB.⁹²

Interestingly, the Czech investors' Bulgarian company had been registered by Bozhidar Bankov, managing director of the Electronica Plant, which was still controlled by Incoms Telecom Holding and AGP Development at the time. Furthermore, the statutory capital for the registration of Towercom Bulgaria had been paid into a KTB account.

A year after obtaining a multiplex licence, the Czechs sold Towercom Bulgaria to NURTS (having first obtained a KTB loan) in negotiations within the framework of the negotiations between the BTC and Mancelord. Thus, KTB laid its hands on two out of six multiplexes semi-officially as early as the summer of 2010. The link between Incoms and KTB is further apparent from the registration record of the other key player in digitalisation — Hanu Pro Bulgar-

⁹² According to the report of the ad hoc Parliamentary Enquiry Committee tasked with the investigation of KTB's failure.

ia. In 2009, the company obtained authorisation from the Telecom Regulator to build the remaining three multiplexes for broadcasting the signal of other private television channels, and a year later the sixth multiplex for digital broadcasting of the signal of the public broadcasters — the BNR and BNT.

Hanu Pro was established by a woman, Tsvetelina Kostadinova, about whom next to nothing was known. The company has the same registered address as the Electronica Plant in Slatina, one of Sofia's residential areas. The statutory capital was also paid into a KTB account. The company was subsequently transferred to the Latvian company of the same name, which remained its owner of record at least until 2012. However, the shares of the Bulgarian company were converted into bearer bonds. Thus, after December 2009 the beneficial owner of the company was virtually unknown and there was no information about the identity of either the owner or the parties that held the bearer bonds.

In the summer of 2010, the Latvian national Gintars Kavatsis, managing director of Hanu Pro, said in an interview that the company still had Latvian owners, adding that in order to be able to build the four multiplexes it would use the existing network of NURTS or rather half of its existing infrastructure.

And so, in the summer of 2010—exactly one year after the Telecom Regulator and the Three-Party Coalition had dealt the digitalisation cards, the process had indeed been concentrated in NURTS: the company had already negotiated the acquisition of Towercom (two multiplexes) and had agreed that its four antennas would become the backbone of the digitalisation endeavour to be undertaken by Hanu Pro.

At around this time, rumours were already circulating in Bulgarian business circles that Hanu Pro and Towercom planned to merge. The executive director of Mobiltel, Andreas Meyerhoff, publicly stated in an interview for mediapool.bg, “that there was a risk that all digital broadcasting platforms in Bulgaria, the so-called multiplexes, would end up in the hand of linked (albeit not formally) companies, creating a monopoly on the market.” He then continued with a comment on the rumoured merger of Hanu Pro and Towercom.

In 2012, Hanu Pro surprisingly transferred its three private multiplex licences to HD Media Services, and in 2015 Tsvetan Vas-

silev openly admitted that Hanu Pro, subsequently renamed First Digital, was a KTB financed asset. Following the bank's failure, in a last-ditch attempt to save some of what Vassilev described as its "assets" in the spring of 2015, the banker attempted to transfer the ownership of First Digital, in a package comprising several other companies, including the BTC and the Dunarit arms plant, to a strawman—the French national Pierre Louvrier — a self-professed "European investor" in Bulgarian assets through the LIC33 offshore company. The scheme failed due to government intervention, which levied multiple distrains on each and every KTB asset on the stock exchange to make way for the redistribution of the most lucrative assets of the bank after the collapse.

EUROPE NOT CAUGHT NAPPING FOR A CHANGE

As early as 2011, the European Commission had opened an infringement procedure against Bulgaria over the non-transparent distribution of the digital broadcasting market and in 2015 won the lawsuit before the Court of Justice of the European Union in Luxembourg. Bulgaria was found to have breached three directives. This was also the first infringement procedure whose outcome meant a real sanction for Bulgaria after its accession to the European Union. Bulgaria lost in court, despite launching a competition for a seventh multiplex, in which Bulsatcom was ranked in the first place and selected; however the idea behind this tenders appears to be an attempt to simulate market competition.

Ultimately, the entire scheme that had put in place the building blocks of the new monopoly ended up as a spectacular failure on the part of KTB and the group of companies affiliated with it.

The main reason, however, was not the fine levied by the European Union, but the absence of a guaranteed market which the monopoly could rely on. Digitalisation was initially thought of as a "goose that lays golden egg" because multiplexes had no choice but to broadcast the signal of certain radio and television stations. However, there was no reciprocal requirement for content makers to upload as many channels as possible for broadcasting. Some of them even started withdrawing certain non-mandatory frequencies channels from multiplexes due to high digital broadcasting

prices, preferring to continue broadcasting their programmes via the saturated market of cable and satellite broadcasting providers.

Tsvetan Vassilev commented on this problem in 2013, when he was already showing signs of impatience to get rid of NURTS, as long as there was sufficient investor interest to tempt him, as he put it then. The truth is that no such interest existed at the time largely owing to high prices and the lack of any clarity as to how the investment would be recouped.

To this day, the public broadcasters BNR and BNT remain the biggest payers on the multiplexes' books. However, both are financed by government revenue. The Bulgarian National Television, in particular, has reserved and pays for an unnecessarily large number of multiplex channels solely to ensure that the multiplex can cover its running costs. According to the BNT Financial Report for FY 2015, the public broadcaster has outstanding liabilities to First Digital in the amount of BGN 1.1 million and BGN 10,300 to Nurts Bulgaria. A year earlier, the level of indebtedness was even higher: BGN 5.2 million to First Digital and BGN 8,000 to Nurts Bulgaria. This is a significant amount against the backdrop of the extremely low liabilities of the National Television to suppliers (excluding external productions), which total BGN 6 million.

In theory, digitalisation was meant to ensure that each Bulgarian household benefitted from high-quality TV and radio broadcasting through a switch from analogue to digital signal transmission. However, the delays in the development of a digitalisation plan and the subsequent drawn-out capture of multiplexes gave such a strong boost to the development of the rest of the radio and TV signal transmission market that it practically rendered digitalisation superfluous. Cable and satellite TV and radio signal providers mushroomed, including Bulsatcom and Blizoo. Mobile operators now also provide package services, including internet and television in a competitive bundle with telephone services. This has raised the quality of service delivery and significantly lowered prices for end consumers. Televisions can choose the operator that will carry their content and collect transmission fees. Thus, the "must carry" obligation failed to generate a profit because it was not matched by a reciprocal "must offer all" requirement. KTB was thus left with a set of antennas that no longer made business sense.

POLITICAL FRIENDSHIPS

OR THE USEFULNESS OF ROSEN KARADIMOV TO THE VASSILEV-PEEVSKI DUO

During the term of the Three-Party Coalition government, several important events took place. On the one hand, the bank was already busy raising deposits from state-owned companies operating in several strategic sectors, such as energy, transport and the military-industrial complex. Delyan Peevski and his mother Irena Krasteva used KTB money to acquire and concentrate ownership of a threateningly large number of national and local media. The group had already set its sights on other sectors and possible market segments to penetrate, emerging as an investor that had no competition.

In those early days, the development of the KTB Group model centred around Tsvetan Vassilev, Delyan Peevski and Irena Krasteva primarily relied on excellent connections in political circles and public administration offices. It could not yet be confidently asserted that the interests of the trio were furthered at central government level, as they would be in later years. During the government of the Three-Party Coalition the Vassilev—Peevski tandem nurtured and nourished friendships with key political figures at mid-to-senior government level. One such key contact was Rosen Karadimov, a close adviser to the Prime Minister Sergey Stanishev.

According to documents and witness statements available to the KTBfiles, Karadimov was involved in several of Delyan Peevski and Tsvetan Vassilev's projects that they pursued either jointly or independently and had a vested interest in.

During the second half of the term of the Three-Party Coalition government, and especially in late 2008 and in 2009, Rosen Karadimov appeared to be on particularly friendly terms with the duo. On the one hand, Karadimov had been a lawyer for many years and took care of Grisha Ganchev's business; the latter had always been on excellent terms with Tsvetan Vassilev. Ganchev was among the

first clients who opened long-term deposits at KTB after the bank's privatisation in 2000.

In 2008, Karadimov became friends with Delyan Peevski. He let it be known that he was close to the Prime Minister Stanishev and to the then-leader of the DPS Ahmed Dogan. In connection with this, in an interview given to *Trud Daily* in August 2009, the former head of the Youth and Sport Agency, Vesela Lecheva, later said the following: "This is hard to admit today, but the two people in charge in Bulgaria at the end of the term of our government were Delyan Peevski and Rosen Karadimov. And I don't think this should come as a big surprise..."

Peevski and Tsvetan Vassilev needed someone capable of securing political backing for the projects the duo pursued, either jointly or independently. Documentary evidence shows that Tsvetan Vassilev had a strong interest in the digitalisation in Bulgaria—a process launched during the term of the Three-Party Coalition government, which continued after Boyko Borisov's first government had come to power. On the other hand, Delyan Peevski was insatiable when it came to projects in the energy and transport sectors.

The prime minister's adviser helped shape the legal aspects of the various initiatives, including in connection with analyses of the potential of public-private partnerships and special-purpose vehicles, draft amendments to adopted legislation, etc.

THE DIGITALISATION SCAM

In early 2009, a group of experts got together to draw up a blueprint for establishing such a company, which would later be granted a licence to carry the signal of public radio and television broadcasters – in other words, the very design of the so-called state (or public) multiplex. None of the experts in question were civil servants. The working group was set up on the initiative of Rosen Karadimov and the entire tender dossier was developed⁹³ by Zina Trifonova — a former member of the collegiate Telecom Regula-

⁹³ "Digitalization, Statitization, Privatization," *Dnevnik*, April 7, 2009, http://www.dnevnik.bg/dnevnikplus/2009/04/07/701944_cifrovizaciia_durjavizaciia_privatizaciia [01.08.2017].

tor and subsequently a long-time consultant to the projects Tsvetan Vassilev pursued in the digital domain. From the onset, the goal was to ensure that the public multiplex would come under the control of a company linked to Tsvetan Vassilev.

The initial concept that was developed conformed to the requirements laid down in the *Public Broadcasting Act*⁹⁴ and envisaged that a state-owned company under the jurisdiction of the Ministry of Regional Development and Public Works would be set up. Following a tender, a private investor was to be selected who would contribute part of the statutory share capital of the new company. The company's scope of work should include "construction, development, operation, hiring and renting of electronic communications networks for the broadcasting of radio and television programmes." The blueprint for the company also contained the following recommendation: "...a formal Council of Ministers decision may be adopted granting express powers to the Ministry of Regional Development and Public Works to launch a tender and approved conditions and requirements under which the company partnership be established."

On 2 April, Prime Minister Sergey Stanishev submitted to the Council of Ministers a draft Decision on the approval of a *Public Broadcasting Bill* (discussed in Paragraph 40 of the transcript⁹⁵ from the Cabinet meeting), which envisaged the establishment of a company that matches the above description. During the discussion, the then-Minister of Public Administration, Nikolay Vassilev, noted that the proposed amendments were important, yet the Bill had been submitted at the last possible minute. The Prime Minister countered that the proposed amendments had been necessitated by the adoption by Parliament of the *Electronic Communications Act* and that the government had to act in order to fulfil its obligations. Emel Etem, then Minister for State Policy on Accidents and Natural Disasters from the quota of the DPS, intervened in support of Stanishev, saying (according to the transcript): "I propose that we ap-

⁹⁴ "Public Broadcasting Act," Econ.bg, May 19, 2009, http://econ.bg/ЗАКОН-ЗА-ПУБЛИЧНОТО-РАДИОРАЗПРЪСКВАНЕ_1.1_i.164230_at.5.html [01.08.2017].

⁹⁵ "Transcript from the Cabinet Meeting on April 2, 2009," *Capital Weekly*, August 18, 2009, http://www.capital.bg/blogove/ot_dondukov_1/2009/08/18/779214_stenograma_ot_zasedanieto_na_ministerski_suvet-2 [01.08.2017].

prove the Decision so that the Bill can proceed to Parliament today and when this happens, we will have sufficient time to debate the finer points.”

Cabinet ministers eventually rubberstamped the proposed amendments and the *Public Broadcasting Act*⁹⁶ was adopted by Parliament on 12 May 2009. The speed of the process and the synchronicity between all competent institutions, which approved all changed as proposed, simply in order to ensure that the Bill became law before the government’s term had expired, were nothing short of remarkable. At the time, both industry experts and professionals voiced suspicions⁹⁷ that the hasty amendments were pushed through so that the government could secure the benevolence of the Krasteva—Peevski—Vassilev group by furthering the essentially vested interest of the trio. Sources of the KTBfiles have revealed that the original idea was to select Incoms Telecom Holding owned by Peter Tankov, who held dual Austrian and Bulgarian citizenship, as the government’s private partner and operator of the public multiplex. Tankov had partnered with Tsvetan Vassilev in other projects and was the principal potential buyer in the planned divestiture of NURTS from the BTC and its subsequent sale—an initiative that is directly relevant to broadcasting digitalisation.⁹⁸ The company is even mentioned in this early blueprint outlining the concept for the new company intended to operate the public multiplex.

The first multiplex tenders were launched while the Three-Party Coalition government was still in office, but carried over into the term of the first GERB government. Under both governments the head of the telecoms regulator (Telecommunications Regulation Commission, CRC) — the institution responsible for selecting the companies — was Veselin Bozhkov. At a certain stage of the race to win the tenders, whose outcome can assuredly be described as a foregone conclusion, Incoms and Peter Tankov dropped from the scheme and companies linked to Vassilev and KTB were selected as contractors.

⁹⁶ <http://parliament.bg/bills/40/902-01-22.pdf>

⁹⁷ “Digitalization, Statitization, Privatization,” *Dnevnik*, April 7, 2009. http://www.dnevnik.bg/dnevnikplus/2009/04/07/701944_cifrovizaciia_durjavizaciia_privatizaciia [07.04.2009]

⁹⁸ See „Digitalisation — Continued Expansion of the Business Empire“, p. 109.

Several years after these events, in an interview for the KTB-files Tsvetan Vassilev said: “The entire moronic plan for Bulgaria’s digitalisation was developed by the Peevski-Karadimov duo with input from Veselin Bozhkov. This is the root of problems with digitalization in Bulgaria. Austria has a single multiplex with 12 channels, while in Bulgaria a decision was made to have four multiplexes with 52 channels in order to allegedly create a free market. There aren’t 52 television channels in Bulgaria.”

We approached Rosen Karadimov with a request to share his viewpoint on the events. As a starting point, he clarified that he had never been an advisor to the Prime Minister because advisors are appointed under employment contracts in accordance with the *Civil Service Act*. He further stated the following: “In the period 2006–2009 I was a consultant attached to the Council of Ministers hired under fixed-term (one-year) contracts...Under the contracts in question I solely had the responsibility to provide consultancy services relating to the development of the information policy of the Council of Ministers and the coordination of work with other bodies and agencies in the context of information policy.” He adds that during the period in question he held three positions: (1) full-time instructor at the Law Faculty of Saint Climent Ohridsky University of Sofia; (2) practising lawyer, registered with the Sofia Bar Association; and (3) consultant providing services to the Council of Ministers under fixed-term contracts. He objected to being described as an advisor of the Prime Minister.

At the same time, Rosen Karadimov, purportedly a mere external consultant, had his own office in the government’s building and r.karadimov@government.bg as an e-mail address. In interviews given during the term of the Three-Party Coalition government, including as a majoritarian candidate in the Parliamentary Elections in 2009, Karadimov was routinely presented as “an advisor to the Prime Minister,” which he never found in any way objectionable⁹⁹ at the time.

In response to the questions asked by the KTBfiles, he admitted that he knew Delyan Peevski when the latter was deputy minis-

⁹⁹ Interview by Nikolay Barekov with Rosen Karadimov for bTV, July 1, 2009, <https://www.youtube.com/watch?v=1FNOFljsVI> [01.07.2017]. (The guest is presented as an advisor to the Prime Minister in minute 01:06 of the interview.)

ter in the Three-Party Coalition government and that he had a long-standing acquaintance with Tsvetan Vassilev as a respected banker. Asked whether he had had any involvement whatsoever in projects that Peevski and Vassilev (either jointly or severally) had an interest in, i.e. in the energy, digitalisation and other sectors, Karadimov stated the following: “I have never had a stake in any such projects and this is easily verifiable by checking the records of the Commercial Register.”

In an interview for *Tema* magazine¹⁰⁰ in September 2009, Karadimov said: “My work involves primarily aiding the Prime Minister when problematic situations arise. I am, after all, an experienced lawyer with all-round experience. I also have quite a lot of political experience under my belt. I have assisted the process of TV broadcasting digitalisation because Bulgaria was seriously lagging behind in this area. I have also provided assistance to help find a solution to the dramatic turn of events at the Kremikovtzi [the steelworks]. The same applies to media relations because I have a lot of contacts. However, my involvement has remained limited to explaining the policies the government must pursue.”

Regarding Tsvetan Vassilev’s comment on the blueprint for digitalisation, Karadimov said: “I am not entirely certain what blueprint for digitalisation you refer to, but a quick online search brings up a document entitled “Digitalisation Plan”—a statutory act adopted, if memory serves me right, in 2013.”

“To the best of my knowledge, the creation of multiplexes—to use your words—was a complex and intricate process, which required the adoption of new legislations and amendments to existing laws. The process had to be initiated by the competent sectoral minister and involved a consultation procedure at the level of the Council of Ministers, the adoption by the Cabinet of a dedicated decision to propose a Bill to Parliament, the deliberation of that Bill in the competent parliamentary committees, making further amendments to the provisions between the two readings, with a possibility being available to the President to veto the final adopted Act, issuance of a dedicated Presidential Decree effectively issuing the law,

¹⁰⁰ The heading is “Diving Deep” and the sub-heading: “Rosen Karadimov, Former Advisor to Sergey Stanishev Never Quite Gained the Popularity of Azer Melikov, but Is Often Pointed at and Described as the Real Power in the Government.”

and its promulgation in the *State Gazette*. I am struggling to imagine how prior conditions could be posed in this process without the media failing to notice. To refresh my memory after so many years, I looked up various online legal databases and found out that legislative changes in this area were initiated by both the Three-Party Coalition and the GERB government.” This was Rosen Karadimov reply to the question of whether there was any truth in the allegation that the creation of the so-called multiplexes and the sale of NURTS were both a foregone conclusion in terms of the companies that were subsequently awarded contracts (all of which were linked to KTB).

THE OMANI CONNECTION

In 2009, two months before the Three-Party Coalition government stepped down, KTB found a new investor in the Arab world. According to Tsvetan Vassilev, the Bulgarian National Bank (BNB) and KTB itself, the new owner was an investment company that managed part of Oman's oil money. The direct buyer of the share in the bank's capital was an offshore company registered in Luxembourg, meaning that no information could be obtained about the beneficial owner. This gave rise to speculation that the purportedly Omani investor was merely a convenient stratagem employed to disguise the identity of the true owners, including Bulgarian nationals. One of the versions was that the Omanis acted as a strawman for the DPS, while another linked the investment to communist (i.e. "red") capital. Neither version has been corroborated to date. Others speculated that no real sale of shares had taken place, but that the aim of the exercise was to concert KTB money into capital—the Omani Fund acquired a share, and Vassilev's companies, in the capacity as seller, receive a fresh supply of money with which to further increase the bank's capital. This was purportedly achieved by Fund and/or its managers receiving fixed-amount payments agreed in advance and a guarantee that a buy-back option will be available in time. This theory, like the others, remains strictly in the realm of speculation.

THE DEAL

At the end of February 2009, the BNB authorised the acquisition of 30% of KTB's share equity by the Bulgarian Acquisition Company II, a special-purpose vehicle established in Luxembourg. In March

2009, the sale went through, and the offshore company paid¹⁰¹ BGN 185 million in exchange for the agreed share.

According to the BNB, the special-purpose vehicle (SPV) was indirectly owned by the State General Reserve Fund (SGRF), which managed part of the oil revenue of the Omani sultanate as a Sovereign Fund.

Immediately after the sale, two SGRF representatives were appointed to the Supervisory Board of the Fund—Warith al Kharousi and Faysal al Riyami. According to al Kharousi's resume he had been working for the SGRF as director-general and chief investment consultant of the Fund since 1985. He was also in charge of other SGRF projects in Bulgaria handled by the EQUEST investment fund, which was an active investor in the country at the time. Omani nationals were also appointed to the audit committee of the bank.

THE OMANIS AND THEIR BULGARIAN COUNTERPARTS

The first investments of the Omani fund in Bulgaria date back to the end of the NDSV government and the early days of the Three-Party Coalition government. Various speculations are afoot as to why Omani money first came to Bulgaria. According to one popular theory the reason is the friendship¹⁰² between Simeon Saxe Coburg-Gotha and Sultan Qaboos bin Said, which dated back to the time the former Bulgarian king lived in exile in Spain. Allegedly, the Omani investments had been negotiated between the two monarchs during the government of the NDSV and DPS. This version of events is supported by the fact that the first investment¹⁰³ of the Omani Fund was the Super Borovets project with an estimated value of more than EUR 600 million, which the Bulgarian Prime Minister Simeon Saxe Coburg-Gotha (July 2001 – August 2005) was openly partial

¹⁰¹ Agreement with Respect to the Sale of Shares of the Corporate Commercial Bank AD, LTБ, 27 January 2009, http://www.corpbank.bg/investor_news_160.html [01.08.2017].

¹⁰² Zornitsa Markova, Ivan Mihalev, "The Savior from the Desert," *Capital Weekly*, April 24, 2009, http://www.capital.bg/biznes/kompanii/2009/04/24/710135_spa-siteliat_ot_pustiniata [01.08.2017].

¹⁰³ *Ibid.*

to. He attended the construction site launch ceremony in August 2007 in person and contributed private land he owned to the project. Warith al Kharousi also attended the ceremony in Borovets.

Minister of Economy and Energy Rumen Ovcharov was the first Bulgarian minister to travel to Oman on a state visit.¹⁰⁴ Accompanied by then Deputy Ministers Cornelia Ninova (Economy) and Georgi Kadiev (Finance), he visited the Gulf state, where he had meetings with the Minister of National Economy Ahmed Makki. Minister Makki later returned the visit to Bulgaria.

At the same time, the Coburg-Gotha government appointed Professor Stoyan Denchev as honorary consul to Oman. Interestingly, the appointment was not initiated by the NDSV, but by the DPS. He continued to serve as honorary consul until 2015, when he was dismissed on a proposal¹⁰⁵ from the Sultanate. Denchev is a former DPS Member of Parliament, a former collaborator¹⁰⁶ of the communist-era Security Service, former vice president of Multigroup and current chancellor of the Library Studies and Information Technologies Institute. He is also a close associate of Ahmed Dogan. The latter was yet again confirmed at the beginning of 2016, when Denchev conferred¹⁰⁷ a badge of distinction to Ahmed Dogan—an event that coincided with Turkey banning both Dogan and Peevski from entering the country.

In 2006, the Omani Fund sent¹⁰⁸ assistance to help overcome the ruin and devastation caused by the extreme floods in Bulgaria

¹⁰⁴ “Agreement for the Promotion of Investment with Oman,” Darik News, February 4, 2007.

¹⁰⁵ Ivan Georgiev, “Stoyan Denchev to No Longer Serve as Honorary Consul of Oman,” *Sega*, June 4, 2015, <http://www.segabg.com/article.php?id=754258> [01.08.2017].

¹⁰⁶ Hristo Hristov, “The Former Security Service Files on the Vice President of Multigroup: Stoyan Denchev,” *Държавна сигурност.com*, September 16, 2015, <http://desebg.com/2011-01-06-11-34-55/2444-2015-09-16-16-22-09> [16.09.2015].

¹⁰⁷ Boris Miltov, “Former State Security Collaborator Bestows Honours on Dogan for Leadership Contribution to State Building,” *Mediapool.bg*, February 11, 2016, <http://www.mediapool.bg/dskadri-otlichih-dogan-za-liderski-prinos-kam-darzhavnostta-news245431> [01.08.2017].

¹⁰⁸ Iva Uzunska, “The Bulgarian Red Cross to Receive a Donation of USD 300,000 from the Sultan of Oman,” *news.bg*, September 25, 2006, <https://news.bg/crime/bchk-poluchava-300-000-otsultana-na-oman.html> [01.08.2017].

at the time. Whether accidentally or not, responsibility for the distribution of the assistance was placed in the hands of the then-Deputy Ministers Feim Chaushev and Delyan Peevski (both from the DPS quota in the government). According to *Capital Weekly*, instead of ensuring the money was spent as intended, it was used to purchase SUVs for the Ministry of State Policy on Accidents and Natural Disasters headed by Emel Etem, another DPS appointee, and ambulances.

Shortly thereafter, SGRF joined the Super Borovets project as an investor and subsequently acquired a 32% share of the capital of EQUEST, along with its landmark investments in Bulgaria, including the Technomarket electronics chain, multiple high-value properties, and the financially constrained Novera, which had the contract for waste collection in Sofia. KTB share equity sale, which Tsvetan Vassilev described as a long-term partnership, took place at the same time. "The Omani Fund pursues a long-term strategy. It came to me seeking a long-term partnership and this is ultimately why I agreed to the deal. The investment includes the bank but also certain other sectors that I am interested in,"¹⁰⁹ Vassilev said in an interview for *Capital Weekly* in January 2009. If his words are to be believed, the projects of common interest must have included the real estate sector, but also energy and road construction... the sectors quickly taken over by Delyan Peevski through the companies formerly controlled and financed by KTB, such as Vodstroy and Integrated Road Systems.

The deal struck between Oman and KTB in 2009 came at a time when the crisis had already scared away most foreign investors in Bulgaria. The news did not come as a surprise to the banking sector because it had been common knowledge for at least two years that Tsvetan Vassilev was seeking foreign investment in his bank. It is, however, surprising that the SGRF limited its involvement to a minority share, which meant that despite having representatives on the Supervisory Board, it had no say in the day-to-day running and decisions of the bank. As a rule of thumb, the Fund did not send representatives to the general meetings of shareholders. In his statement for the KTBfiles, Tsvetan Vassilev said that despite the minority share, the agreement with the Omanis had been drafted in

¹⁰⁹ Ivan Mihalev, "A Deal from 1001 Nights," *Capital Weekly*, January 30, 2009.

a way that fully protected their interests and effective control over the years.

THE FIGURE BEHIND THE BANK

A curious event that took place in mid-2010 publicly raises questions about the beneficial ownership of the bank and the identity of the figure concealed behind the Omani Fund. In an interview¹¹⁰ for the Bulgarian National Television, then-US Ambassador to Bulgaria, James Warlick, publicly questioned the shareholding structure of the Bank, saying that ownership of the financial institution was “not fully transparent.” The comment had been prompted by leaked reports that the money of SOEs was concentrated in KTB. In the same interview, the US Ambassador added that he hoped the government would ask questions and investigate why KTB—and not another bank or banks, some of which were larger—had been chosen “in order to ensure that the process was fully transparent and that decisions were made in accordance with Bulgarian law.” Several hours later, the BNB responded with an official statement,¹¹¹ describing the words of the US diplomat as “odd.” According to the statement no bank with unknown beneficial owners operated in Bulgaria. This included KTB, which according to the BNB statement was indirectly controlled by the State General Reserve of Oman. The use of “indirectly” and the fact that according to the Statute of the Bank the Omani investor did not have a veto on the decisions of the board fuelled further speculation about the foreign shareholder. The matter resurfaced and became a much-debated topic as soon as the Omanis stepped in as shareholders. The beneficial ownership, concealed by an offshore company, the lack of specific information, and certain extraneous circumstances raised doubts as to whether the purported foreign investor was not merely a convenient façade concealing undisclosed interests, fuelling speculation that the origin of the money could be traced back to Bulgaria. One

¹¹⁰ The interview was broadcast on May 19, 2010, during the Morning Programme of the BNT.

¹¹¹ Press release, BNB, May 19, 2010, http://www.bnb.bg/PressOffice/POPress-Releases/POPRTTheme/PR_20100519_BG [01.08.2017].

popular theory alleged an indirect link to the DPS. Combined with the involvement of Stoyan Denchev as a representative of Omani business interests in Bulgaria, the theory appears plausible for yet another reason. In mid-2013, Irena Krasteva—mother of the DPS MP Delyan Peevski—established a non-governmental organisation called the Society for Friendship between Bulgaria and Oman.¹¹² Shortly thereafter, the Bulgarian-Omani Chamber of Commerce was established by several parties closely linked to the family. The Omani Fund did not respond to our official enquiry. Ambassador Warlick referred us to the US Embassy to Sofia, which in turn replied that no further information that had not been previously disclosed was available to it.

BEFORE AND AFTER THE CRASH

As a shareholder in the Bulgarian bank, the Omani Fund remained consistently passive. However, its representatives continue to sit on and attend the meetings of the Supervisory Board. For example, in December 2012 when a decision was made to increase the Bank's equity from BGN 60 to BGN 66 million, Faysal al Riyami was present at the meeting.

KTB was one of the Omani Fund's last investments in Bulgaria. At the time, it had put in place a policy of non-disclosure of information about its investments and—like most sovereign funds in the Arab world—insisted on ultimate discretion and privacy. According to the information available on the website of the Fund, it has investments in Vietnam, Thailand, Turkey, China and Africa. Over the years when it was busily investing in Bulgaria, its projects in the country topped the list.

The Fund has only recently become more open about its policy and investments. It even published a report on its activities for 2014, which describes the investment in KTB as a “special case” triggered by the withdrawal of the bank's licence. It is further stated that the Fund is weighing all possibilities, including a lawsuit, in

¹¹² Tsvetelina Belutova, “Uniting Women,” *Capital Weekly*, August 23, 2015, http://www.capital.bg/politika_i_ikonomika/imena/2015/08/23/2595019_obeditelkata_na_jenite [01.08.2017].

order to recover its investment. There is no mention of other projects in Bulgaria.

When KTB failed, the Omani representatives attempted to intervene to ensure that the bank was saved. In the dramatic days of June 2014, when the future of KTB was still not clear, information was received that the Omani Fund had an interest in the rescue of the financial institution. The intermediary who passed on the message was yet again the face of Omani business in Bulgaria — Stoyan Denchev.

In September, the Omani Fund, in a consortium with “undisclosed shareholders and potential investors” (according to the BNB), wrote¹¹³ to the National Bank and proposed the restructuring of KTB on the basis of an undisclosed plan, which fully conformed to the State aid requirements laid down in EU law. The letter was sent by EPIC (a Vienna-based investment fund) in its capacity as “exclusive consultant” and proposed that “a non-disclosure agreement was signed between EPIC, the Bulgarian government and the Bulgarian National Bank” on the basis of which EPIC would be granted access to publicly unavailable information about KTB and launch talks with the government and the BNB on the restructuring of the bank. The letter does not contain any financial specifics. In exchange, the bank’s saviours requested a financial commitment on the part of the government to rescue the Bank.

At that time, no information was available about the identity of the other interested investors in the holding. However, the letter poorly disguised the fact that the Omanis and the majority shareholder were in full agreement about the future of the bank. In a statement made several days earlier, Vassilev had admitted that he was busy developing a rescue plan for the bank together with his Omani partners. In the meantime, in a statement for Reuters Darwish al Balushi, the chair of the Omani Fund and Omani Minister of Finance, said that the bank was not problematic in and of itself, at least not in terms of its financial position, assets or performance. He blamed the recent developments on the Bulgarian government and regulatory bodies. This statement reveals that he fully concurred

¹¹³ Press release, BNB, September 10, 2014, http://www.bnb.bg/PressOffice/POPressReleases/POPRTTheme/PR_20140910_BG [01.08.2017].

with Vassilev's position that the bank had come under attack for political reasons and as part of a plot.

Over time, more came to be known about the mysterious consortium whose individual members were:

- The Austrian investment fund EPIC;
- The Fund of the General State Reserve of the Sultanate of Oman (holding a share of 30% of the share equity of the Bank);
- Gemacorp, a fund managed by Atanas Bostandzhiev, who had until recently been a director in the third-largest shareholder of KTB with a share of almost 10% — VTB Capital, London.

The plan made no reference to Tsvetan Vassilev.

Despite the active exchange of extended correspondence and several meetings between the parties who wished to rescue the bank and government institutions, including the BNB, the Ministry of Finance and the government, no decision was reached. The regulatory body revoked KTB's licence and the Omanis attempted to protect their interests by filing a lawsuit in Bulgaria. After exhausting all available remedies to appeal the dismissal of their petition, the Fund filed a lawsuit with the International Centre for the Settlement of Investment Disputes in Washington for damages sustained as a result of the withdrawal of KTB's licence, breach of the principle of equal treatment of all investors, and depriving it of a possibility to defend its rights before a competent court of law. The lawsuit is still ongoing.¹¹⁴

The fact that the Omani Fund has officially announced its representatives and is currently pursuing a lawsuit before an international arbitration tribunal trying to protect its interests is sufficient proof of the Omani involvement as KTB shareholders. Why they did not display a more active interest in the management of the bank throughout the years or made an attempt to forestall the insolvency remains an open question.

¹¹⁴ As of September 2017 when the book was published.

A PROPERTY SCAM WITH A LITTLE HELP FROM THE TAX AUTHORITIES

One of the landmark property deals of the group of companies gravitating around KTB is the scam involving high-value properties in premium locations in Sofia on the National Revenue Agency's list of foreclosures. The story began with an attempted donation but ultimately ended with a sale by public tender several years later. In the meantime, it is a telling example of how key senior government officials, including the prime minister and the minister of finance, along with several government agencies, worked together to protect and further vested interests.

CURRYING FAVOUR WITH GIFTS

Toward the end of its term, the Stanishev government had somehow warmed up to Irena Krasteva, Delyan Peevski and KTB. After the sale of the Universiada Hall, situated on Shipchenski Prohod Boulevard in Sofia, without a tender in November 2008, the government decided it had further gifts to offer, which included three of the National Revenue Agency's most sought-after buildings in centre of the capital city and the unfinished building of the NRA on Tsarigradsko Shose Boulevard. The three buildings in downtown Sofia are situated on 6 Septemvri Street, across from the Ministry of Internal Affairs; 21 Aksakov Street behind the Radisson Blu Hotel; and the building on the corner of Vasil Levsky and Dondukov boulevards.

As early as 2008, Irena Krasteva, acting through the companies United Bulgarian Newspapers and the Rodina Print House, proposed a deal to Prime Minister Sergey Stanishev and then-Minister of Finance Plamen Oresharski, which involved the transfer of ownership of the existing plot and building of the head office of the NRA against an obligation to build a new administrative building. However, the Stanishev cabinet learned about the proposed deal only in

February 2009, when Plamen Oresharski submitted it for deliberation and quick approval by the Council of Ministers.

At the end of the term of the Three-Party Coalition government, the NDSV ministers in the Cabinet were somewhat reluctant to approve the decision, which was enthusiastically supported by the ministers from the quota of the Bulgarian Socialist party. After all, the proposal had come from Plamen Oresharski — one of the Cabinet members from the BSP quota.

“This is how history will remember us. Mark my words – no, no keep it in the transcript. Here’s our chance to gain notoriety,”¹¹⁵ Minister Daniel Valchev said according to the transcript from the Cabinet meeting in question. At the time he was minister of education from the NDSV quota. “How many years has Mr. Oresharski spent in this building? Why did no one think of doing something earlier, and now you are suddenly all in favour? How come?” he asked.

The proposal was rejected.

Only a week or two later, however, it was repackaged and re-submitted for approval by the Council of Ministers. This time, the proposal included all three buildings of the NRA, plus the unfinished shell, ownership of which was to be transferred to a joint-stock company, with the shares being split equally between the government and Irena Krasteva. The main argument put forth was that the investor already owned 74% of the land plot on which the shell stood and where the company’s print house was situated and was unwilling to voluntarily split the land plot with the government. In other words, the government had no choice but to jointly own the land plot with a private entity.

A small and seemingly insignificant detail is that several years earlier, in a case that was essentially the same, the investors had agreed to a division of the land plot on which the Ministry of Foreign Affairs is situated, to enable a group of companies with links to KTB to acquire the land plot under the Universiada Hall.

The proposal was again met with sharp criticism from NDSV ministers. Nikolay Vassilev (then minister of public administration) made a simple and much publicised calculation,¹¹⁶ which plainly

¹¹⁵ Transcript from the Cabinet Meeting on February 26, 2009.

¹¹⁶ “A Rough Estimate,” *Capital Weekly*, September 4, 2009.

showed that the government would lose money from the deal. “The biggest issue here is that you are doing this without conducting a tender and this is a crucial requirement for this deal,” added Nikolay Vassilev at the Cabinet meeting at the beginning of April 2009. “Everything we give a green light to without proper tender, especially if it involves real estate, means a huge problem and carries a risk of scandal so huge that it would be able to bring the entire government down. And what you’re proposing will achieve just that,” he concluded.

The decision was ultimately approved in April 2009. The government, with Plamen Oresharski in charge of making all necessary arrangements, agreed to make a gift to Irena Krasteva and her partners. So strong was the NDSV’s unwillingness to give a green light to the swap that a lawsuit was filed.

The NDSV MP Mincho Spasov and the Councillor Vladimir Karolev challenged¹¹⁷ the Cabinet decision before the Supreme Administrative Court. Tatyana Doncheva, then MP from the Sociality Party, was among a handful of MPs who did not turn a blind eye to the glaring conflict of interest: the government had made a deal with the mother of a deputy minister. It was even more astounding that the government agreed to allow the National Revenue Agency to become a tenant of a tax payer who was under investigation¹¹⁸ by the NRA at the time. At the time, Mitko Dimitrov, an Ataka MP, had triggered an NRA investigation into the origin of the Irena Krasteva’s money. The reason was that on 3 December 2008 Krasteva and her son Delyan Peevski had gained control over TV7 and Express AD through the New Bulgarian Media Group. In May 2009, the Supreme Prosecution Service cleared Irena Krasteva and suspended the investigation into the origin of her money.

In the meantime, a series of delays occurred, which – coupled with the parliamentary election, GERB’s victory and a new government taking office – meant even more complications. Simeon Dyankov was appointed Minister of Finance. Since the NRA operates under the jurisdiction of the MF, over the next few years Simeon

¹¹⁷ Olga Raeva, “The NDSV to Challenge the Deal for the Buildings of the NRA,” *Capital Weekly*, April 16, 2009.

¹¹⁸ Vesislava Antonova, “Irena Krasteva’s Money Is Clean,” *Capital Weekly*, May 22, 2009.

Dyankov would often raise barriers to the further expansion of the KTB group of companies.

Thus, in mid-July 2009 Irena Krasteva, in an open letter¹¹⁹ to Prime Minister Stanishev and the Minister of Finance Oresharski withdrew the proposed deal, arguing that it no longer made business sense. This would not be the end of the saga.

A DEAL IS STRUCK WITH GERB

As with many other projects launched during the term of the Three-Party Coalition government, this one was finalised during the term of the first Borisov government. In 2012, the GERB government did ultimately agree to the sale of the building on Tsarigradsko Shose Boulevard and the land plot beneath it to the group of companies gravitating around KTB. A tender with open bidding was conducted by the Privatisation Agency. The asking price¹²⁰ was BGN 20 million, plus a penalty in the same amount if construction works were not fully finished or if the existing buildings were not demolished within a period of one year. The selected buyer¹²¹ was the Rodina Print House, which was bankrolled by KTB. The buyer was represented by the lawyer Alexander Angelov.

In fact, the KTB group was the only candidate for the land plot. In 2012, the government had divided the land plot, separating it from that owned by Irena Krasteva (something which the Oresharski government refused to do, arguing the government should even set up a joint-stock company with Krasteva and Peevski). This meant that other potential buyers could in theory take part in the tender, though none did. The outcome of the tender is generally considered a foregone conclusion.

Irena Krasteva's company bought the remainder of the land plot, along with the unfinished building on it, for BGN 20 million, pre-

¹¹⁹ http://www.ktbfiles.com/wp-content/uploads/2016/09/Irena_Krasteva_pismo_sgradi_NAP.pdf

¹²⁰ Radostina Markova, "Buyer of Top Location Plot Known in Advance: A Company Linked to Irena Krasteva Was the Sole Buyer of the Plot and Shell of the Rodina Print House Building," *Capital Weekly*, June 18, 2012.

¹²¹ Radostina Markova, "A Sole Bidder Buys the Building of the Rodina Print House," *Capital Weekly*, June 25, 2012.

senting a bank guarantee for the same amount issued by KTB. The guarantee was required as security for fulfilment of the obligations vis-à-vis the building undertaken by the selected buyer.

A year later, the concrete shell was still standing on the plot situated along Sofia's busiest thoroughfare. Krasteva submitted a report to the NRA claiming that demolition works were in progress and that 52% of the building shell had already been demolished. It is nevertheless plain to see with the naked eye that except for the façade of the building and several structural components, all parts of the shell were still in place. Despite this, the Privatisation Agency acknowledged that half of the commitment undertaken in relation to the building had been fulfilled. The report of the Privatisation Agency for 2013 shows that it indeed received BGN 9.6 million in compensation from the new owner of the print house complex. This half-baked scam alone had cost the bank BGN 30 million.

POST-ELECTION CATHARTIC OUTPOURINGS IN THE PEEVSKI- CONTROLLED MEDIA

By the end of the term of the Three-Party Coalition government, the KTB group had concentrated a plethora of media and resources in its hands. The newspapers acquired with the bank's money were harnessed to serve the vested interest of their new owners, dealing blows to opponents and putting pressure on enemies. The extent to which they were used as an instrument to further the private interests of the respective publishers was plain to see in the period before and after the 2009 election, when the government led by Stanishev and the Three-Party Coalition handed power over to Boyko Borisov and GERB. The Krasteva/Peevski media group provided extensive coverage of the reshuffle on the political scene.

The spring of 2009 was a controversial period as far as Borisov's image was concerned. The highly expressive language of the then-mayor of Sofia had always been a magnet for the press, which described him as "a touch unrefined, but a determined politician who worked with vigor and knew how to get things done" and who "would not tolerate any monkey business."

In April 2009, Borisov set his sights on the executive branch of government, sending shockwaves through the political *status quo*. The national press also showed signs of confusion. On one hand, the influence of the informal leader of GERB was obvious – high ratings backed up by a high likelihood to win the election. At the time, fondness for the Sofia mayor was obvious in articles printed in *Standart*, *24 Hours* and, to an extent, *Trud* — the three dailies that were still far from Peevski's influence.

On the other hand, for newspapers such as the *Monitor*, *Telegraph*, *Express*, as well as the weekly *Politika*, published by Irena Krasteva and Delyan Peevski, Borisov was the devil incarnate.

Before the election, the trio never missed an opportunity to hurl abuse, insults and humiliating comparisons at Borisov.

A month after the European and the Parliamentary elections, they had a collective change of heart, becoming—literally overnight—the most devoted fans of the new Prime Minister Boyko Borisov.

NEW FRAMING STATEMENTS EMERGE

Only a handful of newspapers, such as *Dnevnik* and *Sega* reported objectively the weaknesses and deficiencies in Borisov's work as mayor of Sofia and openly criticized him. To wit, *Dnevnik* was concerned that the Metropolitan Municipality earmarked a significant amount of money for the development of yet another plan to reorganize traffic in Sofia. Again, without holding a tender... First, the municipality announced that a tender would take place for the award of a public procurement contract worth BGN 400,000. Consequently, the two candidates who participated were discarded, allegedly for failing to meet the stated requirements. A month later, the same two candidates were invited for direct negotiations (this time with no conditions) to be awarded a contract in the amount of BGN 2.3 million.

That same day, the *Telegraph* wrote that "The mayor is canvassing hospitals during working hours" and that "Boyko is counting his chickens before they have hatched": Three months before the parliamentary vote, (the outcome of which no politician or sociologist was inclined to predict) the formal chairman of GERB (Tsvetan Tsvetanov), showed up on bTV and announced that his "informal leader (Boyko Borisov) would be the future prime minister." Not to be outdone, *Monitor* wrote: "Hungry for power, Borisov's people, who for three years have been sniffing around the advantages that could be acquired from the state, were prematurely seeing the power in their hands! Everything seems like the sweet dream of a hungry chicken. Will this dream ever come true?"¹²²

¹²² "Power-hungry Tsetso Dreams of Being in Government," *Telegraph*, April 8, 2009.

Identical “framing statements” – words, phrases and statements in the texts and commentaries were typical for both newspapers. Whether the materials were written by the same person or the texts were taken from one paper and modified in the other was of no great importance.

The newspapers created a legend about the power-hungry Borisov, repeatedly describing him as “hungry” and “drooling” like a dog, “daydreaming” about power that was out of reach. The articles commented on his empty promises and on the mayor who had purportedly turned into a “clown.” The population of Sofia was making fun of him and he was seen as a psychologically unstable character who believed in non-existent conspiracies against him in the person of his opponents the BSP and DPS.

CRISIS IN WASTE COLLECTION

The first shots against the Sofia mayor were fired in March 2009, when the municipality removed the concessionaire for waste collection — at that time Novera (after the company refused to meet its obligations) – and signed new contracts with Titan Chistota Sofia. Irena Krasteva’s newspapers cleverly used the temporary crisis with waste collection as a pretext to campaign against Borisov. One of the front-page headlines of *Politika Weekly* from 6 March 2009 shouted: “God Keep Sofia Safe from the Mayor” (copied from the website afera.bg), with the caption showing Borisov playing football against a backdrop of waste containers and homeless dogs. In the editor’s comments, Borisov was described as a pitiful politician and unrivalled in making empty promises. The theme continued in a few consecutive issues with titles accompanied by cartoons showing Borisov on top of mountains of waste.

The government also took advantage of the situation: in April, Prime Minister Stanishev and the cabinet proposed declaring a waste collection crisis and invoking the Law for Crisis Management, which in reality took away some of the functions of the mayor, giving the state the right to decide who would clean the capital. Borisov was furious, leading to a brutal war between the two sides.

MAFIA TIES

In addition to waste collection, the media was actively fighting on another pre-electoral front established by the BSP against the Sofia mayor – his obscure relations with the Serbian mobster Sreten Jocić. The grounds were testimonies by “the Balkan cocaine King” before the Belgrade court, that while in Bulgaria he received protection from the former executive secretary of the Ministry of Internal Affairs – Boyko Borisov. The BSP immediately expressed its “extreme concern.” In a deliberate announcement to the media, the socialists insisted that the relevant Bulgarian authorities execute an in-depth investigation into Jocić’s testimonials.

After Hristo Biserov (who headed the special investigation committee) told journalists, that Borisov had been summoned to give evidence against Jocić during court case in Belgrade, this news was published as a final true statement on 24 April 2009 by *Monitor*: “Boyko Summoned for the Jocić Case,” while *24 Hours* wrote: It is said that Borisov has been summoned to Belgrade as a witness against Jocić.

BOYKO WHO?

The following month Boyko continued to be a central figure in the daily newspapers for one thing or another. Irena Krasteva’s group was tireless in seeking new dirt on Borisov. *Telegraph* was especially active. The paper made use of any occasion it could find to discredit the mayor. In a publication titled “The Mayor-Turned-Clown,” (May 9, 2009), it wrote: “The ubiquitous Boyko Borisov is turning into a laughingstock. The mayor used the inauguration of the new underground segment to Mladost as a tribune for his pre-election campaign. The populism that emerged from his final effort to convince people that he is a victim of his cruel competition... The population of Sofia does not fall for this anymore and refuses to believe the myth that the mayor’s failures are a result of the intentional sabotage by the cabinet.”

The publication predicted “electoral shipwreck for GERB” and continued to state that this would be for the greater good, because state power in the hands of Borisov would be equivalent to a “grenade without a safety pin.”

THE PERPETUAL GRIND OF THE PR MACHINE

At the end of May, before the upcoming elections, Borisov began a series of interviews. It is difficult to know whether they were paid or not, bearing in mind that Bulgarian media is not in the practice of announcing this fact. The interviews were conducted by media that were not in the circle of the Peevski group.

Standart published two extensive interviews with the mayor on two consecutive days (25 and 26 May 2009): “Borisov: Stanishev Is Setting Traps for Me,” and “Boyko Borisov, Mayor of Sofia: Stanishev Is Delaying the Waste-Processing Factory.” The interviews were conducted at Borisov’s home in Bankya personally by the editor-in-chief of the paper, Slavka Bozukova.

Irena Krasteva’s press group used all means of expression to show the nation what to expect if the people voted for GERB. The power-hungry Boyko Borisov, drooling like a dog before a meat shop, since for several years now he has had his eye on the premier-ship, and has even allowed himself to virtually distribute the billions expected from the EU. Obviously, the informal leader of GERB had fallen under the spell of hallucinations where he saw himself leader of the state.¹²³

The elections for European Parliament brought GERB success. Borisov’s party sent five deputies to Strasburg, compared to the BSP’s four, the DPS’s three, and Ataka’s two, as well as one each from the Blue Coalition, NDSV and LIDER – *Novoto vreme*.

Telegraph refused to acknowledge Borisov’s advantage: “The Triple Coalition beat GERB and the Blues, calculating a ratio of eight to seven Euro deputy seats in favour of the governing cabinet.” *Politika* wrote: “The Coalition beat GERB and the Blues by 9:6.”

Surprisingly, *Monitor* did not share these calculations. “Mixed Vote for the European Parliament,” the paper wrote. The article is short and informative.

This was the first sign that something was about to give.

During the period between the European Parliament vote and the Bulgarian parliamentary elections, Irena Krasteva’s empire remained almost completely silent. Suddenly, all publications concerning Borisov ceased.

¹²³ “A Wave of Pre-Election Populism,” *Monitor*, June 1, 2009.

BORISOV FOR PRIME MINISTER AND THE ELECTION

Only a few media kept their neutrality on the day after the elections. The rest were simply ecstatic: *Trud* carried the headline “Easy Win for the General: Boyko Vanquished the Reds,” *24 Hours*: “GERB Wins Landslide Victory,” *Standart*: “Big Boy(ko),” *Politika*: “The Changing of the Guard.”

A torrent of exulted words and praise cascaded from *Standart*, *24 Hours* and *Trud*. The conduct of the *Monitor*, *Telegraph* and *Politika* was also interesting after the first few days following the elections. They were not yet serving the interests of the new government, but their tone had changed.

The materials were not judgmental. Borisov was not the main character in the commentaries anymore. The language was perceptibly different. The future prime minister was now referred to as the “leader of GERB” and the mayor, as opposed to the derisive *Gerber* (daisy) and *Tikva* (pumpkin). The framing statements had also vanished without trace.

Krasteva’s newspapers relied exclusively on a handful of short, informative articles with no hint of criticism. A new enemy appeared: “Boyko Ignores the Blue Coalition for Now,” *Monitor* wrote two days after the vote. *Politika* on the other hand adopted a bolder tone: “The Commander’s Desires. For a Crumb of Power, Kostov [leader of Blue Coalition] Will Lick the Boots He Once Spit on.” (The Blue Coalition is a center-right political alliance perceived as an opponent of the political *status quo* at that time)

Krasteva’s press group seemed to breathe a sigh of relief after the coalition agreement was not signed and the Blue Coalition was officially left out of the executive power. From this point on, all obstacles were removed, and the press group synchronized its tone with that of most of the other media.

At the end of July – after three weeks of almost total inactivity, *Monitor* and *Telegraph* were activated and headlines about GERB and Borisov began pouring out as if from a conveyor-belt: “The Prime Minister from Varna: Seafront Land Swaps More Scandalous Than the Forest Plots,” “Borisov Writes to Obama about Bulgaria’s Challenges,” “Nikolay Barekov: Borisov Has His Own Party of Sycophants at the National Assembly,” “The Treasury Empty, Borisov Summons Stanishev,” “Proven Professionals To Clean Up the Aege-

an Stables,” “Boyko Building Varna’s Ring Road,” “Boyko Rang the First Bell.”

Capital Weekly noted that even the caricatures were different in a comment on how the wind had changed: “The new editorial policy of *Monitor* and *Telegraph* has even affected their caricatures, whose main character until recently was Boyko Borisov. The last caricature of Borisov dates to July 7, i.e. two days after the elections. Since then, the newspaper has avoided any arguments with the premier and leader of GERB. The new favorite characters of the newspaper are Ivan Kostov and Martin Dimitrov, who are constantly satirized for the expulsion of the Blue Coalition from the government. “*Monitor*” managed to make this U-turn with a three-day delay. The last caricature of Boyko Borisov was published on July 10, which perhaps was caused by the accumulated inertia from the pre-election campaign,” (*Capital Weekly*, August 7, 2009).

The prime minister had obviously forgiven his “former” enemy in the person of Irena Krasteva’s press group, because he gave his first interview for the *Telegraph* on 21 August 2009, which was entitled: “Let Stanishev Try for the Sofia Mayor Post.”

The Peevski/Krasteva press group underwent a catharsis in less than two months. The publications were the number one supporters of Borisov’s party in the mayor elections, backing up the GERB candidate Yordanka Fandakova. The nefarious model of the media as service personnel and peddler of interests and influence triumphed once again. And the pancake was flipped one more time.

Rumor has it that in July 2009, soon after the elections, the new prime minister held a meeting with Tsvetan Vassilev. There was no official proof of this meeting. We found out about this meeting from some of our sources involved in the events at that time. The conversation circled around the fact that the bilateral attacks had to stop and instead it was in the interest of both sides to unite and work together during the next few years of GERB’s government.

Perhaps at the meeting Borisov promised to keep his hands off the bank and asked for something in exchange?

During an unofficial conversation at that time Vassilev mentioned: “I am a businessman. Borisov is a businessman. We talked about business.”

This was the birth of a new epoch in KTB's development. The bank had protection from the highest level and paid a high price for this. KTBfiles has made numerous attempts to obtain the official point of view of the main participants in the events mentioned here, but our invitations for conversation/expression of opinion were diverted or passed over in silence.

4.

KTB AND THE GERB GOVERNMENT

KTB imposed total control during the GERB mandate. In violation of the banking laws, it extended credit to connected individuals (i.e. to itself) and acquired company after company. Its assets increased several times over. The supervising institutions, whether by turning a blind eye (BNB) or by active support (CPC), aided in the development of the model. Companies connected to Peevski and credited by KTB began to actively participate in public tenders, crushing any competition. In an interview for KTBfiles, Vassilev stated that there were enough commissions for everyone, including those in the highest ranks. The group managed to spread its influence over the judicial system – the courts and prosecution at a national and regional level. Thanks to this, the tandem had the instruments to apply pressure on the competition through various channels (the acquisition of 24 Hours and Trud; Rubin and others).

This was the big picture: Boyko Borisov's government allowed the state to be captured in the literal and figurative sense of the phrase.

Some key events occurred during the first mandate of GERB. In a midst of a serious economic and financial crisis, one private structure utilized the financial and political support of the state and became the main buyer on the market, while all others were the sellers. The series of asset acquisitions that were made exceeded the country's GDP by 15% at one point. At that time the group owned Bulgartabac, BTC, Technomarket, the Ruse shipbuilding company, Rubin, a glass factory in Serbia, Gips, Dunarit and many other companies, real estate and assets. All this was acquired with credit funds from KTB, in violation of the banking regulation that credit exposure towards one client or subjects connected with him not exceed 25% of the capital of the financing institution. As a result, the bank's capital tripled¹²⁴ and from BGN 2 billion its assets grew to BGN 6 billion.

¹²⁴ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Depoziti-v-KTB-2010-2012.pdf>

ASSET HOARDING

DURING THIS PERIOD THE BANK ACQUIRED ITS MOST IMPORTANT COMPANIES

KTB empire was built piece by piece while three separate governments were in office. The beginning was during the Three-Party Coalition government (2005–2009), the culmination –during the first Borisov cabinet (2009–2013) and during the short, but dramatic-filled Oresharski cabinet (2013–2014), the group splintered and showed its true essence.

During the course of 15 years under the control of KTB and its main shareholder Tsvetan Vassilev and in partnership with the MP from DPS Delyan Peevski and his mother Irena Krasteva, the group managed to create a conglomerate that controlled assets¹²⁵ of over BGN 12 billion during its peak. This was the equivalent of one third of the Bulgarian economy at the time when the bank closed its doors in the summer of 2014.

FIRST WOBBLY STEPS

KTB made its first wobbly, but decisive steps in asset hoarding during the Stanishev cabinet. Most of the acquisitions at that time were in the sphere of the military industry, various production plants and especially in the area of media and communications. At that time the bank was already enjoying the political comfort, which had begun accumulating in the first years after its privatization.

One of the first key acquisitions made by Tsvetan Vassilev through KTB in 2005 was the Dunarit weapon production plant. Dival 59 EOOD,¹²⁶ directly connected with Vassilev, bought the plant

¹²⁵ <https://drive.google.com/file/d/0B9Y6sbedirJ5VjBnZTd6Q0twYkk/view>

¹²⁶ <http://www.ktbfiles.com/ktb-top100/dival-59-eood>

from the Privatization Agency for BGN 2 million. Dival59 EOOD was among the largest companies to borrow from KTB, with exposure of approximately BGN 50 million at the time the bank closed. The company was one of the bank's instruments for "directing" funds towards certain companies connected with KTB.

In 2015, Dunarit was one of the companies Tsvetan Vassilev was attempting to "save" via an ambiguous deal with a fictitious individual Pierre Louvrier and the company LIC33.

In the middle of 2016, Dunarit was one of few companies still under Vassilev's control and was part of the battle for asset distribution that began after the bank's failure in 2014. One company, Dunarit's direct competitor Emko, wanted to acquire control by increasing the capital by BGN 60 million. In 2016, after CPC delayed the deal for approximately half a year, the merger received a green light in August 2016. At the same time the pledge creditor Viafot Investment Bulgaria (controlled by Delyan Peevski) claimed there was a pledge over Dunarit's assets and attempted to prevent the change of ownership through the Commercial Register.

Dunarit is a typical example of the so-called KTB special purpose vehicles for investments in attractive assets. When asked about such deals, Tsvetan Vassilev explained that acquisitions like this one were an investment for the bank. In reality, the bank was not the owner, but companies controlled by Vassilev. The movement of funds looked like this: the bank's clients would leave their money as deposits in the bank, which then were used to extend credit to companies connected to Tsvetan Vassilev.

From a legal point of view, this was a serious violation, because a given financial institution cannot have exposure to one party or connected parties amounting to more than 25% of its capital. In the case of KTB, this limitation was exceeded 20 times over at the time of its failure. This fact has become clear from information concerning the connectedness between the borrowing companies included in the report¹²⁷ of the parliamentary enquiry committee investigating KTB case. For years, the regulator, namely BNB, has not reacted to this fact.

¹²⁷ http://www.ktbfiles.com/wp-content/uploads/2016/01/553-67-1_Doklad_Vremenna_anketna_komisija_za_KTB_s_prilojenia_i_PR_za_priemane-I-chast-Doklad-i-PR.pdf?x21734

In 2005, using the same scheme and a loan from KTB, Dunarit privatised Gips AD – a plant for the extraction and production of plaster in the village of Koshava near Vidin.

The key deals during the Stanishev cabinet were in the sphere of media¹²⁸ and communications. The acquisition of newspapers began in 2007. One by one Petyo Blaskov's editions were acquired: *Monitor*, *Telegraph* and *Politika*, ending with *Trud* and *24 Hours* in 2012. In 2008 and 2009, the package included more newspapers such as the *Express* and *Weekend*, among others; key distribution companies; as well as the TV channels TV7 and Balkan Bulgarian Television. With active support from the public regulator during the Stanishev government, the KTB group got its hands on all TV and radio broadcasting antennas in Bulgaria through the acquisition of NURTS and were handed radio and TV broadcasting digitalisation on a silver platter.

At the end of the Stanishev government's term, KTB was already bankrolling assets worth more than BGN 600 million, which were controlled by the Vassilev-Krasteva-Peevski trio.

ONWARDS AND UPWARDS — THE GOLDEN YEARS

However, real growth came during the first government led by Boyko Borisov, when KTB and the parties that it bankrolled gained control of assets worth billions in different sectors of the economy: telecommunications, trade in fuel and equipment, car manufacturing (minority share), real estate and, naturally, the production of and trade in cigarettes and tobacco products.

The biggest deal struck during the period was the acquisition of the Bulgarian Telecommunications Company (BTC), which was experiencing problems and was unable to service its debt. However, if the role of the government in the telecom acquisition can be described as secondary, in many others it was the key broker and enabler.

The most flagrant example was the privatisation of Bulgartabac Holding — a hushed (and rushed) affair. After a Herculean political

¹²⁸ See „Government Reserve for Private Use“, p. 87.

battle to prevent the privatisation of the company¹²⁹ that went back a decade, the newly elected government pushed ahead with the privatisation, selling the holding for BGN 100 million to a recently established company without any history. Likewise, there was no clarity as to the real owner concealed behind the nominal owner VTB Invest.

To date, the privatisation of Bulgartabac continues to raise important questions, particularly after Tsvetan Vassilev's interview for the KTBfiles in which he openly talks about politicians receiving shares in the ownership of the company as a thank-you for having given the green light for privatisation.

It is perhaps most striking that that the ad hoc parliamentary committee (during the second Borisov government), allegedly tasked with investigating KTB failure and the disappearance of its depositors' funds, did not—not even once—mention the money that Bulgartabac had received from KTB. The same applies to Tabac Market (the notorious Lafka chain of newspaper and tobacco kiosks), which gained momentum and notoriety overnight.

Before Tsvetan Vassilev and Delyan Peevski had their falling out, KTB was the main financial institution backing Bulgartabac after the privatisation. According to the reports of the tobacco company, nearly 100% of the holding's bank guarantees were issued by the bank. Tabac Market was also on the list of KTB's borrowers. The Lafka chain, which is owned by Tabac Market, developed and expanded its business so rapidly across Bulgaria thanks to the GERB-majority local councils, which voted consistently to enable this expansion.

It was during Borisov's government that KTB laid its hands on Petrol and Technomarket — both cases being textbook examples of supplying significant amounts of cash to clear the huge debts the companies had run up in exchange for full ownership.

NO COMPETITION

Shortly before the first Borisov government was disbanded, the KTB group was so gargantuan that the assets it controlled exceeded 10% of Bulgaria's GDP — more than BGN 10 billion at the time.

¹²⁹ See „Key Deals – Bulgartabac“, p. 175.

It continued to grow during the Oresharski government that next came to power, rumoured to have been single-handedly selected by Peevski.

In the summer of 2013, Parliament voted to appoint the DPS MP Delyan Peevski head of the State Agency for National Security (DANS). The news spread like wildfire on social media and in the evening thousands of people flooded the streets of central Sofia. People were shocked and demanded that the government resign immediately. The protestors sought both the withdrawal of the newly elected head of the National Security Agency and the resignation of the entire government led by Plamen Oresharski. Shortly after, Peevski stepped down and a ruling of the Constitutional Court reinstated him as Member of Parliament. This occasioned a dedicated statement in which Peevski thanked the Constitutional Court for the ruling, stating that his name had been subjected to vilification and he was being depicted as the devil incarnate. It is this statement that contains the boastful admission that would later gain notoriety: "I am 33 years old and, yes, I have made it big."

Peevski had to give up on his ambition to become head of the DANS, but protests did not subside. With varying degrees of intensity, they lasted more than a year. Peevski mobilized civil energy, which has set in motion important processes in Bulgarian society in recent years.

Peevski's nomination as the head of the DANS clearly demonstrates that the government had lost touch with reality. At the time, Vassilev made an attempt to create another political party (Nikolay Barekov's Bulgaria Without Censorship) in order to sever his link to and eliminate his dependence on politicians.

This political scenario had a clear purpose in sight — influence had to be cashed in on, so as to generate a fresh supply of money. It is hardly a coincidence that at the time a major share of public procurement contracts was awarded to companies controlled by Peevski and bankrolled by KTB. For example, the group was gaining momentum in infrastructure projects through the company Integrated Road Systems and Vodstroy 98. Preparatory work was underway to ensure that the company would become a major contractor in the construction of the Bulgarian section of the South Stream pipeline. However, the duo was showing signs of strain and the DPS MP Delyan Peevski was clearly gaining the upper hand in business.

Thus, within the span of three governments, KTB grew into a political Frankenstein — larger and more efficient than Multi-group — the monster of the 1990s. Below, we explore two of KTB's key deals — the acquisitions of the BTC and Bulgartabac. The first company was the crown asset in the portfolio of the bank's empire and the second remains a symbol of underhanded dealing and strings being pulled behind the scene—a story that has not been fully unravelled to date.

Before this, however, it would be interesting to look at how the projects in question were bankrolled.

A PATCHWORK PYRAMID

OR HOW KTB FUNDED THE ACQUISITION OF ITS ASSETS

Following the closure of KTB, the bank and its management were awarded plenty of epithets. According to the parliamentary commission investigating the case a pyramid was involved, while according to the prosecutor's office it was a case of an organized criminal group. In general, for all those involved whether by action or by omission (politicians, regulators, investigators) it is advantageous to lay the blame on its majority owner Tsvetan Vassilev alone. Therefore, not without the help of the media, an idea was elaborated of a perfectly structured scheme through which he had been embezzling from KTB. A careful reading of the publicly announced reports of AlixPartners¹³⁰ and KPKONPI (Commission for Combating Corruption and the Seizure of Illegally Acquired Property)¹³³, however, paints a slightly different picture

The documents contain data about flows to personal accounts, transfers for home purchases and furnishing and cash withdrawals; however, on a massive scale the transactions described were mostly extended loans and cash transfers to help maintain a chaotic corporate empire where the decisions on how to fund all kinds of purchases were made on the fly and case-by-case. Loans were made to Company X, yet the money went for covering the debts of Companies Y and Z, etc. In this way the bank was apparently attempting to conceal violations of the law when extending credit to one and the same entity or affiliated parties.¹³¹

Given the rapid growth of KTB and the desire to make the most out of the incoming resource from deposits raised at considerable cost, everything happened quite chaotically, rather than following

¹³⁰ http://www.ktbfiles.com/wp-content/uploads/2016/05/AlixPartners_Final_Report_KTB_Receivers-of-KTB-BG.pdf?x21734

¹³¹ Dimitar Peev. The Peevski-Vasilev Divorce. // *Capital*, June 13 2014 r.

a structured concept. The goal was to overcome the formal legal restrictions on large credit exposures to connected parties.

Through companies used for a single project, funds flowed to cover financial black holes, such as the TV7 television channel. That purpose was served by already established companies¹³² or quickly incorporated ones, without any special care taken to hide their relationship to KTB.

In many of the companies, the same names of expert-level bank employees (credit inspectors, legal counsels, etc.) or personnel – security guards, drivers, secretaries and accountants – appear. Often in such companies the listed managers and/or owners are relatives brought in by some of the trustees ranking higher in the hierarchy, such as the already mentioned Biser Lazov. The companies’ address registration listregistrations either KTB or Bromak offices, or the personal addresses of the “managers.”

That speed was a major concern is also evident from the lack of documentation in many of the credit files, as cash flows seemingly went in the necessary direction while the documentation was elaborated after the fact.

According to information available to the KTBfiles, additional cash loans were made to borrowers with no annexes made to the agreements – something that a credit inspector in a normally functioning bank would hardly authorize vis-à-vis third-party customers of the bank. Moreover, large loans would normally have to be approved by the credit committee and be countersigned by two executive directors. This conclusively shows that the transactions were approved on...

ORDERS FROM THE TOP AND THEIR CREATIVE EXECUTION

During the years of the most rapid growth, Tsvetan Vassilev was not part of the operational management of KTB and acted as a chairman of the Supervisory Board. There is hardly anyone, however, who would believe that his actual role corresponded to his formal

¹³² Nikolay Stoyanov, “KTB State,” *Capital*, March 29, 2013. http://www.capital.bg/politika_i_ikonomika/bulgaria/2013/03/29/2032173_durjavata_ktb [01.08.2017]

one. According to our sources, KTB's large loans to affiliated parties were practically made with his endorsement alone. The prosecutor's office probably has a lot of evidence in this regard after its entry into the bank – emails to and between employees. A hint in this direction is contained in the report of AlixPartners, which described the correspondence of Elka Stoykova, a senior expert in the credit department. It also throws light on the way how, almost in a chat form, decisions about millions were made. According to the emailed report dated 12 July 2013 from Stoykova to Georgi Madzharov, director of Glass Industry,¹³³ it becomes evident that the portion of the loan absorbed at the time was “before the bank received the necessary documentation for the credit file.” Concerning the next loan from the bank on 24 January 2014, Stoykova wrote to Madzharov that KTB was not going to lend the additionally requested EUR 13 million for financing of the factory. However, about a month later the related company Balkan Glass¹³⁷¹³⁴ was approved for an increase of EUR 8 million on the initial loan. Afterwards, on 4 March 2014, she wrote to her colleagues at KTB (Georgi Zyapkov, Elena Indzheva and the Executive Director Aleksander Panteleev) about a payment of EUR 4 million “without reporting to Mr. Vasilev.”

The report also quotes what she said: “we must increase the fabricated investment loan to Balkan Glass for the amount of EUR 30 million every month to make up for the endless deficit at the Serbian glass factory. The sales there are catastrophic.” AlixPartners have also found that despite the rising suspicions of the credit team in relation to that email, KTB continued to let Balkan Glass to draw down that loan. And although the bank was aware of the connections between those borrowers, the exposures were declared to the Bulgarian National Bank as separate.

Those familiar with the functioning of the model explain the orders from the top were usually schematic, of the type “X BGN million to be granted here.” People inside the bank itself decided on how to carry this out. To a large extent such was the role of Tsvetan Vassilev's crony Biser Lazov, who after the closure of KTB became a

¹³³ Glass Industry is the company through which a Serbian glass factory was purchased.

¹³⁴ Established in 2013 and the obtained loan is related to a Serbian glass factory.

witness against him, while according to the banker's accusations he was acting in favor of Delyan Peevski even before that. His job was namely the operational structuring of such transactions and the finding of people and companies to act as dummy owners. Therefore Lazov was much closer to the managers of many such companies than Vassilev and succeeded in winning them over.

As early as July 2014 some of them came out with a statement admitting that they had acted as dummies and disassociating themselves from the banker's actions. Among the signatories who claim that the network covered about 200 people in over 120 companies with loans for over BGN 3.5 billion are the names of Lazov himself and key directors such as Ivan Stoykov (Bromak and others), Teodora Taneva (TC-IME and others), and Lyudmila Petrova (Ken Trade and others).

SOME FOLKS, SOME ADDRESSES

Their version is that many of them, along with the formal job duties they were paid for, were forced to also act as nominal directors and owners. Whether there was any extra compensation is not clear. Some of them were surely aware of what they were signing, others perhaps not.

Most probably the prosecutor's office made use of that and attempted to obtain evidence by way of interrogation. The state prosecution could also easily track the kinship ties of spouses, parents and other relatives brought in as managers. This was additionally used to reaffirm the argument for embezzling – loans made on the principle of cronyism. Unlike the typical “credit millionaires” of the 1990s, most of the money here, instead of going to unclear recipients, was allocated to other companies within the structure and used for acquisition of assets, for closing the current gaps in the corporate structure, for increasing the capital of KTB itself... In other words, the dummy scheme was mostly used for circumvention of the legal prohibitions for crediting related parties, but also for keeping the money within the composition of bank and its companies – i.e. this is not about the direct looting of depositors.

It is exactly what Tsvetan Vassilev claims in an interview for the KTBfiles. For him all those companies were practically under KTB's

control, hence it was carrying out investment banking – something he does not find problematic. Even if we put aside the circumvention of the restriction for large exposures to related parties, problems still exist. When you make loans to yourself, you are not as strict in terms of collaterals and you are in a blatant conflict of interests. The scattering of the dummies to different camps and the misappropriations after the closure of KTB clearly show how millions given away without control can disappear. If we are to believe Vassilev, this structure was manageable and was not intended for the purposes of misuse. His argument and also the events around the closure of KTB indicate that it was brought down for a purpose. But if we imagine that the bank had not been attacked and declared bankrupt, in theory nothing could prevent the creator of that configuration of loans and companies from making use of the collected funds and issued loans and from disappearing. This is exactly the main reason for the legal separation of commercial and investment banking, and also for the evident problem with multimillion loans made to companies with dummy managers.

And they were seemingly not a few. Before the collapse of KTB, according to the documents Nikolay Sotirov was the owner of the company holding over one-third of the Great Wall motor plant – Litex Motors. According to KTBfiles” information, during the summer of 2014 Sotirov was simply found by representatives of Grisha Ganchev and was convinced to transfer ownership of the company, whose business he had no idea about. Sotirov was working as a driver and among the virtues justifying the vesting of such business in him was apparently the fact that he is the brother of Diana Dimitrova – the personal secretary of Vassilev at KTB. She, in turn, appears on the board of another large and already bankrupt borrower – Real Estate Projects.

Sotirov is also the husband of Roxana Atanasova (later Sotirova), a trusted employee at Vassilev’s offices. She is so trusted that she is the managing director of the family air carrier Sunlight Air, where she is on the board with Vassilev’s wife Antoaneta and his daughter Radosveta. Roxana’s father Svetozar Atanasov was also included in the family business as the managing director of Eltower – a company that was left with a BGN 14 million loan to KTB and put into receivership by the NRA. Presently the air carrier is managed by Georgi Zapryanov Georgiev, who has worked in different

time periods as a security guard in the companies and as a personal butler in the Vassilevs' family home. At the young age of 26, his son Yasen became the managing director of Consult AB, where the former managing director and owner was Antoaneta Vassileva.

Direct connections to KTB are also not missing – for example, the above-mentioned Elka Stoykova who was in correspondence with the director of Glass Industry, was in 2011 on the board of the same company of which she was a credit inspector and was then replaced by her colleague Elena Indzheva, with whom she discussed the problems of the glass factory. Stoykova is also a director at Holding Coop South, whose subsidiary Coop Investment had about BGN 50 million in debts to KTB at the time of its closure. Her husband Lyuben Stoykov was in the management of another large borrower – Veles Group, with loans of over BGN 70 million.

Similarly, various employees in the credit and legal department of KTB held directorships in borrower companies. There is also a large group of security guards holding the office of directors: Victoria Ivanova (Technotel Invest, Synectics), Kostadin Karakostov (Correct Pharm), Aleksander Radev (Ares Com), Nikolay Nikolov (Nikcommerce 01), Krasimir Zarev (Julita 2002), and many of them have also brought in relatives.

This is also valid for the closer circle of trusted employees, such as Julia Ilieva (whose mother and sister also turn up as directors), the lawyer Martin Apostolov (whose wife appears in a company), the former legal counsel of KTB Bozhidar Miladinov (who brought in not only his wife but also his mother-in-law and at least a few relatives and close acquaintances). Many of them, such as Teodora Taneva and Lyudmila Petrova, provided their own addresses or those of relatives for company registrations.

SPEED FIRST, QUALITY SECOND

All this provides rather clear indications of the causes that led to the entanglement of the mesh of companies around KTB. It is evident that a logical structure was never intended; however, the facts also imply that a pure theft was not the goal either. Instead, the key factor in the creation of that tangle of companies was impatience.

In the most robust periods of KTB's growth KTB (2012 – 2014), its balance was increasing monthly by approximately BGN 100 million. Furthermore, at that time the tangle was already so complex that it required constant attention – in normal banks every borrower sees to and takes care to repay their installments on time, whereas with KTB's centralized arrangement careful attention must be paid so that a company that has simply taken some money and transferred it forward does not fall into arrears. So gradually the operations became increasingly muddled and illogical – a company takes a loan from KTB which (usually on contractual grounds) is disseminated to other borrowers who use it to discharge their liabilities on interest or to principals. When the time came for the repayment of the initial loan, that company in turn received an injection from another one. There is multiple evidence of this in the report of AlixPartners. The missing annexes are also a sign that KTB's management was facing serious difficulties coping with such chaos and that they were constantly making spur-of-the-moment "patches." According to data in the possession of the KTBfiles, along with the other gaps in the credit files, additionally drawn amounts have been found for at least eight companies above the limits under the previously concluded loan agreements, without the execution of any annexes.

In total, this amounts to approximately BGN 50 million in loans which KTB granted without any documentary evidence. These mostly date back to 2014 and the end of 2013 which suggests that there were probably other similar cases over the years (and the documentation was subsequently sorted out); however, due to the collapse of KTB these were left unsorted. The common element between them is that the drawdown requests were accounted for no later than on the same day, which implies that they were not actually reviewed by credit inspectors or risk management. In practice, all of them bear the direct endorsement of the head of the Credit Division Georgi Zyapkov, who is also one of the defendants in the case against Tsvetan Vassilev.

The tracking of the money in the report shows that in the majority of cases, the funds were used for servicing loans to Vassilev or related borrowers of KTB, as well as for cash withdrawals. Transfers were often made to some of the chronic corporate "black holes," such as TV7. An example: the company Territorial Cadaster, which

was not functioning in practice, has drawn down additional funds for a total of EUR 13.6 million four times (starting from June 2013) after the conclusion of the agreement with no evidence of annexes. It is simply that, when necessary, the company received money directed to it from another source. Similarly, although with only a single transaction each, there are two other related companies: Sliven Territorial Cadaster and Stara Zagora Territorial Cadaster.

There is another indication that many of the actions of the people at the bank are the result of chaos and lack of control. The initial accusation against Tsvetan Vassilev is that before KTB was closed, he made cash withdrawals for his own use and took them out of the bank. Then it became known that no such withdrawal had actually taken place. Instead, documents with fraudulent content had been prepared to hide the missing cash and that the shortage had accumulated over time since 2011 until the arrival of the receivers.

Most likely various informal expenditures (such as financing the political project Bulgaria Without Censorship of Nikolay Barekov and the satisfaction of “requests,” which Vassilev has admitted to) secured by money from the bank opened up “holes” in the bank’s accounting which then had to be “cleaned up” with documentation. According to KTBfiles” data, in the final days of 2011 – at least according to documents – cash withdrawals amounting to over BGN 150 million were made through multiple companies.

We are unlikely to ever find out the truth about the management of KTB. Tsvetan Vassilev’s argument (a well-managed bank which was brought down) has not withstood the factual check. The scenario of a blatant embezzling maintained by Vassilev’s former partner and current major foe Delyan Peevski is also not supported. Much of the money was wasted for ridiculous projects and used for personal benefit; however, everything that has come out until now about the case fails to convince us that this was a serious attempt to divert massive cash flows into personal accounts and cover up the affair. On the contrary, the schemes and connections seem all too clear, offensively simple. This rather speaks of arrogance and the feeling of being completely untouchable by regulators and authorities, and not of preparations by someone planning to run off with the money.

VASSILEV'S INTERPRETATION OF EVENTS

Tsvetan Vassilev does not agree with the argument that the bank's growth was at the expense of and thanks to the state, nor does he agree that KTB was managed in violation of the law. This is what he says in an interview for the KTBfiles: "The first Borisov's government coincided with the period of crisis that seized the markets. We were following a different strategy and instead of restricting our operations, we extended them following the ancient Chinese proverb: "When storm is coming build windmills, not walls." This is the main reason for the progress of KTB, and not the proclaimed interpretation that, you see, Borisov's government was pumping state money into the bank. This is an absolute lie. Simeon Dyankov is a ruthless liar with his claims that he didn't want to take the money out because KTB would go bankrupt. This is not true at all. The bank operated with the current accounts of several energy companies and two or three transport companies which had deposits. Those were not so large and did not exceed some 10 percent of the total funds raised. This whole fraudulent argument was discredited, but unfortunately after the closure of KTB.

"... Many opportunities emerged on the market at the time as a result both of the crisis and the withdrawal of foreign banks. It has always been our philosophy to act as a merchant and investment bank, that is, to seek project financing and look for challenges, and in times of crisis there are plenty of those. Thus, during the crisis we acquired companies which wouldn't otherwise have survived. These are Rubin Pleven, the plant in Paraćin and the shipyard in Ruse. Petrol survived thanks to us. We also had targeted acquisitions, such as Vivacom. I thought that was a good deal which would generate profit. Although Peevski's media wrote: "See, Vassilev participated in the privatization of Bulgartabac to earn money. What a shame!" As if it is not shameful to participate undercover, to be unable to show your face, like him and the other beneficiaries. Well, I did it exactly for that purpose – for the sake of earning money. It is known that my practice was to return the profit made by the so-called dummies created by Peevski's puppet Biser Lazov to the bank. This was what I intended. So it is not surprising that we expanded so much."

However, that same statement confirms one of the gravest problems in the management policy of KTB – the deliberate non-compli-

ance with the primary provisions in the *Credit Institutions Act* that Bulgarian banks may not form an exposure to a certain group of entities in excess of 25% of their equity. This restriction is intended to avoid risk concentration. For KTB before its closure, the figure not to be exceeded was officially below EUR 100 million while, in reality, this limit was exceeded many times over in gross violation of the laws, with a lack of reaction on behalf of regulatory authorities. However, it is a fact that this is not what triggered the collapse of the bank. The bankruptcy was due to a purposeful attack. But the reason was the concentration of assets over which a war had begun.

KEY DEALS — THE BULGARIAN TELECOMMUNICATIONS COMPANY (BTC)

If one investment were to be singled out as the pearl in the crown and the pride and joy of the owner of the majority share in KTB, then without a shadow of doubt BTC would have to be mentioned. The acquisition of the telecom in 2012 was the culmination of the empire and the mechanisms for economic influence painstakingly built by Tsvetan Vassilev.

BTC was the largest and most profitable enterprise added to KTB group, which offered unlimited potential for development and profit. It was the only asset, whose acquisition Tsvetan Vassilev backed up personally as the main shareholder and chairman of the Supervisory Board of the bank.

In November 2012, using the special purpose vehicle called Bromak Telecom Invest, he acquired a share of 43.26% of the telecom. Another 33.31% were acquired indirectly by the investment arm of the Russian VTV — VTB Capital, while old creditors of the telecom received various shares from the remaining 23.42%.

RUN-UP TO THE DEAL

The Bulgarian Telecommunications Company was sold because it was highly indebted. In 2007, the investment arm of the US Insurance Company AIG Investment acquired BTC from the Icelandic entrepreneur Thor Bjorgolfsson. The deal was financed with a huge loan. In reality 90% of the shares transferred were paid with the loan, which was then put on the books of the telecom. This was routine practice for financial investors in the global business environment at the time.

Only one year later, in the thick of the financial crisis that was in full swing in 2008, BTC had a debt of EUR 1.7 billion to various banks in Europe on its books. One of the largest creditors was the

Royal Bank of Scotland, which was heavily hit by the crisis, Deutsche Bank, and Tennebaum Capital Partners, which had bankrolled the deal with a mezzanine loan.¹³⁵

Such loans were too high even for a company like BTC with annual revenues of BGN 800 million and a profit after tax and interest of BGN 300 million to handle. It was therefore reasonable that the creditors put their heads together to hatch a plan that would lower outstanding debt. This is how, in 2010, a plan for the restructuring of the telecom was approved and rolled out, which included—crucially—finding a new investor. A long queue of strategic players formed, including the Chinese giant PWCC. The Arab Oger Telecom nearly stepped across the finish line, almost managing to wrest control away from AIG Investments (renamed Pine Bridge Investments after the company received a rescue package from the US government and was subsequently sold to private investors).

Despite this promising beginning, a deal was never struck because the shareholders and the creditors failed to reach an agreement on the offers from potential buyers. The friction between them spread to the management of the telecom and resulted in an external auditor being appointed in order to investigate whether the management had governed the affairs of the company in good faith.

Thus, in the autumn of 2011, the creditors—frustrated by the lack of progress—put BTC up for sale. At the time, Tsvetan Vassilev already had his sights on the telecom, bearing in mind that KTB had been working in partnership with BTC following the acquisition of NURTS as an element of the restructuring of the telecom.

VTB Capital was already on the horizon, having covertly and hurriedly acquired Bulgartabac in autumn of the same year. It was already plain to see that the investment company was purely a nominal owner of the tobacco holding, backed by the Vassilev/Peevski duo, on the one hand, and Vinprom Peshtera, on the other. Vassilev has confirmed this in the interview for the KTBfiles.

Relying on the influence Vassilev wielded in political and business circles and taken in by the name of VTB Capital, the BTC creditors accepted the partnership proposal, allegedly aiming to restore the viability of the telecom as a last resort proposal to shield the

¹³⁵ A mezzanine loan is a type of financing used in commercial real estate. These loans are somewhat equivalent to second mortgages on homes.

company from insolvency. Incidentally, Vassilev and KTB were also hailed as “saviours,” judging from their interventions in Techno-market and Petrol, where they provided eleventh-hour loans to re-finance the two companies’ old debts.

It was therefore reasonable to expect that they would join the battle for the telecom in competition with Turkcell. The prospective buyers negotiated the acquisition separately with each creditor, not shying away from using pressure tactics, according to *Capital Weekly*. The government still owned the golden share of the telecom, which meant that it could veto crucial decisions. It had furthermore mortgaged key assets/properties of the company, having failed to settle its debts in full to Viva Ventures, the first owner of the telecom after the privatisation.

A VERY PERSONAL DEAL

This is how lenders were not left with much of a choice and, in the summer of 2012, it was already evident that the Tsvetan Vassilev – VTB Capital partnership would most likely be the new future owner of the Bulgarian Telecommunications Company (BTC). The deal was closed in November 2012 when Bromak, solely owned by Vassilev, acting through the Bromak Telecom Invest company, which was created for that purpose, and VTB Capital, through Crusher Investment Limited, acquired respectively 43.26% and 33.31% for EUR 130 million. The other shares remained with the lenders, who agreed to write off a significant part of the telecom’s debt. Some of the lenders wrote off 50% of their receivables and were compensated with shares. It was also agreed that the remaining debt would be promptly refinanced, ensuring that lenders would have to sell quickly only their shares in the company.

It seems that the lion’s share of the funding for the transaction was initially provided by VTB Capital — BGN 274 million, with only BGN 20 million from KTB, according to the information in the report by the temporary parliamentary commission appointed to investigate the bank. However, the report also shows that more resources from the bank were redirected into the transaction, such as a EUR 40 million loan granted by KTB to the offshore company Alkianel Limited and transferred to the Veles Group, which is con-

nected to the bank, with a contract for equity swap in the telecom between Alkianel and Bromak Telecom Invest.

When the dust settled, in 2015 Vassilev openly stated he had used the bank to buy BTC. He referred to the telecom as an asset of the bank, although it was effectively a personal investment. “To those who still haven’t understood the role of KTB AD in the transaction — the bank funded Vivacom’s parent companies for the acquisition of BTC,” Tsvetan Vassilev admitted on his website in the autumn of 2015.

There was also an agreement to transfer Crusher’s share to TC-IME, which was directly confirmed by VTB Capital’s Bulgarian representative and former Minister of Finance Milen Velchev before Russian media in 2015. According to Velchev, the 33% share was hedged with a derivative¹³⁶ which obligated VTB Capital to transfer it to TC-IME upon request. As Velchev said, however, the latter company was unable to exercise its rights after KTB’s failure (TC-IME participated in the bankruptcy proceedings with an appointed temporary receiver) and thus the share remained the property of the Russian bank.

This hedge supports Vassilev’s words to a certain extent, who has been saying since the beginning of the transaction that the capital investment in BTC was his own, and VTB Capital participated in the debt. “The capital is for me, the debt is for VTB,” Vassilev said after BTC was fully bought in the summer of 2013, when the telecom’s shares on the stock exchange were offered in a tender. Even back then, he was indignant about the complicated structure of the transaction which involved multiple and many-layered offshore companies.

According to a document available to KTBfiles, KTB used a total of EUR 130 million to acquire 43.3% of the telecom company.

¹³⁶ Hedging is a type of investment made to limit the risk from another investment. In this case, VTB was insuring its investment with an instrument which obligated the fund to transfer the share in BTC to TC-IME.

DEBT REFINANCING AND INVESTORS CASHING IN

It was precisely the complex structure of the transaction which made it easy to “isolate” Vassilev from BTC after KTB’s bankruptcy.

This happened since BTC’s debts, although significantly lesser, were still a substantial amount – around EUR 700 million mid-2013. Apart from that, the deal apparently included a condition for the restructured old loans by lenders to be quickly refinanced. This was done with a direct placement of corporate bonds for EUR 400 million by BTC and an additional bridging loan of EUR 150 by InterV Investment. This refinancing, however, introduced two key conditions which would determine the fate of the company in 2015.

The first condition was that bonds with a maturity date in 2018 had to be bought by BTC if the company changed ownership before the maturity. The second was for the bridging loan to be converted to equity or to be repaid by May 2015, and the share in BTC was pledged as security.

The recapitalization did not happen, nor did BTC’s shareholders repay the loan – for two reasons. The first was that the main shareholder, Tsvetan Vassilev, no longer had KTB’s backing in order to obtain the money – the bank closed its doors in late June 2014. The second was that the other shareholder, VTB Capital, would not actually benefit from doing so since it was already running the telecom (Milen Velchev and his brother Georgi became part of the telecom’s management in January 2015) and, being the main lender of the bridging loan, it would be preferable to also obtain the controlling share with the loan security. This is how VTB Capital could have it all for around EUR 130—150 million.

BTC AND SPAS RUSEV

That was precisely what happened. In November 2015, VTB Capital sold BTC via the loan security (100% of InterV Investment’s stake in BTC) to Bulgarian businessman Spas Rusev. Even back then it was rumoured that the entity behind the transaction was VTB Capital, probably with the help of some Bulgarian players. One of the explanations was the clause for repurchasing BTC’s bonds in the event of a change of control. If there was no change in the voting

rights of the previous shareholders or the beneficial owner, there was no actual change of control and the bond owners could not request early repurchasing of the bonds.

Nine days after the submission of the request for approval of Spas Rusev's BTC transaction, it was authorised by the Commission for the Protection of Competition. This was a particularly quick decision by the regulatory authority: its history shows just a handful of similarly quick decisions, all connected to acquisitions by the Member of Parliament Delyan Peevski. The decision itself does not make it clear who controls the buying company, Viva Telecom (Luxembourg). The Commission's decision, however, states that Viva Telecom (Luxembourg) has contractual options which, if carried out, may lead to a new change of control. The Commission does not specify with whom and what exactly these options are for. The regulatory authority's decision states, "Concerning the possibility of a realisation of said options... If they are realised, it should be taken into consideration that this will change the parameters of the assessed transaction and will be subject to new notification to the competent competition authority."

Despite the decision of the Commission for the Protection of Competition, the closing of the deal was delayed by about a year and took place much later, in the last days of August 2016. This was when some details around the transaction became clear, including exactly who were the participants. There were two reasons for the delay. The first was that the new owners needed a considerable time to finance the deal. The other was that the deal was blocked by Emprevo Ventures, a company owned by Dmitry Kosarev who claims to be the owner of Tsvetan Vassilev's 44% share, which was previously transferred by Vassilev himself.

This is how from the beginning of September the new owner of InterV Investment, and therefore of BTC as well, was Viva Telecom (Luxembourg), which was owned by Rusev when the deal was finalised. After its registration, shares were acquired by the lender VTB, its Bulgarian managers and a group of former lenders, distributed as follows: Spas Rusev with 46%, 20% minus 1 vote for VTB, 19% for the Luxembourg company Delta (controlled by VTB's Bulgarian managers, the brothers Milen and Georgi Velchev and Krasimir Katev), and the remainder, 15% plus 1 vote, for the former lenders.

The controlling interest was received for EUR 330 million, and apart from that the purchased company had bonds for EUR 400 million,

and further down the chain – liabilities to KTB for over EUR 100 million. VTB gave an official confirmation that they were providing EUR 240 million as a debt instrument to Viva Telecom in order to pay the price of EUR 330 million. An evaluation of the deal shows that the rest of the shareholders had to provide a total of EUR 90 million, the final amount being higher because of fees, remunerations and legal expenses.

In an interview for KTBfiles some days after the transaction was announced, Tsvetan Vassilev accused the new owners of promising commission fees to “the powerful people of the day” in order to close the deal. This is how Vassilev commented on the transaction: “What is happening is a classic case of criminal theft with the participation of a Russian national bank tolerated by the Bulgarian state... The distribution is as follows: the fabricated company of the ever-ready Spas Rusev has to acquire Vivacom, after which several groups of buyers will be given put options and will divide the pie – the difference between EUR 700 million and the actual enterprise value of the company, which is over EUR 1 billion. Yes, a telecom with an annual EBITDA¹³⁷ of EUR 170 million was basically sold for EUR 700 million, which is the aggregate value of the EUR 330 million price of the auction and the remainder of Vivacom’s issued bonds, a little over EUR 370 million. We are talking about the redistribution of at least EUR 300 million at a ratio of 20% for VTB, about 20% for the ubiquitous crooks, the Velchev brothers and Krasimir Katev, acting as VTB’s lackeys, and from 43 to 46% for the decoy Spas Rusev. However, it is likely that the figurehead will have to share a significant portion of his so-called profit, totalling at about EUR 135 million, with the powerful of the day. With the same people who are squeezing the company dry even now and who turned it into the number one fan and sponsor of the people’s team.”¹³⁸

With the closing of this deal, one of KTB’s most important assets and its crown jewel completely severed its ties with the previous owner and the bank which funded it in the past. Nevertheless, “Empreno Ventures” claims were not withdrawn and they continued to act as an obstacle to the registration of new company management and a pledge in favour of VTB.

¹³⁷ Earnings Before Interest, Taxes, Depreciation and Amortization.

¹³⁸ Vivacom sponsored PFC Levsky Sofia, called “the people’s team” by its fans (translator’s note).

KEY DEALS – BULGARTABAC

“It is not our job to know who owns what in private business companies like Bulgartabac, where they are trading them and what they are doing.” These are the words of Prime Minister Boyko Borisov. The year is 2016, the month is February.

Borisov, as quoted by the Focus agency, was in fact responding to a media statement by DPS Member of Parliament Delyan Peevski given shortly beforehand. In said statement, Peevski said he would give up his direct 5% share in Bulgartabac, which he had acquired in the summer of 2015, and began to indicate that he clearly had more financial means than what was necessary to buy an old Opel.

This rather circumspect dialogue was joined by the main shareholder in KTB, Tsvetan Vassilev. In an interview for BiT television at the end of February, he asked, “What did he give up precisely?¹³⁹ Did he manage to withdraw his mother¹⁴⁰ from the foundation in Liechtenstein¹⁴¹?” In addition, the banker directly accused Peevski of ruining KTB intentionally because he refused to hand over Bulgartabac to Peevski and did not comply with his proposed scheme for the company. Vassilev demonstrated said scheme in front of BiT’s cameras with a sheet of paper containing a list of companies for “partition.” Bulgartabac was first on the list.

CONCLUSION

This indirect debate between Borisov, Peevski and Vassilev five years after the sale of Bulgartabac shed light on what had been known for a long time but was not officially confirmed until then

¹³⁹ Delyan Peevski (editor’s note).

¹⁴⁰ Irena Krasteva (editor’s note).

¹⁴¹ Two foundations in Liechtenstein are currently the ultimate owners of 80% of Bulgartabac Holding.

– in 2011, the Vassilev-Peevski tandem was granted control over Bulgartabac with political blessings at the highest level.

The timing of these words is of the utmost importance.

First, at that time Brussels was already openly talking about leaving Bulgaria under monitoring after the failure of judicial reforms and the obvious lack of will to fight high-level corruption. The German magazine *Der Spiegel* even published an article¹⁴² which called Peevski the tip of the Bulgarian iceberg of corruption.

Second, in 2015 some worrying information leaked to the public from several sources. On one hand, official reports by the Turkish authorities were made public, which indicated that half of the contraband cigarettes in Turkey were Bulgartabac brands (these reports were also confirmed in 2016). On the other, blogger Miroslav Ivanov published on his blog correspondence¹⁴³ (whose authenticity was confirmed by Tsvetan Vassilev in his interview for KTBfiles) of representatives of Peevski—Vassilev, in which they were discussing the distribution of ownership over Bulgartabac and the participation of politicians in the Bulgartabac deal.

Third, a visit by Turkish Prime Minister Ahmet Davutoğlu to Sofia in mid-September 2015 was followed by a dramatic shuffle at the top of the Movement for Rights and Freedoms (DPS), a ban on DPS honorary chairman Ahmed Dogan and MP Delyan Peevski from entering Turkey, the formation of a new pro-Turkey party by the former chairman of DPS, Lyutvi Mestan, and a deterioration of relations between Bulgaria and Turkey.

Shortly afterwards, Bulgartabac announced that as of 1 April 2016 they would quit their markets in the Near East which formed 80% of the company's income, they would lay off employees and stop production at the Sofia—BT plant. The issue became visible when over 400 workers from the factory lost their jobs, organised protests and asked Parliament to assume responsibility for approving the Bulgartabac privatisation deal.

¹⁴² "Bulgarian Politician Peevski – Iceberg of Corruption," *Der Spiegel*, January 31, 2016.

¹⁴³ Miroslav Ivanov, "The Bulgartabac Coalition: a Pig, a Falcon and Buddha," *Financial Musings*, February 16, 2015, http://www.miroivanov.com/2015/02/blog-post_16.html [1 July 2017].

In these complicated circumstances it was not simply the government's job to know who owns what in the private company Bulgartabac and what are they doing with their stocks, it was important for Bulgaria's relations with economic partners such as the EU, the USA and Turkey. The lack of interest in this case was a sign that the country was held captive by certain private interests embodied in this particular instance by the group which gained control over Bulgartabac.

HOW DID WE COOK UP THE MESS: ESSENTIAL INGREDIENTS FOR DISASTER

Bulgartabac Holding has been the political elite's goose with the golden eggs for decades. First, because it is a tool for firm control over the guaranteed votes of Bulgarian tobacco producers, mostly Bulgarians of Turkish origin, ensured by buying thousands of tons of tobacco from them. Second, because it channels a substantial flow of money, both officially in the form of taxes and excise duties for over BGN 700 million (3% of the state budget's annual revenue) and unofficially through contraband cigarettes mostly to the Near East, assessed at over EUR 500 million per year.

This is why everyone was fighting tooth and nail to control the company. Since Kostov's cabinet (1997 – 2001) and until the privatisation in 2011, there had been five attempts to relinquish state ownership (the fifth one finally being successful) and many battles were fought over the participation in cigarette distribution channels.

Bulgartabac had a prospective buyer in two of the privatisation attempts, one being the British American Tobacco concern (BAT). Until 2011, however, a political power – mostly DPS – would always intervene and end the deal. To cite an example, former Minister of Economy Lidiya Shuleva said¹⁴⁴ on live TV, “a fax from Russia ended the privatisation,” about the attempts to sell the company in 2005.

¹⁴⁴ “Lidiya Shuleva for bTV: A Russian Fax Ended the Privatization of Bulgartabac in 2005,” bTV, February 1, 2017, <http://btvnovinite.bg/article/bulgaria/lidija-shuleva-pred-btv-ruski-faks-provali-privatizacijata-na-bulgartabakprez-2005-g.html> [minute 04:15 of the video].

The privatisation of Bulgartabac Holding became a reality in the autumn of 2011 during Borisov's first cabinet. Preparations for the deal began as early as the end of the Three-Party Coalition, when the Vassilev-Peevski-Krasteva group surrounding KTB had already grown in power and political influence. The Stanishev cabinet first sold the holding piecemeal, factory after factory, and the privatisation strategy was controlled by Minister of Economy Rumen Ovcharov. The factory in Plovdiv went to the founders of Vinprom Peshtera, Atanas Petrov and Anton Shterev. The cabinet wanted to sell the holding itself, since it still held the two key cigarette factories in Sofia and Blagoevgrad. However, DPS was an obstacle to that process, at least in the period 2007–2008.

One of the explanations for this impediment might be hiding behind a scandal from 2007 whose main actors were the then-Minister of Economics Rumen Ovcharov; Cornelia Ninova, Deputy Minister of Economics and Chairwoman of the Board of the holding; and Angel Aleksandrov – chief of the Investigative Unit of Sofia City. The people affected by the scandal were publicly saying that Peevski and people close to him (Angel Aleksandrov, who was subsequently released from duty because of the stink) had blackmailed Bulgartabac CEO Hristo Lachev and Cornelia Ninova to allow Peevski and DPS-related companies access to the cigarette sales channels. The aftermath: Rumen Ovcharov lost his position as Minister of Economy, Lachev lost his position and was accused of tax evasion, of which he was subsequently acquitted, and Peevski temporarily lost his position as Deputy Minister of Emergency Situations.

The stakes were obviously high, since Peevski was the only one involved who returned to his position, and several months later at that. At the beginning of 2009, the Stanishev cabinet received DSP's blessing to pull Bulgartabac out of the privatisation no-go list. This cleared the way for the coveted sale of the company.

The sale itself began during the first Borisov cabinet. The government first selected a consultancy firm for the privatisation – the American Citigroup, which had to prepare and propose the method and criteria for the sale of Bulgartabac. The goal was a public demonstration of the government's attempt at a transparent and market-based sale.

The consultant and their proposed conditions, however, would be just a backdoor to allow government officials to sneak out at

any sign of inconvenient questions about Bulgartabac. Boyko Borisov himself did this a number of times: once when the conditions for privatisation were announced in 2011, he said the Council of Ministers did not control the consultant and their proposals; and a second time in February 2016 when he once again stated it was not the government's job to comment on who owns what in private companies like Bulgartabac, and if anyone had questions about the sale, they should ask the consultant, Citigroup.

The outcome of the preparations for privatisation showed, however, that the state and more specifically its representatives had only a mock interest in a market-based sale, i.e. at a high price and to a strategic investor. This was clearly indicated by the required condition for Bulgartabac's future owner to buy at least 5,000 tons of tobacco per year from Bulgarian tobacco growers until 2016, which made no economic sense whatsoever.

This was also confirmed by the lack of market-based candidates during the procedure. The only strategic investor who actually participated was once again BAT. The company bought documents to participate in the sale but did not put in a bid. The Korean KT&G and the Japanese JTI were also considered to be interested before the sale criteria were known, but neither of them joined the procedure officially. At that time there was some unconfirmed public information that the former's alleged consultant was Tsvetan Vassilev.

THE SILENCE OF THE POLITICAL LAMBS

At that time, in stark contrast to the previous four attempts to sell Bulgartabac, almost no one on the political scene dared comment on the future deal and its terms. The only persons who commented on it were the actors in the scandal, Cornelia Ninova and Rumen Ovcharov – and they did not mince words. The other members of BSP, Sergey Stanishev included, did not comment on the procedure.

“The prime minister lied to the Bulgarian Parliament, and thus the Bulgarian citizens, that the Council of Ministers and himself personally had no connection to the Bulgartabac privatisation deal and the only competent authority which could make a decision and perform the procedure was the PPCA (the Privatisation and Post-

Privatisation Control Agency),” Ninova said in the summer of 2011, as quoted by Mediapool.

“This is a completely non-transparent deal with a predetermined winner, a gross violation of the principles of market economy and competition, and of state interest as well,” Ovcharov said in an interview¹⁴⁵ for *Capital Weekly* in the autumn of 2011. “Silence is the strangest aspect of this deal. Obviously, everyone has an interest in the deal going through. Boyko Borisov, for example, is an active participant in the determination of the privatisation conditions which eliminated all other competitors,” Ovcharov added.

A WINNER KNOWN IN ADVANCE

When all was said and done, the only surviving candidates at the fifth attempt to sell the company remained companies which were just mailboxes for the real clients, who remained unknown for a long time. These were the Austrian BT Invest and CB Family Office Service. The winner for EUR 100.1 million was BT Invest, a company specifically created for this transaction by the Russian bank VTB’s investment department.

The transaction was instantaneous. In the course of two weeks after the submission of the offer on 29 August 2011, the agreement was ratified, signed on 13 September 2011, and the deal was hurriedly approved by the Commission for the Protection of Competition.

The deafening silence about who had actually bought Bulgartabac continued at all levels of state power, and even officers of the Privatisation Agency admitted they were not actually aware of who the buyer was.

Ovcharov was the only one who allowed himself to state in public that BT Invest was just the nominal buyer, and the actual buyers were Delyan Peevski and Tsvetan Vassilev, with Boyko Borisov’s active support. According to Ovcharov, the company’s new management would be revealing. He also said the only explanation for the silence and rush surrounding the deal was that there was an inter-

¹⁴⁵ “Bulgartabac? Only the Prosecutor’s Office Can Protect the State’s Interest,” *Capital*, September 30, 2011.

est in making money from contraband, and therefore from then on only the Prosecutor's Office could do something about it. Ovcharov also commented that there would soon be a resale of Bulgartabac, since the privatisation agreement itself contained no restrictions in that respect or requirements for the Bulgarian state to receive part of the amount under a resale.

Ovcharov's concerns from 2011 quickly came to pass. Even though VTB Capital was the nominal owner of BT Invest, the Austrian company's general manager almost since its creation had been Ventsislav Cholakov. He remains in this post to this day according to the Austrian commercial register, despite several changes of the Austrian parent company's stockholders. Cholakov is a trusted man¹⁴⁶ of Delyan Peevski and, apart from Bulgartabac Holding, he is also the director of TGI Middle East FZE in Dubai, a company controlled by the member of Parliament from DPS.

Cholakov was also Bulgartabac Holding's CEO after the privatisation and remained there until 21 March 2016, when the shareholders decided to remove him from the management team. Nevertheless, he remains general manager of the Austrian BT Invest.

Under his management, the holding was also directed behind the scenes by attorney-at-law Alexander Angelov, who represented Peevski's interests in multiple cases. Angelov himself attended Bulgartabac Holding's general meetings after the privatisation, sometimes presiding over them, without the shareholders' approval even to attend. For example, this happened at the meeting from July 2015. The minutes of this meeting do not mention Angelov's participation, but according to shareholders who attended, it was precisely him who directed the entire meeting and even acted with hostility towards some of them. Angelov stated during the meeting that he was participating and speaking on behalf of the holding, since he was working for Bulgartabac.

For all practical purposes, VTB Capital purchased Bulgartabac nominally but had no operational control, because the wheel was in Peevski and Vassilev's hands. According to unofficial information and our sources, Vinprom Peshtera founders Atanas Petrov

¹⁴⁶ "Peevski – Dubai Bought Part of Bulgartabac from Peevski – Bulgaria," Bivol, March 21, 2016, <https://bivol.bg/Peevski-bulgaria-Peevski-dubai.html> [01.08.2017].

and Anton Shterev also participated, but their role in the scheme is more difficult to prove. The owners of Vinprom Peshtera were alluded to in unofficial correspondence between Vassilev, his then-trusted man Biser Lazarov, and attorney-at-law Alexander Angelov, who financed the purchase of the holding by VTB Capital. This gambit was first pointed out in the blog of journalist Miroslav Ivanov, and subsequently by Bivol. Another person connected to Vinprom Peshtera was Svetoslav Iliev, who was appointed as manager of the company's marketing immediately after the privatization and had previously worked promoting Vinprom's alcohol brands.

The participation of KTB in Bulgartabac can be confirmed with documents at a very early stage due to the fact that after the privatization, KTB was the only bank which serviced the holding, according to its financial reports to the stock exchange. This was also admitted by Bulgartabac's management after the rift between Peevski and Vassilev and during the events surrounding KTB bankruptcy in June 2014. At that time Cholakov commented to the media that when Bulgartabac decided to change its servicing bank at the beginning of 2014 due to unfavourable conditions, KTB and Vassilev became aggressive and tried to provoke a liquidity crisis in Bulgartabac.

Cholakov's words coincide chronologically with the already evident split between Peevski and Vassilev from the beginning of 2014, which caused KTB's failure. As Vassilev said, the reason was that he refused to transfer to Peevski part of the assets which were bought with bank money. In February 2016, Vassilev showed to BiT TV an alleged list of assets for redistribution, with Bulgartabac in first place. This is how the banker essentially gave a partial confirmation of the leaked correspondence between Angelov and Lazov, which was published by Miroslav Ivanov.

THE POWERS THAT BE REALIGN

The leaked correspondence was from the end of November 2013, i.e. shortly before the rift between Vassilev and Peevski. In the messages, attorneys and representatives of the suspected real owners were settling the distribution of control over Bulgartabac after the withdrawal of VTB Capital. This withdrawal had happened a little

over two years after the privatisation and was precisely the resale discussed by Ovcharov in 2011. The deal was realised through a call option¹⁴⁷ of the Liechtenstein-registered company LIVERO Establishment with VTB Capital. The option entitled LIVERO to also buy VTB's obligation to sell the share in BT Invest. It was exercised in February 2014, after all details of the plan for allocation of control over Bulgartabac were ironed out by the lawyers.

The official information at the time of the transfer was that LIVERO Establishment was owned by a chain of two Dubai-based companies – TGI Middle East first, and subsequently Press Trade. The latter company conveniently turned out to be owned by an individual, as the Commission for the Protection of Competition “discovered.” This gave the Commission an excuse not to say anything about the deal, since it was not between two enterprises. The Commission did not specify the name of the individual, whose initials were V. Ch. according to an unofficial source (probably Ventsislav Cholakov).

The leaked correspondence¹⁴⁸ described LIVERO's future after the deal with VTB. According to it, LIVERO was supposed to be funded with EUR 49 million from the offshore company Ventracor Establishment and with EUR 59 million from EFV International Financial Ventures Limited. The second company was backed by Vassilev, Peevski and Krasteva's consolidated interest, who also received 35% of LIVERO, once again through a foundation in Liechtenstein specifically registered for this purpose – Panim. The remaining 30% was to be distributed in three equal parts to another three offshore companies from the British Virgin Islands – Grand Investors, Inter Projects Group and Vitality Invest. The correspondence does not mention their owners, but the interpretations and allegations of the people who published it were that the interests of highly placed politicians considered as a commission fee for the Bulgartabac privatisation were apparent.

¹⁴⁷ A call option provides the right to purchase an asset at a set strike price and maturity date, and the paid price is called a premium. The owner of the option counts on a future increase of the asset's price.

¹⁴⁸ http://www.ktbfiles.com/wp-content/uploads/2016/01/BT_korespondintsiya-PDF-53-KB.pdf?x21734

Each of the five interested parties also had to receive the same cut of Bulgartabac's cigarette trade in Asia and Africa, while the participants in Panim split their participation in two – one for Vassilev and one for Peevski. This is how Vassilev should have received 17.5% of the trade (through Samora Trading), Peevski-Krasteva – 17.5% (through Dalia Trading), and the last three shareholders of LIVERO would have 10% each.

When he was asked for an opinion, attorney-at-law Alexander Angelov did not wish to comment on the authenticity of the correspondence. Biser Lazov also deflected all questions related to KTB or Bulgartabac.

Vinprom Peshtera were contacted for comments, but they did not answer the posed questions:

- ♦ Is it true that the owners of Vinprom Peshtera participated in the funding of the transaction for change of ownership over Bulgartabac in late 2013 – early 2014, as evidenced by the correspondence between attorney-at-law Alexander Angelov and Biser Lazov?
- ♦ Did the owners of Vinprom Peshtera have a direct or indirect relation to ownership over Bulgartabac at any point, and if they had, what was its nature?

It is unclear if the entire plan was brought to fruition. Vassilev said before BiT that he refused to transfer Bulgartabac according to the proposed scheme since these were assets of KTB, and his question as to whether Irena Krasteva was still among the beneficiaries of a foundation in Liechtenstein connected to Bulgartabac's history is pivotal.

In September 2016, Vassilev expanded on his previous words about the holding's owner to KTBfiles. "Peevski was not the owner just for the sake of appearances before the Bulgarian public. If someone wanted to investigate, they would have found the truth by now. I have documents which show that not Peevski, but Irena Krasteva is the owner. She is also mentioned in the files of the law firm Walch&Schurti. It was negotiated for Irena Krasteva to be one of the nominal owners of the foundations which held LIVERO."

Vassilev also confirmed the published scheme which contained plans for distribution of ownership in the holding after its privatization, as well as the claims of commission fees for certain politi-

cians. “This is no big secret. Peevski or his family are the owners of BT Invest, especially after LIVERO’s liabilities to EFV and Ventracor were purchased – there is no doubt about that,” he said.

His words were also partially confirmed by the detected cash transfers in the AlixPartners report. On one hand, AlixPartners spotted a loan by a company considered to be connected to Vassilev, EFV International, to LIVERO on 23 September 2011 – just a few days after the signing of the privatisation agreement. At that time, EFV granted LIVERO a loan of EUR 38.6 million.

On 7 November 2013, the Dubai company TGI Middle East FZE purchased this receivable from LIVERO (probably as debt for property), which had already grown to EUR 45.4 million with interest. According to Vassilev, the Dubai company was a cover for Peevski and/or his family, i.e. he had already secured his ownership of the holding three months before the Commission for the Protection of Competition handed Bulgartabac to LIVERO.

“Which is to say, for me there is no question that Peevski and his mother are the owners, it only remains to determine their shares and how they are allocated,” Vassilev summarised.

GIFTS FROM THE STATE

After LIVERO bought BT Invest on 19 March 2014, this constituted a statutory change of control over Bulgartabac Holding. Since the holding was a public company, its owner had to propose through BT Invest to purchase the shares of the remaining shareholders, unless it was willing to give up control. BT Invest directly owned 79.8% of Bulgartabac. The remaining twenty-odd percent at that time were mostly held by three legal entities – KTB itself with 6%, a company owned by Edoardo Miroglio – a little over 7%, and a company owned by Petar Mandzhukov – 5%. A year later, Peevski acquired Mandzhukov’s five percent, and on 18 March 2016 he sold them to LIVERO’s owner, TGI Middle East FZE. On the same day, TGI Middle East FZE also bought Miroglio’s share.

After the split between Vassilev and Peevski, Peevski obviously assumed control over Bulgartabac, since even the company management were openly hostile to Vassilev. Therefore, Peevski had no interest in paying KTB, Miroglio or other minority shareholders

and he was scrambling for ways to avoid a tender bid. The first step was the sale of 50% of BT Invest to a third company, once again registered at the address of the Liechtenstein foundation Woodford Establishment. The deal was from 26 June 2014, a few days before the general meeting of the holding, at which BT Invest could have lost its voting rights due to the lack of a business proposal and at which Miroglio requested a change of company management. The Commission for the Protection of Competition said it would not pronounce an opinion on that deal either, since once again the person controlling Woodford conveniently “could not be deemed an enterprise for the purposes of the law.”

Shortly afterwards, the Supreme Administrative Court cemented LIVERO’s right not to announce a tender, which was for all intents and purposes a ruling in Peevski’s favour.

In January 2015, LIVERO sold the remaining 50% in BT Invest to a new foundation in Liechtenstein, Stiga Anstalt, for which the Commission for the Protection of Competition still has not even received a notification. Even if it were notified, the road was already paved with the definition of a person who “could not be deemed an enterprise for the purposes of the law.”

According to information¹⁴⁹ from *Capital*, Stiga was represented by attorney-at-law Andreas Shurti, who participated in the Carano Establishment company, which bought the Dimitar Blagoev Printing House. Immediately after the deal, the building was rented to Bulgartabac’s biggest manufacturing unit, the Blagoevgrad BT cigarette factory, which is yet another confirmation of the link to Peevski. Despite the manoeuvres with LIVERO, even with its new owners Woodford and Stiga, Bulgartabac Holding continued to be managed by Ventsislav Cholakov (officially) and attorney Alexander Angelov (unofficially), which suggests that by mid-2015 Peevski retained his control over Bulgartabac. The Member of Parliament from DPS obviously also enjoyed the backing of the state, which unexpectedly decided to change the structure of excise duty over cigarettes in 2015: as a result, the holding’s cheap cigarettes and the cigarette company of Vinprom Peshtera’s founders would only have a mini-

¹⁴⁹ Desislava Nikolova, “Yet Another Unannounced Change of Ownership over Bulgartabac,” *Capital*, August 19, 2015.

num price increase, while the price of international tobacco concerns' products would increase far more.

The new structure of the excise duty came into effect on 1 January 2016, even though it returned to its old values nine months later due to the aggressive reaction of all international tobacco concerns in Bulgaria, which resorted to nearly dumping-level pricing compared to Bulgartabac's cigarettes in order to keep their market position.

The state also turned a blind eye to another Bulgartabac-related event. According to official data on cigarette contraband in Turkey in 2014 and 2015, 50% were brands of Bulgartabac. This information was a partial reason for a deterioration of relations with our southeast neighbour in 2015. Bulgarian authorities obviously had some digging to do in the Bulgartabac case, but neither the executive branch nor the prosecution have done anything since 2011. Never mind that the ownership of Bulgartabac kept changing between 2011 and 2016 in a complicated tangle of deals and transfers between offshore companies.

LIFTING THE CURTAIN

The Bulgartabac topic became highly popular once again after the beginning of September, when Tsvetan Vassilev agreed to give an interview for KTBfiles. In the interview, he gave specific answers about the events surrounding the privatisation and named the people hiding behind the nominal owners.

PART OF THE INTERVIEW: USED AND SOLD DOWN THE RIVER

"Speaking of deals, how did the Bulgartabac deal happen and how did Peevski end up as the company's owner?"

"Peevski is generally believed to be the owner of the company, and not just by Bulgarians. Had there been a proper investigation, the truth would have come out. I keep certain documents which conclusively show that the owner is Irena Krasteva, and not Peevski. You

will also find her name in the files of the Walch&Schurti law firm. The agreement was that Irena Krasteva would be one of the nominal owners of the foundations that hold the shareholding capital of LIVERO Establishments — the company that had signed a special contract with VTB Capital with respect to BT Invest in the capacity as purchaser of the 80% shareholding interest in Bulgartabac. This has never been a secret. BT Invest is owned by Peevski—or rather by his family—especially after the purchase of LIVERO’s debts by EFV and Ventracor.¹⁵⁰ There is no doubt about this.

The foundations that first owned LIVERO were subsequently ousted and other foundations stepped in. Even I don’t know the ins and outs of the precise share distribution arrangement made at this stage. But it all comes down to BT Invest playing dirty, and I am certain that certain transfers have been made in exchange for debt. The loan of one of the creditor companies was purchased by the Dubai-based company TGI Middle East,¹⁵¹ which is a link in the chain for smuggling cigarettes into Turkey via Kurdistan. So, I can make a pretty safe guess as to where the refinancing money has come from.”

“As far as I am concerned, the question is not whether the real owners are Peevski or his mother. The real question is what the ownership arrangements and the share distribution scheme is. I cannot rule out the possibility that Peevski might have ceded a share in Bulgartabac in exchange for his debts to the main Middle East dealer, Salam.¹⁵² The truth is known solely to those who keep the book of shareholders of BT Invest and handle the legal paperwork of the foundations.”

“In other words, you suspect that Salam is a shareholder of Bulgartabac?”

“I cannot rule it out—at least not if Peevski wanted to save his own skin. In late 2013 when he launched his crusade to gain control of Bulgartabac, he lied to Salam. Salam had advanced a considerable

¹⁵⁰ EFV and Ventracor are the two companies which provided the funding for the privatisation of Bulgartabac in 2011. At that time, EFV was controlled by Vasilev and funded through KTB. Ventracor was the cover for Vinprom Peshtera’s interests.

¹⁵¹ A company related to Peevski (editor’s note).

¹⁵² Salam Kader Faraj.

amount so that Peevski could settle his debts first with EFV, and then with Ventracor. Bulgartabac's debts to KTB were probably refinanced in a similar fashion in April or May 2014 by transfers made via a large foreign bank."

"Do you know how much money Salam has transferred?"

"More than USD 150 million. As far as I know, Peevski has not paid it back to this day. And judging by Bulgartabac's financial situation, he has even more limited options now.

By the way, the sale of Bulgartabac was one of the better initiatives of the first government led by Boyko Borisov. Had the company not been privatised, it would have landed right in the centre of the smuggling scandal of 2014–2015 as a state-owned enterprise. I firmly believe that the scandal was the reason why Peevski was declared persona non-grata in Turkey. Anyway, before the privatisation, the business of Bulgartabac depended, more or less, on this channel and the major distributor, Salam. How far did Peevski go? The answer is certainly known by many both in the intelligence and other competent services and by his own marionette, Ventsislav Cholakov, who represents him in all money-laundering vehicles set up along the chain. All companies are Dubai-registered and used to transfer money from the smuggling operations of the companies Peevski owns. Before the privatisation, a company called Caledon acted as intermediary. After the privatisation, Peevski set up the Dubai companies and transferred everything to them. In a nutshell, this is all about the mind-blowing criminal income of the Peevski clan and those who had a vested interest in Bulgartabac."

"Who are the parties with a vested interest in Bulgartabac?"

"These names are publicly known. There is no point in repeating them."

"They have never been announced officially. Can you state them for the record?"

"I can state them for the record, of course. At least as far as the arrangements made in the past are concerned. Alexander Angelov should be able to give you the full details on the Liechtenstein-based companies — what has been registered there and how."

“In conclusion, what was the initial ownership arrangement for Bulgartabac?”

“According to Peevski, bonuses¹⁵³ were to be received by Borisov, Dogan and Staliyski for greenlighting the deal. It is a little-known fact that the initial idea was that my group and I participate in the privatisation of Bulgartabac in a consortium with Korean Tobacco. It was suggested to me, in a firm and unambiguous manner, that such a deal was out of the question, although I had already concluded consultancy agreements with Rothschild in Paris. So, I paid the consultancy fees and abandoned the idea. The Supreme Leader wanted a different deal.”

“You do realise you just said that the prime minister of a European Union Member State has an undisclosed shareholding interest in Bulgartabac?”

“He was promised such an interest. We have not discussed the matter in person. This was the situation back then. On the other hand, the diagrams published on certain websites had indeed been sketched by Peevski’s lawyer — Alexander Angelov. I have incontrovertible proof of this. But I cannot say whether this is still the case. If someone wants to find out, I say, go ahead. All secrets are in the hands of two Liechtenstein-based law firms.”

This interview reveals at least two pieces of news. It is the first time an insider confirmed the political interests behind Bulgartabac’s privatisation and named the state officials who were to receive a share of the company as thanks for allowing the deal: these people are Boyko Borisov, Ahmed Dogan and the Prime Minister’s close associate Alexander Staliyski. The second is that even now Delyan Peevski is substantially in debt to the well-known smuggler from the Near East Salam Kader Faraj and it is possible that the latter received a share of the company for said debt.

Vassilev’s interview captured the public’s interest, but it was met with complete negligence and silence in political circles, and especially by the people he mentioned.

¹⁵³ Ten percent of the privatised share for each under a scheme described in Miroslav Ivanov’s blog (editor’s note).

USED AND SOLD DOWN THE RIVER

A new deal for parts of Bulgartabac was concluded in April 2017. In 2005, the international company British American Tobacco had announced its intent to privatise the Bulgarian tobacco company for EUR 250 million, but the Bulgarian Parliament at the time blocked the deal. Exactly 12 years later, British American Tobacco bought¹⁵⁴ all brands, the holding's logistics business and the Lafka chain in Bosnia. When the news was announced in the Bulgarian National Television's central news broadcast, it was said that Bulgartabac had been "Bulgarian-owned" until then.

¹⁵⁴ Desislava Nikolova, "Peevski Sells His Cigarette Business to the British-American BAT," *Capital*, April 12, 2017.

THE DISTRIBUTION CHAIN — A MEDIA EMPIRE STILL GROWING

During the first Borisov government, the group around KTB – Vasilev, Peevski and Krasteva – continued to amass not just assets, but also media. The most important acquisition from that period, done in a covert way, was of the dailies *24 Hours* and *Trud*.¹⁵⁵ Apart from being large and influential, these two newspapers were overtaken by Peevski with heavy pressure and having important institutions as accomplices (prosecution, courts and politicians). It was also at that time that the group took control of one of the biggest tabloid newspapers in circulation – the *Weekend* weekly. This case is described in detail in the Media Empire chapter.¹⁵⁶

The group's interest, however, did not end with the purchasing of newspapers, televisions and online media. Between 2010 and 2013, the clique also acquired (by more natural means) all major distribution companies for newspaper delivery, as well as many of the points of sale in the country.

The driving force in this particular instance, as well as for the entire media project, were Peevski and Krasteva, who created the plan. KTB provided the funding.

According to a document¹⁵⁷ in the possession of KTBfiles, the bank invested nearly BGN 13 million in the Distribution project.

Two important features of this model stand out. First, the concentration of the means of distribution happened with the Commission for the Protection of Competition as a silent spectator. Second, the distribution network became even more important for Peevski at a later stage, after he acquired Bulgartabac. It makes sense – the places that sell newspapers also sell cigarettes.

¹⁵⁵ See „The Dailies — *24 Hours* & *Trud*“, p. 202.

¹⁵⁶ See „Media Empire“, p. 93.

¹⁵⁷ See „The Face of Political Corruption“, p. 332.

THE ROLE OF KARNE-M AND VIP PROPERTIES

The first key purchase in the distribution plan happened as early as 2007. This is when Irena Krasteva and her son Delyan Peevski bought the companies which founded the United Bulgarian Newspapers Consortium (UBN) and thus obtained the newspapers *Monitor*, *Telegraph*, *Meridian Match* and others, as well as participation in the National Distribution Agency (NDA). The group also bought the distribution companies Press Traffic and Press Market from Petyo Blaskov.

The task of consolidating the distribution network was handled by the company Karne M¹⁵⁸ together with a few other satellite companies of KTB. Karne M acquired the smaller regional distributors one by one, and subsequently bought NDA.

Karne M was among KTB's biggest borrowers, and the company's liabilities to the bank varied from BGN 30 million to over BGN 60 million at various times. The company's seat was also at an address frequently used by KTB to register satellite companies – 46 Damyan Gruev Street in Sofia.

Karne M used the bank's resources to go on a distributor shopping spree in the period 2010 – 2012. To name one, the National Distribution Agency was bought in 2012 with an equity increase of BGN 5 million and an endorsement of the previous shares by Irena Krasteva. The National Distribution Agency is in fact one of several major distribution companies in Bulgaria which deliver Krasteva and Peevski's newspapers – *Monitor*, *Telegraph*, *Politika* and others.

The smaller distributors were also purchased using the liabilities for ownership scheme, and thus by 2013 Karne M's group already included Press EOOD, which was delivering to gas station chains; Press 2000; the Varna-based ITA OOD; smaller players like the Has-kovo company Vest Press Ra; the Varna company Desislava 90–2002; another two companies from Varna – B Press and D Press; as well as the Burgas-based Media 5100 (the publisher of the regional daily *Burgas Dnes i Utre*¹⁵⁹). The latter three companies were owned by the same people. Most of these distribution companies were put under distraint by the National Revenue Agency after KTB's bankruptcy in an attempt to steer them outside of Tsvetan Vassilev's influence.

¹⁵⁸ Karne-M was used to get a hold of key distribution companies and substantial assets, including through cession agreements with KTB.

¹⁵⁹ Burgas Today and Tomorrow (translator's note).

The most active period of acquisitions by Karne M was 2011. It paid BGN 259,000 for the Haskovo-based Vest Press Ra and bought it precisely when the family-owned company had financial difficulties and was put under distraint by lenders. The deals for the Black Sea companies B Press, D Press and Media 5001 also took place at the beginning of 2011. Karne M paid BGN 188,000 for ITA OOD according to the company share transfer from 2010 available in the Commercial Register.

According to the report by AlixPartners, at the time of closure of the bank, the company had five loans with an outstanding principal of BGN 40.9 million, and the report of the Temporary Parliamentary Commission mentions six loans. The report by AlixPartners does not contain a loan from 2013, which was for a cession of receivables from Oil Energy Trading and most of it was repaid according to the second report.

While Karne M focused on acquisitions in Sofia and southeast Bulgaria, the key part in the southwest and northwest was played by VIP Properties. This company was founded in 2011 by Anna Yordanova Hristova at 8 Hubcha St., Fl. 3 in Sofia. This is yet another address shared by many of Tsvetan Vassilev's companies. Apart from that, Hristova was also Karne M's manager until mid-2013. VIP Properties was among the companies which took KTB money indirectly through direct lenders used as "fuses."

The group used this satellite company to gain control over Senator, which held the southwest (e.g. the towns of Blagoevgrad and Pazardzhik), and Olart, which had the northwest (e.g. Vratsa).

A TIGHT GRIP AND CONSTANT PRESSURE

The concentration of all of these distributors provided the group with the power mechanism and ability to control outside publishers by not paying them for the newspapers they made available for distribution. The use of this system became evident in 2012, when the publishers of *24 Hours*, *Trud* and *Bulgaria Dnes* publicly complained that the National Distribution Agency and several smaller distribution companies stopped paying them for their newspapers. At that time said newspapers were owned through Bulgaria Media Group by Ognyan Donev and Lyubomir Pavlov and were in open conflict with Peevski's group.

Media Group Bulgaria Holding sent a press release to the Commission for the Protection of Competition, the media and their readers in which they said, “for a few months now the National Distribution Agency and several other distribution companies, which receive every night tens of thousands of copies of the *Trud* and *24 Hours* newspapers, have simply stopped paying for them, as if they have conspired to do so.” This is why the publishers stopped distributing through them and invited other regional companies to continue accepting their newspapers. “All local companies were invited to have the newspapers they wanted directly. For example, Varna Press, Burgas Press, D Press and others,” continued Media Group Bulgaria Holding’s letter. Despite that, *24 Hours* and *Trud* went missing in Varna, Burgas and the seaside resorts. There was a simple explanation for this – the smaller companies were also under Peevski’s control.

THE ANTI-MONOPOLY WATCHDOG – EYES WIDE SHUT

The entire distribution scheme was exposed in 2013. More than that – the group received the blessing of the Commission for the Protection of Competition to consolidate over 80% of the Bulgarian press distribution business.

The reason for this consolidation goes beyond the newspaper business. Peevski, with KTB’s financial backing, had already acquired Bulgartabac, and newspaper distribution is also an important cigarette retail channel. Not to mention that some of the distributors also owned stands and kiosks for sales. Therefore, it made perfect sense that in the summer of 2013 the cigarette holding’s commercial company, Tabac Market, which had already bought out several major kiosk chains around the country, wanted to also acquire from Karne M a dozen distribution companies, including the National Distribution Agency. Therefore, the buyer asked the Commission for the Protection of Competition to allow it to concentrate eight companies – the National Distribution Agency, the Varna-based Varna Press – Avramova & Co, Odessos M, Alexandrov Press and Ita, the Burgas-based Bobi-Press, the Sofia-based Comex 92 and Vest Pres RA from Haskovo.

In connection with the request for concentration, the Commission performed a sector analysis¹⁶⁰ of the distribution market, but failed to see any connection between Karne M, Tabac Market, Senator, Olart, VIP Properties, Intermedia and Gerini Press.

The connections to some of the companies were indeed covert, but they were not impossible to find. Intermedia was controlled by the group around KTB through its main shareholder, GM Press, which had loans from a hollow company which was a debtor of KTB – Bullet 2007.¹⁶¹

Gerini Press Ad, which was controlled by the Gerini brothers and held southeast Bulgaria, everything south of Plovdiv until Burgas, as well as Dupnitsa, Vratsa and Samokov. Also, there was a third-party manager without whom the brothers could not lead their company. This person was named Yordan Kazakov.

In 2014, the Burgas municipality received a request from Bratya Gerini Press (a company subordinate to Gerini Press AD), Strela Agency – Burgas (controlled by the other major distributor, Strela Agency of *Trud* and *24 Hours*) and Burgas Press 2009. The request was for an amendment in the Movable Objects Regulation, which would allow a single owner to have multiple newsstands in the city. This was a plan hatched to impose Tabac Market's chain of pavilions under the brand Lafka, which caused major protests in 2014, in Burgas included. At that time the chairman of the Association for the Protection of Small and Medium-sized Businesses, Nikolay Dimitrov, said that all newspaper distribution companies in Burgas had ties to Delyan Peevski, including Gemini Press.

The other connections, however, were obvious, such as the one between Karne M and VIP Properties, in which the connecting element was one person (Anna Hristova). This easy-to-establish connection remained unnoticed by the so-called anti-monopoly authority. It turned a blind eye in the autumn of 2013 and thus made official the consolidation of a huge part of the newspaper distribution business in the hands of a player of Bulgartabac's calibre. The Commission's inactivity demonstrates that it consented to the group around KTB – Vassilev, Krasteva and Peevski – gaining a monopoly over the printed media market whenever it felt like it.

¹⁶⁰ Ruling No. AK T-1455-28.10.2013 „Commission for the Protection of Competition, November 6, 2013, <http://reg.cpc.bg/Decision.aspx?DecID=300038294> [01.08.2017].

¹⁶¹ See „Media Empire“, p. 93.

HOSTILE ACQUISITION VIA THE LEVERS OF STATE POWER

The state was an accomplice. It aided a group of private individuals which used it as a tool. Political favours, rigged votes in Parliament, lobbying by members of Parliament, pressure through the prosecution and the judiciary – and all this with a side dish of media volleys against competitors and undesirables. Events like this were commonplace in Bulgaria during Boyko Borisov’s first reign.

At this stage, the group surrounding KTB could already afford to use all means at its disposal in order to achieve its goals. There are a few crystal-clear examples of the ways to gain assets – through pressure and manipulation. They would sometimes use political lobbies, at other times – active media assaults; the third method was a combination of a very helpful prosecutor’s office and public lynching through the newspapers and televisions. All three scenarios are symptoms of a captured state.

THE YURI GAGARIN PACKAGING PLANT — ANOTHER GIFT FROM THE STATE

We already established numerous examples of the state being captured by the economic interests surrounding KTB. Yet another, and a most vivid one, where the state was used as a weapon to overtake the desired target, was what happened to the Plovdiv-based Yuri Gagarin Company for the manufacturing of cigarette packs, filters and cigarette tubes.

The group around the bank used its most potent instrument to gain hold of that company – a legislative hit on the opponent. In the case at hand, the *Tobacco and Tobacco Products Act* was amended in a way which prohibited part of the company's activities, forcing the owner to sell it. Several months after the ban Yuri Gagarin had a new owner, and the money for the transaction was provided by KTB.

WHY YURI GAGARIN?

Yuri Gagarin was the largest Bulgarian producer of packs and other consumables for cigarette manufacturing, such as filters and paper tubes. The company had been part of Bulgartabac Holding until 2006, when it was privatised as part of the Three-Party Coalition government's strategy for privatisation of the holding.

The Baranko EOOD company bought 67% for BGN 27 million through a stock exchange transaction, and subsequently transferred 18% of the factory to Comso Tobacco. Both companies were owned offshore, and the second one had as a shareholder for a short while the current member of Parliament and former district governor of Plovdiv, Ventsislav Kaymakanov. Ultimate control over Yuri Gagarin is considered to be First Investment Bank's (FIB), which was the main lender to the company for a long time after the privatisation.

The factory remained a main supplier of Bulgartabac Holding and its cigarette factories in Sofia and Blagoevgrad after its privatisation. In 2011, for example, over 60% of its revenue was from Bulgartabac Holding. Its business outside of Bulgartabac Holding, however, was growing quickly, including in the cigarette tubes sector, which was booming with the transition of many consumers to self-rolled cigarettes.

The tubes business was growing even faster than packs in 2011. This is why Yuri Gagarin invested in specialised machinery for their production. A year later, it also concluded an acquisition contract with a Hungarian company which focused on the same business. It was all financed by First Investment Bank, which secured the granted investment and cash flow loans with Yuri Gagarin's machines and buildings, according to the company's reports to the stock exchange.

LEGISLATIVE INTERVENTION

Bulgartabac's business expanded after its privatisation, in particular with the exponential growth of its exports, thus, a steady supply of packs and filters became extremely important. It was also important for the holding to secure a closed business cycle by putting Yuri Gagarin under its control. It is unclear when the first attempts to do so began. Most likely it was immediately after the privatisation. The battle was apparently bloody, since Bulgartabac's new owner had to resort to the legislature to conquer the supplying company.

The takeover tool was an amendment to the *Tobacco and Tobacco Products Act* which banned the sale and manufacturing of cigarette papers, also called tubes. This accomplished two goals. First, Yuri Gagarin's business was affected precisely where it hurt the majority owner most – cigarette tube manufacturing, which had been funded by First Investment Bank in order to expand.

Second, it was a demonstration of economic power over the competitors, including through the state apparatus, without outright ending the company targeted by the takeover. After all, the goal was not to destroy Yuri Gagarin, but just to bleed it enough to encourage the owners to sell.

The severe dispute between KTB and First Investment Bank about Yuri Gagarin is evidenced by something said by Prime Minister Boyko Borisov at the time. When the ban was voted on by Parliament, syndicates from Yuri Gagarin decided to protest, which caused Borisov's personal commentary¹⁶² in his typical fashion – he said “he would fix things” and would speak “with the two banks” to convince them to come to an arrangement.

THE TAKEOVER

The legislative amendment became effective on 3 July 2012 – nine months after the privatisation of Bulgartabac Holding, backed by Delyan Peevski's interests and KTB's money. Eight months later, the duo also assumed control over Yuri Gagarin.

The deal had two stages. On one hand, the Belize-registered company Droslian Limited bought Baranko and took over its liabilities of EUR 9 million to FIB for Yuri Gagarin. This is evidenced by the purchase and sale agreement in the Commercial Register. The deal was funded with a loan by KTB which amounted to BGN 18.8 million before the bank closure in June 2014. The money was granted to the company Droslian Bulgaria, registered shortly before the transaction, solely owned by Droslian Limited. The borrower had no actual reported activities to the Commercial Register. There were also no pledges in favour of KTB entered in connection with the loan.

The temporary parliamentary commission for investigation of KTB in 2015 apparently also did not pay attention to that loan, even if Droslian Bulgaria was one of many “special companies” for the bank's “investment activities.”

On the other hand, the Seychelles-registered company Desentia Limited bought Comso Tobacco, whereby FIB was finally pushed away from Yuri Gagarin.

After the transaction, workers from Yuri Gagarin were commenting as a matter of common knowledge that the factory had returned under Bulgartabac's roof, even if this only became official as late as 2015.

¹⁶² Desislava Nikolova, “Another Round of Preparations for the Sale of Yuri Gagarin,” *Capital*, February 21, 2013.

By the middle of 2015, the Commission for the Protection of Competition gave its approval for Blagoevgrad BT and Sofia BT to acquire Baranko from Droslian Bulgaria, and thus also 49% of Yuri Gagarin. Shortly afterwards, in the autumn of 2015, Delyan Peevski bought Comso Tobacco, and with it – 18% of the factory – through his company NSN Investment. Peevski also bought 100% of Desentia Bulgaria, which had been solely owned by the owner of Comso Tobacco – Desentia Limited, Seychelles. Desentia Limited was Yuri Gagarin’s creditor with a loan of BGN 12 million from May 2014 in accordance with data from the Real Estate Registry.

This is how Yuri Gagarin returned to Bulgartabac’s fold nine years after it was privatised, and Peevski played both a direct and indirect role.

A FINAL GIFT

In the meantime, Yuri Gagarin’s business had doubled both due to Bulgartabac’s growth and the emergence of new markets for the factory’s filters. When Peevski became a shareholder, the state found an excuse to also lift the ban on the production of cigarette tubes, which reopened the artificially blocked third venue for growth of the company.

The lifting of the ban was meant to happen during the term of the Oresharski cabinet, which was called “Peevski’s cabinet” even by Tsvetan Vassilev. At that time the Council of Ministers proposed a draft act to lift the ban, but it was never voted on. Boyko Borisov’s second cabinet, however, accomplished the task and brought the same proposal at the beginning of January 2015. The change was voted on and finally approved in March 2016. This is how the story went full circle – in 2012, the Member of Parliament Emil Dimitrov from GERB, notorious for his lobbyist legislative amendments during the first Borisov cabinet, and the Member of Parliament from DPS Kamen Kostadinov proposed the ban with the argument that it would stop illegal cigarette production, and in 2015 the Council of Ministers from the second Borisov cabinet lifted the ban for being in breach of European legislation.

The group around KTB and Peevski in particular enlisted the state’s help to acquire a business for over BGN 100 million. At the very least, this was Yuri Gagarin’s revenue in 2015.

THE DAILIES — 24 HOURS & TRUD

TWO NEWSPAPERS PRESSURED INTO THE MEDIA EMPIRE WITH HELP FROM THE PROSECUTOR'S OFFICE

"Ok, let's not beat around the bush. 24 Hours and Trud?"

"I don't know the current distribution of power, but their actual owners are Peevski and Vinprom Peshtera. Peevski took money from the bank for his share, and the Peshtera people paid for their own. We are talking about the deal where the newspapers were bought from Donev and Pavlov."

"Anyone else out there?"

"I suspect both Gocheva and Blaskov may have been given a share after the offensive against me."

This is an excerpt from Tsvetan Vassilev's interview for KTB-files, given at the beginning of September 2016. There, he explicitly confirmed what was supported by sufficient indirect evidence but had always been denied by the direct players. Namely that when the owners of both newspapers were changed and Ognyan Donev and Lyibomir Pavlov sold them officially to Venelina Gocheva in 2013, the acquisition was backed by KTB's money and Delyan Peevski's influence.

The exact mechanism of the deal and the companies used to funnel the money are not that interesting. The concurrent processes which led to this deal are more important. The processes were pure pressure through some of the most important state institutions which forced Donev and Pavlov to sell. As a result of the attack by his own media first, and then through the activation of the judicial and political system, Delyan Peevski finally added two of the most important dailies, *24 Hours* and *Trud*, to his media empire.

THE BACKSTORY

In 2010, the German group WAZ, publisher of *24 Hours* and *Trud*, left the Bulgarian market and sold the newspapers to a group of Bulgarian, Austrian and German businessmen. Ognyan Donev and Lyubomir Pavlov were on one side of the fence, and on the other – Hristo Grozev and his protégés Karl von Habsburg and Daniel Rutz. The role of the former was to procure most of the funding for the deal, and the latter had to guarantee to the seller that its newspapers would be in good hands. Delyan Peevski was interested in the two newspapers with influential positions on the Bulgarian market even then (with KTB's financial support), but Peevski was apparently undesirable to WAZ.

Shortly thereafter, an open and pitched conflict began among the partners in Media Group Bulgaria Holding (the company which owned the newspapers *Trud*, *24 Hours* and several more newspapers). The conflict became obvious with an entry in the Commercial Register, according to which 83% of Media Group Bulgaria Holding was transferred to Ognyan Donev and Lyubomir Pavlov. The change happened without the knowledge of the other partner in the project, the BG Privatinvest GmbH company registered in Austria, which owned 53% of the media group before that. When he learned about the sale, the group's representative Hristo Grozev demanded on the next day that all entries in the company file be blocked until the circumstances were clarified.

This was the beginning of a saga of entries, deletions, transfer attempts, court disputes and share distrains. The parties to the dispute claimed the following: according to Donev and Pavlov, their partners had not fulfilled their financial obligations undertaken when they bought the newspapers, while the group around Hristo Grozev maintained they were forcefully and fraudulently robbed of the shares due to them.

The scandal dragged on throughout 2011, and in the autumn a private judicial enforcer and the police entered the offices of both dailies. This measure was by request of Hristo Grozev, who had already been ousted from his position as shareholder, and the grounds were the security of a future claim Grozev and his foreign partners intended to file against their former partners Pavlov and Donev. The court accepted Grozev's petition and imposed a distrain on Media Group Bulgaria Holding OOD's property, which was

supposed to remain until the court ruling on the ownership over the group came into force.

In November 2011, Lyubomir Pavlov headed the Union of Publishers in Bulgaria, which had split in the meantime and was abandoned by the media from Peevski's sphere of influence.

MEDIA AND PROSECUTION SERVICES FOR PRIVATE USE

Between the end of 2011 and the middle of 2012, significant media pressure was boiling on several fronts. The dispute between the former partners and publishers of *24 Hours* and *Trud* forced Hristo Grozev to resort to firmer measures. He filed a money laundering report against Donev and Pavlov and claimed the purchase of the media group from the German WAZ was used to launder money from illegal activities. As a result, in June 2012 Donev and Pavlov were summoned for questioning by the examiners. Charges were brought against both: a total of three against Lyubomir Pavlov, for money laundering, documentary fraud and an offense under Art. 313 of the Criminal Code – incorrect documentation. The other co-owner of the press group, Ognyan Donev, was charged with money laundering.

Somewhere around that time, Hristo Grozev probably joined interests with Peevski's media, which started an active campaign against Donev and Pavlov. An open war broke out between Donev-Pavlov and Peevski's media groups with many first pages, photo collages and "investigations." TV7 was also mobilised, where Nikolay Barekov made his sensational finds on the "Healthcare Octopus."

24 Hours and *Trud* hit back using another storyline: Why is the state's money in KTB? At the same time, the Union of Publishers in Bulgaria, which was already headed by Lyubomir Pavlov, filed a petition to the European Commission for illegal state support granted to KTB, and from KTB – to Delyan Peevski's New Media Group.

Donev and Pavlov's cases were handled by judges with less than pristine reputations, as shown by an analysis¹⁶³ by *Capital*. The investigator on the case was Petyo Petrov. His name was known for

¹⁶³ Dimitar Peev, "Do You Know Any Prosecutors?" *Capital*, June 15, 2012.

one of the cases against Nikolay “Pileto” Metodiev. The Prosecutor’s Office established at that time that on the night when Metodiev trucks were detained, he had been talking to his girlfriend Tanya Ivanova, and she was sending text messages to Petyo Petrov, who was a prosecutor at the Sofia Regional Prosecutor’s Office at the time. Petrov’s name appeared in 2007 in the scandal with Rumen Ovcharov, Angel Alexandrov, Delyan Peevski and the accusations that the latter two had pressured Bulgartabac’s CEO at the time, Hristo Lachev.

The supervising prosecutor of the case against Ognyan Donev and Lyubomir Pavlov was Momchil Georgiev, who had been recently dispatched to the Sofia Prosecutor’s Office (according to sources from *Capital*, he was sent ad hoc for the case against Donev and Pavlov). He also had a number of embarrassing cases in his biography. Before he became a prosecutor, Georgiev was a preliminary investigator in the Sofia Directorate of the Interior, and afterwards he became an investigating officer at the Sofia Investigation Service, when its Deputy Director was... Petyo Petrov. They also worked there for almost a year with Delyan Peevski. Peevski was appointed as an investigating officer there without a competition and lacking the necessary work experience. He was proposed for his position by the director of the investigating service at that time, Angel Alexandrov (who prepared the report for the investigation against Donev and Pavlov).

Four years later, when he was already in exile, Tsvetan Vassilev gave an interview in Serbia to Sasho Dikov and explained the functioning of Delyan Peevski’s leverage in the prosecution. “After Tsatsarov arrived in 2012, there was hardly a major case which wasn’t ordered by the same power group which also ordered the hit on KTB. The first “job” was on Ognyan Donev and Lyubomir Pavlov because of the *Trud* deal.” When asked about Petyo Petrov, the banker quoted Peevski’s words from a private conversation with him: “Petyo “The Euro” is a genius of a crook – give him a bottle of whiskey, he’ll drink it and he can cook up whatever accusation you want, for any you name...”

THE PRESSURE LETS UP AND A SALE FOLLOWS

KTBfiles contacted all direct participants in the events at the time, but no one wanted to be quoted. However, their words make it clear that the next sale of the media group was achieved after pressure from the highest levels. In the autumn of 2012, Venelina Gocheva replaced Pavlov as chairperson of the Union of Publishers. Soon after, she was also presented as the new person to direct the editorial policy of Media Group Bulgaria Holding's two newspapers. In the following months, Gocheva played an important role in the change of ownership over the newspapers. It was unofficially said a deal would happen soon.

The deal was preceded by several months of negotiations, talks and fine tuning of the scheme. During that time, Gocheva was already actively managing the media and was being primed to be their owner. She was supposed to keep the newspapers afterwards and sell the assets. That was also the beginning of internal censorship, as instructions were given about who could be targeted and who was out of bounds. According to information by people from the media, kowtows were due to the powerful people of the day – Borisov, Tsvetan Tsvetanov. They also had to take care what they wrote about Peevski – “Our distribution depends on him.”

Days before the closing of the deal, it was still unclear how exactly the funding was going to be provided. Until the last moment, there was an option to sell just one newspaper. Suddenly, Gocheva somewhat surprisingly announced she was buying everything – the media and their assets. Her confidence was a clear indication she had obtained all the necessary funding, and it was rumoured this happened after a meeting with Delyan Peevski at Gocheva's home. There is a curious detail here – Tsvetan Tsvetanov (a Bulgarian politician, former minister of interior affairs, currently deputy chairman of the GERB party) was an active party in the negotiations. Two of the participants in the events confirmed that for KTBfiles. Tsvetanov's role was to convince the former owners of the newspapers to sell them and act in favour of the prospective buyers.

Tsvetan Tsvetanov did not accept our invitation to comment on this.

The deal was concluded in May 2013, and Donev and Pavlov were pushed out of the publishing business. The official buyer was Pro News Bulgaria AD – a company registered at the end of August the previous year. It was owned at 99% by Gocheva at that time, while attorney-at-law Dimitar Marinov Dimitrov, the former CEO of Festa Holding, had one share. A check in the Commercial Register showed he was also in the supervisory board of Investbank as a representative of Petya Slavova's holding.

Donev and Pavlov sell the newspapers. Charges against them are dropped.

Ognyan Donev filed a claim against the Prosecutor's Office, and it responded after a three-year investigation by filing an indictment against him for tax evasion. This case is still [as of June 2017 – editor's note] underway in the court of first instance. The financing of the transaction for *24 Hours* and *Trud* was obtained with a complex and tangled scheme where money came from several sources. On one hand, Investbank signed a cession agreement with Unicredit Bulbank for EUR 10 million and assumed the liability created at the previous change of ownership, when the German group WAZ left the scene. Venelina Gocheva also used various companies to get loans from Investbank and KTB. The connection to KTB was uncovered later, after the Sayga Consult company, one of the failed bank's debtors, requested Pro News Bulgaria to be declared insolvent due to a non-performing loan of EUR 6.5 million. Gocheva explained to *Capital* that she was not aware of the connection between Sayga and KTB, and the money received from the company was related to a property sale agreement. According to her, it was a typical commercial sale of a highly attractive property – the Varna Printing House, which was built with superb German design on 0.22 ha.

During the summer of 2014, Gocheva gave an official statement that she had never taken a loan from KTB. "As everyone knows, in 2012 I bought the newspapers *24 Hours*, *Trud*, *168 Hours*, *Bulgaria Dnes* and the other editions of VGB.¹⁶⁴ I bought them with a loan from Investbank and when I took ownership, they were in a bad state financially due to the prolonged media war at the time. I concluded the deal after 25 years of work for *24 Hours*," Gocheva added

¹⁶⁴ Vestnikarska Grupa Bulgaria [Newspaper Group Bulgaria].

and revealed that her business plan included relieving the newspapers of unnecessary assets in order to pay the loan.

Gocheva was succinct to KTBfiles, but she confirmed her allegation that she had no liabilities to KTB and had no relations with the bank.

A document at KTBfiles" disposal shows how Vassilev and Peevski considered *24 Hours* and *Trud* their property. Their correspondence¹⁶⁵ from the time before the split contained negotiations about who was going to keep the two newspapers. Vassilev's words in his interview to KTBfiles also confirm this.

A year after the deal and shortly after KTB's bankruptcy, Delyan Peevski resurfaced around the media, although it was once again in the shadows. He was the real new owner of the Dimitar Blagoev Printing House, which hosted the newspapers from the media group. Officially, the buyer Carano Properties – Bulgaria paid EUR 15 million to the owners, Newspaper Group Bulgaria and Media Group Bulgaria Holding. Seven million euro were Carano Properties" own funds, even though the company had been incorporated half a year earlier, and the remaining EUR 8 million were a loan granted by Commerce Bank D. On the same day, the mortgages on the building (established in favour of Venelina Gocheva's company News Pro) were lifted and a new one was created in favour of the new financing institution.

The owner of the buyer was the Liechtenstein-based company Carano Establishment, founded a month earlier with a capital of CFH 35,000. The directors were Andreas Ignaz Schurti and Urs Daniel Hanselmann. This was the same attorney Schurti who handled the registrations of Bulgartabac's new owners when Delyan Peevski entered the holding. A few days after Carano acquired the two media's buildings, it was rented by the Peevski-related company Blagoevgrad BT.

This was the fulfilment of Peevski's aspiration of several years – to add two of the most influential dailies, *24 Hours* and *Trud*, to his media empire. He pulled it off by using state mechanisms in his favour and obvious pressure on the former owners of the newspapers. It was not by coincidence that the charges were dropped right when Donev and Pavlov sold their media. This case is a classic example of the workings of a captured state.

¹⁶⁵ See „The Face of Political Corruption“, p. 332.

PRESSURE ON INSURANCE COMPANIES

In 2008, Members of Parliament Yane Yanev and Dimitar Abadzhiev asked the Minister of Transport a pertinent question – why the state railway company BDZ had been insuring itself with Allianz Bulgaria for many years. A tender and a controversial change of insurers followed. The contract was awarded to Victoria, despite its offer being BGN 800,000 higher than the offer of Allianz.

Two years later, the topic of state company insurance was once again in the spotlight, although the actors were different. This time, the plot revolved around Georgi Hristozov, who was the director of the Maritsa Iztok II Thermal Power Plant, and also a member of the Board of Directors of Bulgarian Energy Holding between since 2013–2014. He had managed to put together a public tender with severely restrictive conditions which resulted in a transfer of Maritsa Iztok II TPP’s insurance to the Victoria Insurance Company. Tsvetan Vassilev was a member of the insurance company’s supervisory board and a minority shareholder. When KTB became the strategic financial partner of the Bulgarian energy sector, the group around KTB turned into an insurance “shadow.”

DEATH BY NEWSPAPER

On 17 March 2010, the *Monitor* and *Telegraph* ran identical headlines: “Octopus in the Energy Sector.”¹⁶⁶ In this period, “octopus”¹⁶⁷ was used as a strongly derogatory term to undermine the reputation of parties which the government or other centres of power re-

¹⁶⁶ Dimitar Peev, “We Serve All Kinds of Octopus, or How to Win Public Tenders with Newspapers,” *Capital*, March 19, 2010, http://www.capital.bg/politika_i_ikonomika/sedmicata/mediina_sergiia/2010/03/19/876019_oktopodi_servirame_vsiakakvi [01.08.2017].

¹⁶⁷ *Ibid.*

garded as enemies. The new target was the Allianz insurance company.

The articles claimed the Bulgarian company of the German insurance giant (Allianz AG holds 66.157% of Allianz Bulgaria Holding) and its affiliate, the Energy Insurance Company (50% owned by Allianz Bulgaria Holding) had “gobbled up BGN 200 million from insurance” of the property of state-owned energy enterprises. The allegations were served with a side dish of personal attacks on Allianz Bulgaria CEO Dimitar Zhelev and other managers in the company. The articles also quoted a reference by the Ministry of Economy, Energy and Tourism, a copy of which *Monitor* claimed to have and according to which in the period 2000 – 2007 state energy companies had paid the Energy Insurance Company premiums of over BGN 311 million, damages payments had been BGN 22.7 million, and the dividends paid to the four energy companies were BGN 1.5 million.

The information is slightly baffling. In 2007 alone, Energy had paid dividends of BGN 19.62 million, half of which went to the state enterprises in accordance with the financial statements of the company. The Ministry of Energy refused to provide a summary of the paid dividends when we asked explicitly on grounds of the Access to Public Information Act, citing that such information was not available in the Commercial Register. Assuming *Monitor* truly had information like this, either the newspaper misinterpreted the Ministry’s reference, or the Ministry lied. Since the Ministry refused to provide information, the question remains unanswered.

The reason for the coordinated campaign against Allianz surfaced on the next day.

The publications in *Monitor* and *Telegraph* were published one day before the decision about who was going to be awarded one of the largest public tenders of 2010 in the energy sector – for insurance of the assets of the Maritsa – Iztok II TPP against fire and other disasters. A four-year contract for nearly BGN 25 million was at stake. Naturally, the public procurement procedure attracted a lot of attention and four companies responded to the invitation to participate – Energy, Allianz Bulgaria, Bulstrad and Victoria.

VICTORY BY ANY MEANS

Energy Insurance Company was Maritsa – Iztok II TPP’s traditional insurer, and the power plant even owned 0.98% of the company, with state energy companies – National Electric Company, Kozloduy NPP, Mini Maritsa East, Bulgargas (the gas company was later replaced by BEH) – owning 48.02% of Energy Insurance Company. These shareholding ties allowed state companies to recuperate with dividends part of the money they were paying for insurance. The same ties, however, allowed the use of a clause in the *Public Procurement Act* which permitted no public announcement of a public procurement when supply contracts were concluded with companies which have at least 80% of their total annual turnover to connected companies.

This backdoor is a frequent, albeit criticised, practice in the insurance and energy sector. In this case, Maritsa – Iztok 2 TPP held a tender, but it was far from fair and transparent — the requirements were discriminatory and eliminated candidates from the get-go. For example, in order to be allowed to file an offer, insurers had to have at least a three-percent market share in general insurance as of mid-2009. This contradicts the logic and subject of the tender, which was for specialised insurance. The three-month period was nowhere near enough to allow the Energy Insurance Company to comply with this condition, as was stated in the insurer’s petition to the Commission for the Protection of Competition, which was filed subsequently. Such a degree of specificity in the selection criteria is usually a sign that someone was giving suggestions when the criteria were written.

Despite that, neither the principal BEH, nor the Commission reacted. Another decision by the Commission from a year later presents an interesting detail. According to it, “the requirement for a minimum premium income¹⁶⁸ does not provide an objective assessment for the insurer participating in the procedure...”

As expected, the company was not permitted to file a bid. The race was joined by the parent company Allianz Bulgaria, which obviously suspected the goal of the tender was to remove its affiliate Energy Insurance Company. Allianz was initially in the lead accord-

¹⁶⁸ Which is practically the same as a market share percentage (editor’s note).

ing to the technical criteria as compared to the other three companies allowed to present offers. Nevertheless, the insurer of choice was Victoria.

If all this does not raise doubts about the selection of Victoria, the subsequent actions of Maritsa – Iztok 2 TPP are a ringing indictment. It turned out the procedure for selection of an insurer had been stopped without anyone's knowledge. The reason was that the principal BEH delayed the approval for its initiation. A new procedure was announced instantaneously, on the same day, but this time the bid selection method was "contract without announcement." The reasoning for this move was another classic method to dodge the *Public Procurements Act* – they were in a hurry since the insurance would expire by the end of the month and a potential delay would leave the power plant uninsured. The only candidate invited for talks was Victoria Insurance. It somehow managed to win.

BEH refused to comment at the time, but *Capital*¹⁶⁹ quoted the energy ministry, according to which the holding wasn't notified about the cancellation and announcement of a second tender. The contract with Victoria Insurance Company was concluded on 31 March – just a day after the opening of the second procurement. The price of the insurance was BGN 22.7, VAT excluded. The remaining two candidates learned post factum that they had lost — on April 4, and Energy Insurance Company was not allowed to compete with Victoria and show whether it could give a better offer.

Energy Insurance Company petitioned against the power plant's methods in front of the Commission for the Protection of Competition, but the petition was not given due consideration. In its ruling¹⁷⁰ from 14 May 2010, the Commission decided that the insurer had to appeal the procedure for announcement of the tender, not the decision to announce the winner. This legal sophism can be formally justified – Energy Insurance Company filed documents for the tender despite considering the legal framework to be compromised. On the other hand, this is another example of the regulatory authority's legalistic approach allowed in practice to avoid any control over public procurement manipulation. After this case,

¹⁶⁹ Dimitar Peev, "The Fifth Estate: Racketeering," *Capital*, April 16, 2010.

¹⁷⁰ Proceeding No. K3K/211/2010. <http://www.cpc.bg/reg/Dossier.aspx?Dossier=300037106&uniq=2972010+%D0%B3+15%3A23+%D1%87>

Energy Insurance Company gained a firmer position on the energy insurance market, although with less brute force – it would resort to the standard procedural manoeuvres. It is interesting to note that in the period 2010 – 2012 Energy Insurance Company did not win a single proceeding with the Commission for the Protection of Competition when its opponent was Victoria Insurance Company. Apart from the Commission’s pivotal role, we must not forget the active media offensive accompanying the selection procedure, or the pressure applied to eliminate the opponent.

There are two other small, but attention-worthy details. First, Dimitar Abadzhiev – the person who asked in 2008 about the insurance of the state-owned BDZ and caused the parliamentary inquiry, was a frequent visitor to Tsvetan Vassilev’s office. This was discovered several years later, when a list of the banker’s visitors¹⁷¹ was leaked online.

Second, Georgi Hristozov – the director who organised the tender for insurance of the power plant, was among the state employees who had large deposits in KTB. According to the list of state officials who had money in KTB, prepared and distributed by the receivers of the bank, in the period 2009 – 2014 he had at least one deposit for nearly BGN 105,000, and his wife – for nearly BGN 94,000. He was, at the very least, a trusted client of KTB.

¹⁷¹ Nadezhda Chipeva, “Tsvetan Vassilev’s Meetings: with Regulators, Politicians, Publishers,” *Capital*, May 14, 2015, http://www.capital.bg/politika_i_ikonomika/bulgaria/2015/05/14/2533007_sreshtite_na_cvetan_Vassilev_s_regulatori_politici/ [01.08.2017].

POLITICS – TWO CLANS IN ACTION

PURPORTED POLITICAL OPPONENTS, THE CEBD AND THE MOVEMENT FOR RIGHTS AND FREEDOMS (DPS) ACT IN CAHOOTS OVER LEGISLATION CATERING TO THE INTERESTS OF PEEVSKI & CO.

“There are two clans – Peevski is one, and he’s everywhere, the other is the Prime Minister’s.” In the autumn of 2016, Tsvetan Vassilev explained in an interview for KTBfiles the mechanisms of state governance. According to him, it was ruled by the two clans – Delyan Peevski’s and Boyko Borisov’s, and they decided and distributed everything together. The former, apart from many other characteristics, was a Member of Parliament from DPS and considered closest to DPS Honorary Chairman Ahmed Dogan, and the latter was prime minister for two (already three at the time of publication of the book – June 2017) mandates.

Having in mind that Vassilev was an “inside man” and that he was part of the show for years, perhaps the authenticity of his claims should be at least checked.

The analysis of both parties’ political behaviour from Borisov’s first mandate proves that the words of the banker in exile seem to make quite a lot of sense. Playing at being enemies, the two parties had suspiciously harmonious opinions at some key moments, such as voting on major legislation. It should not come as a surprise that the key moments happened to serve the business interests of none other than Delyan Peevski and the group around KTB.

Here are a few specific cases.

The Yuri Gagarin case, which we already detailed,¹⁷² became notorious for the insolent demonstration of an open intervention and state support for one side in business dealings between companies. In this case, the business of the cigarette tube fac-

¹⁷² See „The Yuri Gagarin Packaging Plant — Another Gift From the State“, p. 198.

tory was banned with a law so as to allow its profitable purchase by companies connected to the Member of Parliament from DPS and Bulgartabac, after which it was subsequently permitted once again.

This was a landmark case, but far from the only favour granted by GERB to DPS in the first mandate. Before that, the ruling party approved the most market-unfriendly conditions possible for the privatisation of Bulgartabac – conditions which fit like a glove for an offshore company whose “unknown” owners were a curtain hiding Delyan Peevski and KTB’s money. The tobacco holding’s commercial chain, Lafka, received the most convenient locations nearly for free and invaded the entire Bulgarian market with the cooperation of local authorities.

The ruling party’s political gestures towards DPS on the parliamentary level were no less important. Some of them were of a more symbolic nature and were just an expression of a “friendly” attitude. Others, however, like the choice of members of the Supreme Judicial Council, the Inspectorate and of supreme judges helped Dogan’s party to retain and develop its hold on the judiciary. These positions were crucial for the functioning of the Peevski – Vassilev apparatus.

BULGARTABAC INTENDED FOR ONE PROSPECTIVE BUYER (AND NO OTHER)

The tobacco holding was the crossroads where GERB and DPS’s interests obviously met during Borisov’s first mandate. After several unsuccessful attempts at privatisation over the years, which had always been undermined by DPS, in 2011 GERB managed to sell Bulgartabac. However, this happened according to the least market-oriented rules possible – the main factor for buyer selection was not the price offer, but social promises to workers and firms for the quantities of tobacco the company pledged to buy in the following years. You can find details about the transaction here.¹⁷³

Candidates were also squeezed through a fine-grained financial sieve which narrowed even further the range of possibly inter-

¹⁷³ See „Key Deals – Bulgartabac“, p. 175.

ested participants down to a group of one: the Vienna-registered BT Invest, property of the Russian bank VTB Capital, which was also a shareholder in KTB at that time. The Citigroup consultancy company was hired to prepare conditions for the best possible deal, but despite this, the sale of Bulgartabac was purely a political move. The procedure was conducted by the Privatisation Agency, whose leadership was selected on a political basis. The Executive Director Emil Karanikolov was appointed in May 2010 with Boyko Borisov's signature, and the members of the supervisory board were chosen by Parliament.

Citigroup insisted on a deal based on the best possible price, but precisely GERB's representatives in the supervisory body (Sofia Deputy Mayor Yulia Nenkova, who was chairperson of the Commission for the Protection of Competition in June 2017; Orlin Ivanov – currently a member of the Municipal Council; and the businessman Mihail Vladov) changed the conditions and added the tobacco-based and social requirements. "Our decision was coordinated at the highest level, with Prime Minister Boyko Borisov. He insisted on social undertakings and guarantees for the livelihood of tobacco growers," Yulia Nenkova explained. The proposal was supported by all party representatives in the supervisory body with the exception of BSP, whose representative was the only one to vote nay.

The outcome: BT Invest bought almost 80% of the tobacco holding for EUR 100 million, and many Bulgarian names were hidden behind the company.

The contract with BT Invest was already signed when the transaction was discussed by the Parliamentary Economic Commission. DPS Deputy Chairman Yordan Tsonev was simply delighted with it. Regarding the elephant in the room – the fact that a certain bank obviously had no interest in owning a cigarette factory and was apparently buying on behalf of someone else – Tsonev said it was not always possible to reveal the end owner in a privatisation deal and that the state had enough guarantees that the holding's activities and employees would be protected. "We will insist on subsidies for tobacco growing and fulfilment of the buyer's undertakings," he said. In the next several years, GERB complied with his directive and continued supporting DPS's tobacco empire, providing tens of millions per year in the form of state aid for the sector.

Even before BT Invest submitted the bid, it was whispered in the corridors of power that Bulgartabac's privatisation was a deal between GERB and DPS, that the procedure had to be custom-fit to one specific buyer. Despite that, almost all parties supported the deal, for lack of courage or for dividends. Against this background, only a few Members of Parliament openly interpreted the events as a handout to DPS and their electors.

"The deal is obviously political, because it makes no economic sense. The buyer selection criteria are an outright collaboration between GERB and DPS," Georgi Kadiev (BSP) said before the media.

Under Borisov's personal guidance and with the blessing of almost all parties, the Privatisation Agency sold Bulgartabac to the DPS – KTB coalition, poorly disguised behind a Russian bank.

THE STATE STEALS A BUSINESS TO HAND ANOTHER GIFT-WRAPPED PRESENT TO BULGARTABAC

Only a year later, the state handed Bulgartabac another gift-wrapped present with such insolence that Brussels initiated punitive measures against the country. The Yuri Gagarin case became known on June 19, 2012, when it was already too late – on this day, the amendments to the *Tobacco and Tobacco Products Act* were sneaked in between hearings and were already in Parliament for confirmation. With them, the MPs conclusively banned the sale and manufacturing of unfilled cigarettes with filters, so-called cigarette tubes, thereby dealing a blow to their largest manufacturer in Bulgaria, Yuri Gagarin.

The text of the amendment was proposed by the GERB Member of Parliament Emil Dimitrov (nicknamed "The Cig"), who held the dubious distinction of lobbyist number one during Borisov's first cabinet, on the grounds that it was a measure against the illegal cigarette market. Apart from his arguments being obviously groundless, Dimitrov was also in conflict of interest. His company Simeon 2, which he had transferred to his mother upon becoming an MP, was a direct distributor of Bulgartabac Holding, and subsequently became part of the largest national logistics chain for cigarette de-

livery. This fact, however, led to nothing. Dimitrov's proposal was further elaborated by his colleague from DPS Kamen Kostadinov, who eased in the text prohibiting the manufacturing of cigarette tubes. "This amendment was personally made by Kostadinov and the group was not notified of it," said DPS Deputy Chairman Aliosman Imamov at the time, as quoted by *Capital*.¹⁷⁴

Some displeasure was also shown in the floor of Parliament, where Imamov voiced a number of criticisms of the proposed amendments to the law. The culmination was when the seven MPs from DPS who attended the session voted against the amendment.

The only other MP in the hall who spoke against the changes was Mihail Mihaylov from the Blue Coalition. His arguments were based on principle: there were no grounds to ban the sale of cigarette tubes with filters; this was a gross violation of the sale of goods which were in compliance with all stated requirements; there was not a single European country with such a prohibition. Both Dimitrov and Kostadinov argued with him, maintaining it as "an attempt to fight against contraband cigarettes." Mihaylov was heckled by Iskra Fidosova (GERB), who asked him twice from her seat whom he was lobbying for. According to sources from GERB, it was precisely by her instructions that the ruling party's MPs approved the ban. It was adopted¹⁷⁵ with 69 votes yay, 10 nay and 9 abstained.

This dealt a blow to a major business – the ten or so producers in Bulgaria had a total annual turnover of nearly BGN 100 million. Yuri Gagarin – Plovdiv was the most severely affected.

Suggestions and rumours quickly arose, indicating that the goal of the legislative amendment was to pressure and weaken the factory's position and to enable its profitable purchase by Bulgartabac. Petko Manev, chairman of the Plovdiv-based factory's syndicate, even said this openly before the media: "The purpose of this text, which is openly lobbyist, is to bankrupt our company, buy it dirt-cheap, return it to Bulgartabac's fold and when the holding is resold to the current players connected to it, its value will be higher. These rumours are circulating in the sector, and we believe them

¹⁷⁴ Veselina Gospodinova, Desislava Nikolova, "A Targeted Business," *Capital*, June 22, 2012.

¹⁷⁵ http://www.ktbfiles.com/wp-content/uploads/2016/01/Popravkata_YUrij_Gagarin_glasuvane_po_grupi-PDF-1.3-MB.pdf?x21734

for the most part, since it makes sense that the holding will be more valuable if it once again closes the manufacturing cycle with these additional materials.”

This was exactly what happened.

Meanwhile, the affected companies notified Brussels of these events. Since the adopted amendments were in breach of the “Treaty on the Functioning of the European Union” and its provisions on free trade between member states, the European Commission announced in the summer of 2014 that it was preparing a punitive procedure against Bulgaria. However, the goal of the amendments had already been achieved and DPS and BSP’s cabinet hastily approved a “counter-amendment” which lifted the ban on the sale of cigarette tubes. Because of the resignation of the Oresharski cabinet, it could not be adopted by Parliament. This happened in the first reading in September 2015 – during the second Borisov cabinet – when it passed with no debate.

This is how GERB and DPS, acting in cahoots, gave a demonstration of how it was possible to remorselessly steal a business with some help from the state. The combination was simple, yet effective. Someone (i.e. Peevski) wants to buy a company, the owners do not want to sell, at least not under the offered conditions. Then state power comes to the rescue, takes a legislative axe to the company’s business, then the person who ordered the hit scoops the company up, and business is once again permitted.

GOVERNMENT-AIDED ALL-OUT TAKEOVER IN THE DOMESTIC MARKET

Support for DPS’s tobacco empire did not end here. The state did a favour for the holding, so it could expand and strengthen its dominant position on the domestic market.

Just a week after the adoption of the scandalous Yuri Gagarin amendment, Parliament, probably because of the media outrage, just barely failed to adopt new excise duties which would have almost doubled the price of imported cigarettes. At the same time, Bulgartabac and Kings Tobacco’s cheap cigarettes would not change their price noticeably.

What did not happen then was carried out in September 2015, during Borisov's second cabinet. At that point, Minister of Finance Vladislav Goranov proposed for approval to the Council of Ministers, without any public discussion, amendments to the *Excise Duties and Tax Warehouses Act*, which restructured excise duties in a way which ensured a minimum price increase for Bulgartabac and Kings Tobacco's cheap cigarettes, and a much more substantial increase for the more expensive imported brands. The explanation was once again the same – "an attempt to reduce contraband." If the cheap cigarettes remained cheap, people wouldn't be encouraged to buy cigarettes without an excise stamp.

The change was finally adopted in November 2015 with 95 votes yay, 31 nay and four abstentions, and the amendment came into effect at the beginning of 2016. GERB provided the largest support for the project with 59 votes, as well as DPS, whose 23 MPs unanimously approved.

Another sequence of events had happened beforehand. In the summer of 2012, the already privatized Bulgartabac engaged in an aggressive offensive for retail sales on the domestic market through a network of its own kiosks branded Lafka. Once again, the company did not resort to a market-based approach in this undertaking but relied on state support instead – in this case, local authorities, which helped it get the most attractive locations, literally on each block.

The first city to fall under Lafka's siege was Blagoevgrad, and the same technology was replicated in most other major cities in the country: Bulgartabac Trading (an affiliated holding company created for distribution of its own products) hands the municipality an investment offer to place cigarette and newspaper kiosks in the town. The Mayor, Atanas Kambitov (GERB), personally proposes it for discussion to the municipal council, which is all for it. The pleasing detail here is that the points of sale are provided without any tender or competition. They are located on top-notch spots in the central parts of the town, in residential neighbourhoods and at public transport stops and are located just meters away from pre-existing stores.

"I think the offer will be to the town's benefit," said Mayor Kambitov. According to him, the tobacco holding's offer was both legal and expedient, because it was for the long term and would be profitable to the municipality. Over 100 other retailers, kiosk rent-

ers and stores in the town, who won their points of sale at a tender and were paying many times more for rent, thought otherwise. They regarded this as unfair competition with the backing of local authorities.

Despite the scandal, Bulgartabac Trading's offer was approved with 21 votes yay, 7 nay and 4 abstentions. The other retailers petitioned the Blagoevgrad Regional Prosecutor's Office, sent a letter to Prime Minister Borisov and filed a petition with the Commission for the Protection of Competition.

"The district governor Kostadin Hadzhigaev told us at a meeting that he would probably be pressured by GERB to accept this ruling," the unhappy retailers wrote to the prime minister.

As it turned out, the district governor really did not object to the decision of the municipality. The response from the prime minister's cabinet said they would request information on the case. Nothing else happened.

Over the next two years, Bulgartabac used the same scheme to dominate retail trade with cigarettes and newspapers in almost the entire country. Even if no representative of party organizations in the various cities admitted the existence of a party order, multiple cases in various towns showed how Bulgartabac holding's offers were accepted by municipal councils with a GERB majority. Nowadays, it is difficult to turn a corner anywhere in the country without bumping into a Lafka.

FORGING AN (UN)SAFE POLITICAL PACT

Apart from the common business interests during the first Borisov cabinet, GERB did DPS a number of political and parliamentary favours. Some were purely symbolic, others were tit-for-tat, and still others were part of the well-oiled machine for political influence in the judiciary system.

Some time before the resignation of the Oresharski cabinet, for example, Borisov decided to warm up his relations with DPS. At the historical "coffee meeting" with Lyutvi Mestan in Kardzhali, March 2014, he managed to negotiate and receive DPS's support for the vote about GERB's candidate for deputy chairperson of the Central Election Commission. GERB returned the favour soon after

and amended the *Electoral Code* in a manner which ensured an additional seat for DPS on the Commission.

This political course continued in June 2015, when Borisov's party made a compromise and supported DPS's proposal for an administrative rehabilitation of the Turkish names of people affected by the so-called Revival Process (forceful attempt of assimilation of Bulgaria's Muslim Turkish minority under the communist regime by changing their names to Bulgarian names and forbidding the exercise of their customs, religion and language). Shortly beforehand, the National Assembly recognized for the first time the Armenian Genocide in accordance with international practice. After Prime Minister Borisov's personal insistence, however, the international term "genocide" was replaced with the Bulgarian word combination "mass extermination."

Even if these political gestures were more symbolic in nature, others were infinitely more practical. DPS's influence and strong position in the judiciary system had been well-known for many years, and GERB not only failed to try at all to change that, it cheerfully cooperated for the preservation of the *status quo*. GERB itself even ventured into the profitable business of judicial lobbyism.

The first example appeared in the summer of 2011, when Parliament, after nearly two years of dragging its feet, filled two empty seats on the Supreme Judicial Council. The election of Appellate Prosecutor Nestor Nestorov and Investigator Kiril Gogov caused public outrage and negative reactions from professional organizations because of the former's questionable biography and the latter's unimpressive achievements. This failed to move the members of Parliament, and the vote revealed an intriguing distribution of power: Gogov received the votes of 82 from GERB, 23 from DPS and 10 independent MPs, and Nestor Nestorov – 64 from GERB, 29 from DPS and 10 independents.

The obvious arrangements between the parties were also put into practice for the selection of new members of the Inspectorate of the Supreme Judicial Council, which was also held in the same year. Over the next year, GERB, DPS and a "select circle" of several BSP and independent MPs joined forces to elect the highly controversial deputy chairperson of the Supreme Administrative Court (SAC), Veneta Markovska, as a member of the Constitutional Court.

The president was the only reason she did not take office, as he refused to sign the order for her appointment.

These aligned policies – sometimes directly related to Delyan Peevski's interests (and Tsvetan Tsvetanov's, while he was still on the team), at other times to more distant scenarios – showed the two nominally opposed parties always had behind-the-scenes talks and furtive deals.

MAKE-BELIEVE WATCHDOGS BEGGING TO AID THE MODEL

VASSILEV-PEEVSKI DEALS AIDED BY THE ANTI-MONOPOLY AND TELECOM SECTOR WATCHDOGS UNDER THE BENEVOLENT GAZE OF THE BULGARIAN NATIONAL BANK

The political support of the KTB model went hand-in-hand with the support the inner circle of the bank received from state institutions, especially from the watchdogs.

Had there not been channels through which to exercise that political influence, the empire funded by KTB would not have thrived. The CRC and especially the CPC went to great lengths so that Peevski and Vassilev – both together and individually – could painlessly acquire key businesses and assets. The CRC played a sporadic role, compared to the CPC. The former mainly aided the efforts of companies close to Vassilev to gain control over digitization, while the antitrust body used its broad powers to play an active role in dozens of other sales and transfers of shares and companies linked to the KTB duo.

DIGITALIZATION

The process of switching from analog to digital television was a case in point of how the large-scale modernization of a whole industry could be structured to serve certain private interests. “The Peevski-Karadimov duo, along with with Veselin Bozhkov¹⁷⁶ came up with the whole idiotic plan for Bulgaria’s digitization. That’s where all the problems with digitization stem from,” said Tsvetan Vassilev in an interview for KTBfiles. However, he himself was the big winner

¹⁷⁶ The then-director of CRC.

who had benefitted from this plan by monopolizing the distribution of digital television. More information about the deals and the implementation of the digitization plan can be found here.¹⁷⁷

Now we'd like to shed light on the role of the watchdogs, the main groups of "culprits" around KTB. Sometimes the two state bodies chose to turn a blind eye. Other times they initiated controversial legislative actions. Moreover, the heads of the two main regulators – the CRC and the CPC – stayed in power for years and thus ensured continuity between successive governments, casting aside public interest in favor of *private expediency*, another sign of the state capture.

In the meantime, key state officials, including deputy-directors, went to work for companies linked to KTB once they completed their terms or stepped down from their posts.

PREPPING THE GROUND

After three idle years, in the spring of 2009 the state rushed to launch the digitalization project, with enthusiasm unusual for the state administration. At the end of its term, the Three-Party Coalition government promptly adopted changes to the law so as to eliminate any competition in the NURTS deal, including the Austrian company Oesterreichische Rundfunksender, ORS, which had announced its plans to buy NURTS and to participate in the tender to establish a chain of multiplexes as early as the end of 2008. The CPC also chipped in to limit competition by delaying the procedure and initiating an in-depth market survey. Later it turned out that the tender winners selected to build five multiplexes – the Slovak Towercom and the Latvian Hannu Pro – were linked to Tsvetan Vassilev.

At the same time, he owned the channel TV7 and sponsored BBT, even though officially he was listed as a consultant.

A number of leads,¹⁷⁸ however, gave away his connection with those two television channels. In fact, from a certain point on even Vassilev himself did not try to conceal it. But the CRC could not

¹⁷⁷ See „Digitalisation — Continued Expansion of the Business Empire“, p. 109.

¹⁷⁸ See „Digitalisation — Continued Expansion of the Business Empire“, p. 109.

establish any actual links and dismissed those concerns on the grounds that the two companies did not officially own television stations and thus their selection did not violate the rules.

In 2010, a little-known offshore company called Mancelord Limited announced that it had acquired 50% of BTC's shares in NURTS.

The representative of the firm, registered in Cyprus, was Tsvetan Vassilev's Bromak, along with Bozhidar Miladinov. A bit later Mancelord also bought Towercom Bulgaria. Both watchdogs easily approved the deals, despite the shared offshore ownership, despite Miladinov's involvement, despite the open secret that KTB controlled all these companies.

"The communication regulator does not check the company's ownership, but rather the impact the acquisition will have on the market," said Veselin Bozhkov, the then-CRC chairman. Petar Rendov, one of the commission's members said in an interview for *Capital Weekly* that the regulator did not have the authority to monitor media concentration. It is unclear how CRC could estimate the deal's impact on market share without verifying who was behind the potential buyer.

A number of sales and resales between offshore companies followed in the subsequent years. However, at the time neither the CRC nor the CPC initiated any checks. On the contrary, they readily approved any change of ownership, despite media publications about the alleged links between all the companies involved.

In 2015 Tsvetan Vassilev personally admitted that he had been funding both NURTS and the multiplexes project, a move made possible by the cooperation of both the CRC and the CPC. As a result, the Court of Justice of the European Union found that the Bulgaria had breached European rules for electronic communications, and the digitization itself failed as well.

A FREQUENT GUEST

CRC's rulings raised concerns over whether its decisions obeyed solely the letter of the law. Was it merely coincidence that CRC Director Veselin Bozhkov was one of two heads of regulators (the other one was the Financial Supervision Commission's director, Stoyan

Mavrodiev) who frequented Tsvetan Vassilev's office,¹⁷⁹ according to leaked documents, revealing the names of people who met the banker at his office.

Bozhkov, who was born in 1960 in Botevgrad and an ally of the Socialist party, studied in the Soviet Union. In 2007 the then-Prime Minister Sergei Stanishev and then-leader of the Socialist Party appointed him as the CRC director. Bozhkov often attended meetings of the BSP's parliamentary group while the party was in power. Five years later, the next Prime Minister Boyko Borisov, the leader of center-right GERB, extended his appointment for another term.

Some CRC members who had worked for the agency until 2010 transitioned to unexpected careers. One of them was Petar Rendov, who had been working for the commission since 2002. His tenure at the agency expired in October 2010. From April 2011 to July 2013 Rendov served as the director of a company called Transmission TechnoLogic Consult Ltd, a consultancy company owned by lawyer Zina Trifonova. She was a former CRC member until 2006, who later started consulting for Vassilev-Peevski's businesses. She was a lawyer representing NURTS when the company was already part of the duo's network.

Svilen Popov used to head the CRC's Permissions and Frequency Planning Department. During the last days of the Three-Party Coalition government, he was appointed as a member of the regulator. But he was dismissed 10 months later – in April 2010, after Borisov's government had adopted legal amendments which cut the number of CRC members from nine to five.

Later Popov became executive director of NURTS after offshore companies connected to KTB gained control of it. The other CEO was Emil Atanasov – former deputy chairman of the FSC, also appointed by the Three-Party Coalition. GERB dismissed him once they came into power. Atanasov was also one of KTB's clients.

The names of Rendov and Popov appeared on the list¹⁸⁰ of people with KTB deposits. The document revealed that Rendov

¹⁷⁹ Nadezhda Chipeva, "Tsvetan Vassilev's Meetings with Regulators, Politicians, and Publishers," *Capital Weekly*, May 14, 2015, https://www.capital.bg/politika_i_ikonomika/bulgaria/2015/05/14/2533007_sreshtite_na_cvetan_Vassilev_s_regulatori_politici/

¹⁸⁰ http://www.ktbfiles.com/wp-content/uploads/2016/02/Vlojiteli_fizicheski_lica.pdf

had a deposit of EUR 67,000, while Popov had almost BGN 425,000 (EUR 217,500) in his bank account, and another BGN 125,000 (EUR 57,500) under his wife's name. Back then another CRC member, Radoslav Ilievski, had deposited a total of BGN 68,000 (EUR 34,000) and his wife about BGN 80,000 (EUR 40,000) in the bank. Ilievski was a former MP from the Socialist Party from 2001 to 2009 and a former mayor of Dolna Mitropolia, a small town in Northern Bulgaria. Just like Svilen Popov, he was among those appointed as CRC members in July 2009 and dismissed in March 2010.

COMMISSION FOR THE PROTECTION OF COMPETITION – A VITAL REGULATORY BODY

Considering the myriad of companies gravitating around the KTB orbit, the key role played by the antitrust body came as no surprise. It approved dozens of mergers linked to the KTB circle. Some of its rulings concerned quite large assets, such as BTC and Bulgartabac, but this did not prevent the body from demonstrating remarkable short-sightedness.

Petko Nikolov had served as the watchdog's head for almost 13 years, managing the agency for 10 months after his term expired. In July 2016, Yulia Nenkova took over. Nikolov was the longest-serving director of a state watchdog in the contemporary history of Bulgaria. Once a member of the former king's party, he had outlasted six different governments, a sign suggesting he was a person of certain qualities.

Nikolov was born in 1958 in Botevgrad, the same hometown as the CRC's head. He studied law and has a Ph.D. in economics. He worked as an attorney until 2001, when he entered politics as a member of the NDSV. Then he was appointed chairman of the Supervisory Council of the Privatization Agency at the time when Viva Ventures was allowed to buy BTC and another attempt to privatize Bulgartabac failed. Later as the CPC chairman Petko Nikolov once again was in charge of mergers involving those same companies.

The CPC director was not very keen on media and public appearances. He rarely commented publicly on the antitrust body's decisions. He gave no detailed, case-related information and spoke

with many legal terms on the rare occasions when he talked to the media. Perhaps the only media profile of him – a piece in *Sega Daily* from 2003 – read: “He is determined to pull the commission out of obscurity, transforming it from a mysterious Masonic lodge into a transparent institution that plays an important role in the country’s accession to the EU. “You, journalists, will be the judges of our work. We will inform you about any decision we make as well as the guidelines that are following in the decision-making process,” he promised excitedly.”

Today it is difficult to believe any of those promises, considering the lack of transparency which has dominated the institution’s work over the years. Allowing journalists to monitor the antitrust body’s work proved to be just wishful thinking. In fact, Nikolov constantly ignored not only any problematic links between companies in certain deals, but also media investigations and articles shedding light on those ties.

The same profile story on Nikolov also stated: “He vows not to allow certain circles to dictate the terms by which the commission does its work. “We refuse to be a tool for channeling certain interests and refuse to apply doubles standards in our decisions,” said Nikolov.”

While people who formerly worked with the Commission admitted that Nikolov was a good manager, they also noted that in recent years the CPC has become a closed institution, with its chairman keeping a firm grip on it.

In certain cases, the antitrust body’s work seemed to be skewing in a particular direction, for example: Delyan Peevski’s control of the media sector and his monopoly in the newspaper distribution; allowing strange and unclear changes in Bulgartabac’s ownership; the sale of BTC and NURTS; the digitalization and a number of cases of assets being seized following the KTB collapse – i.e. Dumarit and Technopolis.

SEE NO EVIL, HEAR NO EVIL, SPEAK NO EVIL

The multiple changes in Bulgartabac's¹⁸¹ ownership since 2011, when the company was privatized, are a case in point illustrating the CPC turning a blind eye. Despite a number of deals between offshore companies, the antitrust body did not investigate any further than the scarce information available. It did not verify who was behind the new investors, despite numerous stories and investigations alleging that Peevski&Co were allegedly the real owners of the tobacco producer.

When TGI Middle East acquired Bulgartabac (the same company bought Delyan Peevski's shares in March and April 2016: a 5% stake in Bulgartabac and 18% of Yuri Gagarin, shares which earlier he unexpectedly had publicly claimed as his), CPC examined the ownership of the firm and concluded that the buyer was owned by an individual without any other business and "the purchase is not expected to have an impact on the product and geographic markets in Bulgaria, since the nature of the activities of the participants involved in the concentration did not result in the identification of markets on which the deal might have an impact due to the lack of perspective."

Interestingly, the individual in question had not been officially announced, but according to unofficial sources the person behind the company was Ventsislav Cholakov, who had been managing some of Peevski's key business ventures.

In an interview for *Capital Weekly* attorney Nikolay Yanev, an expert in the field of competition law in Austria and Germany, described the CPC's decision regarding changes in Bulgartabac's ownership as "shocking in terms of their superficial and formal approach." According to him, the "CPC readily assumes that the individual who actually gains control over the company is an individual who is not involved in any economic activities, and conveniently omits his name on the grounds of commercial confidentiality – it's unclear why such information is regarded as confidential since he is not involved in any business activities. Thus, the antitrust body deprives third parties interested in

¹⁸¹ See „Key Deals — The Bulgarian Telecommunications Company (Btc)“, p. 168.

the deal (namely competitors of Bulgartabac) from exercising their right to challenge the concentration,” he said.

In blatant disregard for the rules, the FSC had allowed Peevski to repeatedly transfer his shares of the company without offering his shares to the minority shareholders. Thus, the FSC headed by Stoyan Mavrodiev violated the most important principle of the capital market: protecting the interest of small investors. In February 2014 VTB Capital sold its 79.8%% share of Bulgartabac to LIVERO Establishment, a newly registered company in Luxembourg, failing to approach first the other shareholder – the Austrian BT Invest.

According to the law, such a change of ownership requires the new owner to make an offer to buy up all the shares – up to 100% of the capital – to protect the rights of the minority shareholders.

LIVERO Establishment had never made such a proposal within the 14-day period following the acquisition, as required by the law. The FSC could also have requested such an offer or suspended the new owner’s right to vote, effectively preventing the buyer from having a say in the company’s development.

Legal amendments (conveniently introduced and approved with the support of DPS and GERB) put an end to the Yuri Gagarin cigarette packaging plant’s¹⁸² business. Then an offshore firm bought the company and, following a series of acquisitions, it ended up as part of Bulgartabac.

The antitrust regulator approved the deal “unconditionally.” Their ruling saw no problem when it came to transferring ownership from one offshore company to another, since Woodford and LIVERO, Bulgartabac’s owners at the time, did not exercise control over other companies, registered in Bulgaria.

The CPC also played an important role, allowing concentration of print distribution. At the end of 2013, the Commission authorized Tabac Market – a company that was allegedly a part of the Bulgartabac Group – to buy the largest distributor of newspapers, NAR, along with seven other distribution companies. Thus, the antitrust body legitimized the company’s dominant position, an extremely harmful practice with visible and lasting results. Prior to its decision, the anti-monopoly regulator launched a market research survey, then it approved the deal on the grounds that the sale would

¹⁸² See „The Yuri Gagarin Packaging Plant — Another Gift From the State“, p. 198.

not harm the competition in the sector. “The answers of the respondents¹⁸³ do not raise concerns about any harmful impact the deal might have on the competitive environment,” reads their decision.

“There is no dominant position in the newspaper distribution sector, neither on the vertical nor on the horizontal markets,” said Angelina Mileva, deputy chairman of the CPC and author of the industry report, in an interview for *Capital Weekly*. “Links and control are two different things,” she said in response to a question as to why the agency had ignored the coincidences of names and addresses of a large number of companies in the sector. On the whole, the Commission’s opinion was: “As a result of the deal, positive changes are likely to occur... in favor of the end-users.” With the support of the CPC, the cigarette holding had acquired the distribution companies in accordance with the law, gaining a powerful position in production, distribution and retail of both cigarettes and newspapers.

In the spring of 2016 a conflict between Nedyalko Nedyalkov, the owner of the online news site PIK, and Peevski along with the National Distribution company allegedly controlled by the latter, offered a rare behind-the-scenes look.

Nedyalkov started targeting none other but Petko Nikolov. He blamed him for allowing a monopoly in the sector. “As we work exclusively with official information, the name of Delyan Peevski was nowhere to be found in the trade registers in relation to the company you mention,” said Petko Nikolov, explaining the basic principles behind the work of the antitrust body.

After the split between Tsvetanov and Peevski, the CPC sided with the latter, issuing decision after decision in favor of Delyan Peevski and the companies linked to him, including ruling in favor of Vodstroi 98 in an appeal of a public tender; support to take over companies which used to be controlled by Tsvetan Vassilev prior to their feud (such as Technopolis and Dunarit); and aiding Peevski’s efforts to strengthen his position in certain sectors like media – e.g. the purchase of Channel 3.

¹⁸³ Municipal mayors, cited as competitors, since the majority of distribution companies work at regional level.

INDICATIONS OF DEPENDENCE

The CPC decisions involving Peevski and Vassilev – together or separately – are notable in two more aspects. First, the antitrust body would always address those cases promptly. They approved the acquisition of Technomarket by NSN Investments, which was owned by Peevski, in only 13 days.

It took the CPC seven working days to allow the New Bulgarian Media Group, owned by Peevski and his mother Irena Krasteva, to buy Channel 3.

Instead of checking their media market share, the CPC concluded by default that the deal would not impact the market “due to the lack of horizontal and vertical effects, as well as a lack of relations in linked markets.”

In June 2016, it took the antitrust body a record-breaking eight business days to allow the acquisition of Vodstroi 98, a leading construction company associated with Peevski, by another big company in the sector, the Varna-based Hydrostroy. Previously, the regulator had approved of stock transfers within Bulgartabac in less than ten days on two separate occasions. The only other case of such a speedy ruling took place at the end of 2016, when a company connected to Spas Rusev bought BTC. The CPC approved the sale in just nine days.

According to the law, the CPC has a month to decide a case and usually takes its time, often opting to launch in-depth market research, which allows them to delay the decision for a few months. For example, after Tsvetan Vassilev fell out with Peevski, the CPC pondered over the case for nine months before allowing BTC (then still under the alleged control of Vassilev) to buy NURTS back (also under his control).

The second thing the CPC’s decisions regarding Peevski had in common was the commission member Zornitsa Ivanova. She was the one in charge of a number of cases related to the businesses linked to the DPS MP, as demonstrated by a check of the public register conducted in February 2016 by *Capital Daily*. Those cases include the two changes in Bulgartabac’s ownership, the acquisition of Channel 3, Tabac Market’s (Lafka) purchase of distribution companies across the country, and complaints about public procurements related to Vodstroi 98.

The CPC claimed the information was false, saying that the newspaper’s check was incomplete because it did not include de-

cisions which were not available to the public (which in itself was quite disturbing, if true) and generally tried to downplay the role of the monitoring members on the watchdog's rulings.

Like the two CRC members we mentioned earlier, the name of Zornitsa Ivanova also appeared on the lists of setoffs and cessions compiled by KTB's trustees. She also used to have deposits at the bank worth close to BGN 200,000 (EUR 100,000).

Suspicious about the regulatory commission's members, however, do not reduce the responsibility of its chairman. A simple majority, that is, the votes of three out of five members (five out of nine prior to the 2010 legal amendments), is needed for a CRC decision. In fact, to make a decision only two out of three present members are needed to vote in favor.

In practice, however, the chairperson controls the whole administration, which means that individual experts do not have the resources, including staff, to work on a case that has not been pre-approved by Veselin Bozhkov.

The CPC, for its part, is a collective body, and the decisions are made with a minimum of four out of seven votes. Over the course of 13 years, however, Nikolov's authority grew so dominant that soon there was a majority of five members who consistently sided with him. Only two members dared to disagree with him from time to time on certain decisions, according to sources familiar with the work of the institution.

After a very long delay and with some reluctance, the government ended Nikolov's thirteen-year-long rule in July 2016. Shortly making this move, it introduced legal amendments that prevented the future directors of CPC – an important and ultra-powerful regulator – from serving more than one term. At the same time, however, they further widened CPC's already excessive powers – in the area of public procurement. The cabinet also appointed another loyal party member – former deputy mayor of Sofia from GERB and the former head of supervision at the Privatization Agency Yulia Nenkova – as the head of the antitrust body. This step prompted Tsvetan Vassilev to describe the watchdog in a blog post as “controlled by Peevski (formerly though Petko Nikolov, and currently though Yulia Nenkova).” So far, the CPC has not had a chance to demonstrate whether it will keep its old allegiance under the new government.

OUR FRIEND AT THE NATIONAL BANK

THE GOVERNOR OF THE CENTRAL BANK AND TSVETAN VASILEV NEVER TRIED TO HIDE THEIR CLOSE TIES

After KTB went bankrupt and Tsvetan Vassilev left the country, a number of interesting KTB-related documents and recordings leaked to the public. One such „leak“ was a video¹⁸⁴ showing the governor of the Bulgarian National Bank Ivan Iskrov and the majority shareholder of the Corporate Commercial Bank Tsvetan Vasilev in a festive mood, embracing each other over a microphone and singing “Go Back, Go Back, Maiden Kalino,” a popular Bulgarian song.

The two bankers have never tried to hide their friendship – not in public (at cocktail parties, for example), nor in private. This is why after the KTB bankruptcy, many wondered if what happened with the fourth-largest bank in Bulgaria was due to insufficient oversight on the part of BNB. Officially, the prosecutors did not press charges against the governor, but rather against those who were responsible for banking supervision in particular: Deputy Governor Rumen Simeonov and his successor Tsvetan Gunev.

Although Ivan Iskrov was not charged, political and BNB sources told us unofficially that he had always had a special attitude towards KTB. For example, in 2010 the government withdrew some of the state money deposited at KTB, as the former Finance Minister Simeon Dyankov claims: “Then we withdrew the money quietly. Why quietly? To avoid any opposition. The ministries, the state-owned companies as well as the bank itself had always opposed such moves. Then Vassilev would call Iskrov, Iskrov would call Boyko Borisov, then he’d call Dancho Tsonev, and he, outraged, would bring the matter right away to the financial commission, tell-

¹⁸⁴ “Ivan Iskrov and Tsvetan Vassilev Sing Together,” YouTube, November 27, 2016, <https://www.youtube.com/watch?v=o0LUPGmKBal> [01.08.2017].

ing them: You see, the companies will be destroyed and the banking system will crash.”

ISKROV FIRED. LONG LIVE ISKROV!

Ivan Iskrov was BNB’s governor for two terms. However, his appointment for a second term came as a result of a backroom political deal – struck by DPS, the NDSV and BSP, after an eleventh-hour plot.

In May 2009, Parliament approved Iskrov for a second term in violation of law. In fact, the vote should have been held three months later, after a new government had come into power. In the summer of 2009 GERB’s government took over from the Three-party Coalition cabinet.

Iskrov’s appointment for a second mandate during the Three-Party Coalition government was one of the government’s last secret agreements among the ruling parties. A few days earlier, the cabinet had made around twenty appointments in various key institutions, with the DPS and the Socialists calling the shots for most of the posts. In return, the NDSV got to appoint the new BNB governor.

Later, when the new government took over, Iskrov stepped down from his position, saying that his appointment should have taken place later and thus implying that his reelection had followed an improper procedure. One of the most popular candidates for his post was Kalin Hristov, who enjoyed the support of GERB.

Surprisingly, some MPs from the ruling party – Stoyan Mavrodiev and Dimitar Glavchev – introduced yet another candidate, none other than Ivan Iskrov. According to them, Iskrov could provide the necessary continuity to preserve the financial and macroeconomic stability in the country.

Following KTB’s bankruptcy and Iskrov’s delayed resignation, the topic about his second appointment again captured the media spotlight. The former finance ministry, Simeon Dyankov said in a television interview: “We and GERB’s leadership supported Kalin Hristov for the post. Later, in Parliament, however, some changes occurred. A relatively significant figure in Parliament but outside the government managed to make this last-minute change.” A day later, in another television interview, Tsvetan Tsvetanov, a former

deputy prime minister and interior minister, denied Dyankov's statement that someone had pushed for Iskrov's re-election.

However, Tsvetanov acknowledged that until the very last moment GERB had been discussing the nomination of Kalin Hristov and "did not recall" who had suggested Iskrov.

In an interview for KTBfiles, Dyankov recounted the events as followed: "Borisov promised me that Iskrov would not be reappointed for a second term. Kalin Hristov was the one who should have been appointed. We even met Kalin Hristov, and he had the general support of the entire [parliamentary] group of GERB. But this changed in the Parliament. I was in Brussels and Menda Stoyanova [Co-Chair of the Budget and Finance Parliamentary Commission, GERB] called me to tell me that Iskra Fidosova [Chair of the parliamentary group of the GERB party] had been literally from row to row, telling [MPs] that Tsvetanov had called her, saying: "We changed our minds. We support Iskrov now." In exchange, DPS would help us with the budget. This was the deal."

A BELATED RESIGNATION

Iskrov didn't complete his second term. He resigned a year after KTB's shutdown and three months before the end of his mandate. He announced his resignation with a letter,¹⁸⁵ which failed to mention KTB. Then he vanished from Bulgarian public life.

During the bank's worst week when panicked KTB clients started withdrawing their money in droves, the bank's majority shareholder had lunch with Iskrov, according to Tsvetan Vassilev. The governor was visibly scared, he was afraid of someone and did not dare protect the bank, Vassilev said. In an interview Vassilev said that it was likely that Iskrov had been blackmailed, alleging that Iskrov had accounts at foreign banks. He described Iskrov as a "broken man."

We requested an interview with Ivan Iskrov. We received the following response:

¹⁸⁵ http://bnb.bg/bnbweb/groups/public/documents/bnb_pressrelease/pr_20150623_a1_bg.pdf

In regard to your request for an interview related to the Corporate Commercial Bank, I would like to inform you of the following:

All decisions the BNB made regarding the Corporate Commercial Bank between June 2014 and July 2015 were published on the BNB's website, under the section Press Releases. A summary of the measures and actions taken by the Central Bank can be found in a report, titled "Events and Actions Undertaken in Relation to Corporate Commercial Bank AD and Commercial Bank Victoria EAD." The documents were submitted on the first working day of the newly-formed 43rd Parliament and published on BNB's website on October 27, 2014.

As of July 15, 2015, I am no longer the BNB's Governor, which is why at this stage I will continue to refrain from public statements on the issue.

I would also like to draw attention to the fact that the prosecution has not completed its investigation in relation to the KTB case. The prosecution is the state-authorized institution that has all the necessary legal means and resources to establish the objective truth.

Best regards,
Ivan Iskrov"

APPOINTING GUNEV – ONE OF OUR OWN

A key appointment – that of the deputy governor in charge of banking supervision – was made during Ivan Iskrov's second term, a move which seemed to be engineered beforehand and was directly related to the KTB case.

The deputy governor is the one who should monitor whether banks observe the rules and do not distribute loans to linked persons. This particular appointment is interesting for several reasons. First, Gunev was nominated at the very last moment, a move which came as a surprise for everyone who had been following the procedure. All along another nomination had been discussed, both in banking and political circles. Second, even though the term of the previous Deputy Governor Rumen Simeonov was close to an end, the change took place while an important bank inspection was pending – that of KTB.

The selection procedure is as follows. According to the law, the Governor of BNB (at that time, Ivan Iskrov) submits a nomination for a deputy governor to Parliament.

The BNB has three deputy governors who serve for a term of six years. Then Parliament has to vote on the nominated candidate. Usually some rounds of quiet diplomacy precede the nomination itself. The election of a new member of the BNB's Governing Council has to take place no earlier than three months and no later than two months before the incumbent's term expires. In that particular case, the deadline had to be moved earlier because it coincided with the resignation of Borisov's first government and respectively the dissolution of parliament. Rumen Simeonov's term expired on June 15, 2013, while the nomination for the new head of banking supervision was proposed on May 10. This was one of the first major appointments the government led by Plamen Ore-sharski made.

Until then everyone, including Rumen Simeonov, expected that he would keep his post. In an informal conversation with KTBfiles he confirmed that this had been the initial plan. However, during the last days of his term, Ivan Iskrov, nominated Tsvetan Gunev instead.

THE CONTENDER FOR THE JOB AND THE SURPRISE

Rumen Simeonov had been working for BNB for years. Before heading up banking supervision, he was the head of the Supervisory Policy and Methodology Department. In 2007 he took over from Deputy Governor Emilia Milanova with the support of the Socialists (during the rule of the Three-Party Coalition government). Milanova was appointed at the beginning of Kostov's government and served for two consecutive mandates. During her term, Bulbank sold KTB to a group of private shareholders hidden behind offshore companies. During Rumen Simeonov's tenure at BNB, KTB had been thriving and it had increased its assets significantly.

Tsvetan Gunev was also a BNB insider. Until then he had been responsible for one of the largest BNB departments, which was responsible for auditing the supervision in the financial institutions.

As an insider his advantage was knowing bank operations well and in practice, he would continue doing the same thing he had done so far – to supervise the banking sector. That was probably the strongest argument in support of his nomination.

A few months before his appointment, however, media publications raised concerns about lending to linked parties within KTB. In March of the same year, *Capital Weekly* published an in-depth investigation¹⁸⁶ on the same topic, outlining a number of pieces of evidence and facts.

In an interview for *KTFiles*, a source from BNB confirmed that following the publication of the story BNB had launched an internal investigation, which confirmed the facts revealed by *Capital Weekly*. KTB, for its part, tried to pressure BNB to impose a fine on the newspaper for publishing information that might harm the financial institution. In response, the BNB told KTB to diversify its loan portfolio, according to sources. There is no paper trail to support those claims. In May 2013, BNB launched an audit of KTB. The previous one had been conducted in 2010. *KTFiles* has a copy of the 2010 report¹⁸⁷ which clearly showed that the Central Bank was aware of the potential risks KTB faced. Rumen Simeonov was surprisingly dismissed as the head of banking supervision while the second inspection of KTB was pending. The audit started during his term and ended when his successor Gunev took over. The new audit report mentioned no problems, risks or concerns, according to two independent sources familiar with the results of the audit. In short, it was toothless. This reinforced the suspicion that Gunev had gotten the job as the deputy governor so he could make sure that BNB turned a blind eye to certain shortcomings.

In 2014, when a list of politicians and businessmen who had met with Tsvetan Vassilev at his office at KTB was leaked to the media, Tsvetan Gunev was among those who had visited the banker. At the time, he was the head of banking supervision and went to meet with the KTB majority shareholder in person after business hours.

¹⁸⁶ Nikolai Stoyanov, "The KTB State," *Capital Weekly*, May 29, 2015.

¹⁸⁷ See „The Deafening Silence of the National Bank“, p. 241.

THE DEAFENING SILENCE OF THE NATIONAL BANK

A REPORT, CLASSIFIED AS A "BANK SECRET," PROVES THAT BNB WAS IN THE KNOW ABOUT KTB'S TROUBLES

It is no coincidence that earlier we detailed the architecture of banking oversight in Bulgaria from 2012 until 2014. It is important to know who led those institutions, what the reasoning behind their nominations were, and how they did their jobs (or not).

After 2014, BNB faced fierce criticism as one of the main culprits for the ballooning and collapse of the insolvent bank. While the accusations against BNB are valid, they fail to address the real problem.

In the course of its investigation, KTBfile's team managed to obtain a document classified as a "bank secret" – the 2010 audit report – which illustrates the failure of banking oversight.

Pointing the finger at BNB or its banking supervision for the KTB bankruptcy misses a very important point. In fact, most indications suggest that BNB knew very well about the situation at KTB – including its risky banking practices and attempts to bend the rules. If we have to label this failure, it is a failure of management not of supervision.

Incompetence was not the reason for the failure. BNB's management deliberately ignored all the red flags. This conclusion is based both on the actions of the Banking Supervision Department prior to KTB's sudden ascent aided by political patronage and after that, when it sealed the KTB audits as confidential.

A NETWORK OF LINKED COMPANIES

A good example demonstrating that the Central Bank was aware about the network of KTB-linked companies can be found in the quarterly issue¹⁸⁸ of *Banks in Bulgaria*.¹⁸⁹

Concerning KTB's ownership until the end of 2007, the report listed Bromak as a majority shareholder, but also – TC-IME and Cor-si-5 as the next biggest shareholders which were linked to Bromak. Upon KTB's shutdown in 2014, subsidiaries of the former company had amassed a total of about 300 million lev in loans from the bank and the latter one (under the name Print Invest 1) – over 40 million lev in loans.

BNB only needed to look at the documents it had previously published to see a problem with large exposures to linked parties exceeding the legal limit. Revelations about TC-IME sounded even more worrisome, including subordinated debt issued and funded by the bank, and the use of its bank accounts to pay loans taken out by other companies... These conclusions about linked shareholders disappeared from *Banks in Bulgaria* reports in early 2008, shortly after Rumén Simeonov took over from Emilia Milanova as the deputy governor responsible for supervision of the banking sector.

At the same time Irena Krasteva's acquisitions in the media sector funded by KTB loans made headlines. However, Tsvetan Vassilev kept referring publicly to TC-IME as "my company" and present himself as the owner of the football club Botev – Plovdiv [owned by TC-IME]... So there was no reason to believe that the BNB suddenly suffered from amnesia. Moreover, unlike now, back then the media openly exposed those business ties. That is why it seemed as though the Central Bank's idleness when it came to KTB's growth in recent years was the result of a deliberate choice to abstain from its supervisory duties rather than an oversight.

Unofficially, former senior BNB officials also confirmed that there had been plenty of red flags which the bank's management

¹⁸⁸ BNB, *Banks in Bulgaria*: <http://bnb.bg/ResearchAndPublications/PubPeriodical/PubPBanksInBulgaria/index.htm?forYear=2007>

¹⁸⁹ *Banks in Bulgaria* is a quarterly publication issued by BNB's Banking Supervision Department. It contains a short analytical overview of the banking system over the past three months, supervisory regulations as well as reports about banks' incomes collectively and individually: www.bnb.bg.

chose to ignore. Interestingly, at the beginning of his term, it seemed as if Rumen Simeonov was aware of these practices in the banking sector. In an interview for *Capital Weekly*¹⁹⁰ he said: “I see the National Bank as a bank that serves the public, rather than a couple of shareholders.

It’s no secret that banks have primarily served the interests of their shareholders. [...] I do not claim that banks aim to fund only the business of their shareholders. It’s important to strike a balance. It is good when the balance is in favor of clients. That is, when a bank expands its customer base and limits its inside lending.”

To a question about whether the banking supervision department monitors inside lending, the newly-appointed deputy governor replied: „Besides those which have been reported by the banks, we can also find indirect clues, showing inside lending – based on a loan’s provisions or other criteria. We draw conclusions on how a bank is being managed. Usually, banks approve insider loans in such a manner so that it would seem that it does not violate the law.“

This was the exact opposite of what BNB’s management had tried to sell the public. In an attempt to escape responsibility, it claimed that KTB was a scam which managed to fool even the central bank.

THE INSPECTORS AND THE BANK

A report¹⁹¹ made by the Banking Supervision Department following an audit in the autumn of 2010 provided proof that even during the term of Rumen Simeonov, BNB was aware of the alleged violations at KTB. However, the document’s main conclusions and recommendations were rather vague and subtle, since the phrase “needs improvement” was the sharpest criticism in the document. To some extent, self-censorship and unwillingness to confront the bank’s management might have been

¹⁹⁰ “BNB’s Deputy Governor Rumen Simeonov in charge of Banking Supervision: Lending Limits – One Bank at a Time,” *Capital Weekly*, June 15, 2007.

¹⁹¹ http://www.ktbfiles.com/wp-content/uploads/2016/02/Doklad_BNB_2010.pdf?x21734

the reasons for succumbing to using such diplomatic language. The real pitfalls were buried further in the report. In 2010 the Banking Supervision Department described violations at KTB which corresponded to what the BNB found after KTB's collapse in 2014 – i.e. the bank's failure could hardly have come as a surprise.

For example, the report stated coyly: “the views of the management are in favor of encouraging the bank to serve clients who work with each other, and thus it aides them in managing their businesses,” identifying a “significant risk of concentration around a limited number of clients.”

For some of the examined loan files “funds coming from several companies: Fina-ST EOOD, Tehnologichen Tsentar-Institut po Makroelektronika AD (TC-IME), and Yulita 2002 AD, etc., have played a major role in repaying interest and principals.” While these conclusions were made back in 2010, BNB's report following the KTB collapse read: “Therefore, there have been deliberate and calculated efforts to use the accounts of TTS-IME AD for the purpose of hiding payments on existing loans by using new loans granted by the bank, which is difficult to prove formally based on the available legal provisions. We selected a number of companies, whose payments are being made from and to TC-IME AD, with some of the largest money transfers being made towards: Crown Media AD, Fina-ST EOOD, Integrirani Patni Systemi AD, (IPS AD), Fina-S AD, Bromak OOD, Technotel Invest AD, Vives AD, Ken Trade EAD, KTB AD, Varna Tower OOD, Balkan Media Company AD and others.” The 2010 report stressed the „lack of information for the reasons requiring a change in the provisions” when renegotiating debts, as well as for increasing the loan amounts without any formal grounds. They found multiple annexes changing the payment schedules and extending grace periods.

“Documents show that each subsequent annex is signed on the day of (or several days prior to) the maturity date of a principal scheduled by a previous annex,” BNB's auditors concluded. They also found incomplete loan files with a variety of documents missing and lack of business plans and economic feasibility for most of the reviewed loan records. All of the above were conclusions that BNB „surprisingly“ discovered after the shutdown of the bank.

KNOWN CASES OF ASSET CONCENTRATION

Perhaps the most important thing was that the BNB auditors were fully aware both of the concentration risks concerning state assets, as well as the risks of lending money to economically-connected parties.

The audit took place about a year after the first media stories about the concentration of state funds at the bank. Statistics show that the 30 largest depositors had a total of BGN 761,560,000 in the bank, which was 40.64% of its deposit base and 70% of its business deposits.

“Eighteen of those largest depositors are state-owned enterprises with deposits in the bank amounting to BGN 553,423,000. The total amount of state funds is BGN 609,786,000, or 33% of its deposit base (excluding banks) and 56% of business funds,” the reports read. Auditors took into account the explanation from KTB’s management that these were loyal clients, so the bank did not expect any large withdrawals; they highlighted the risk and recommended monitoring.

– Precisely what the auditors emphasized in their report – the risk of lending to linked parties – led to the bank’s collapse. As early as 2010 they warned that the bank had granted loans to 22 minority shareholders who, along with TC-IME’s bonds purchased by KTB, made up an exposure of BGN 267,718,000 – this amounted to 96.14% of the bank’s capital and 15% of its loan portfolio.

There were also direct connections between borrowers, which made up a quarter of the examined loan portfolio. Auditors explicitly underscored the cash flows between them that were used to repay interest and principal they owed the bank. The auditors listed several examples: Kritie had paid an investment loan of 20 million lev with funds from Print Invest 1, which itself owed KTB 30 million; Nik Komers received money from Dunarit and the Fina TS to repay its debts to the bank.

The fact that companies that were simultaneously debtors and shareholders of the bank raised suspicions even then that the bank’s own money had been converted into capital.

After the KTB insolvency, BNB found that a significant part of the funds used to increase its share capital – which in May 2013 grew by BGN 86,329,000 – as well as funds for contracts for sub-

ordinated debt after October 2011 for a total of 1BGN 83,848,000 “originally came from loans, granted by the bank itself.” It seems that clues about the self-funding loop described above emerged as early as 2010. The BNB could have interrupted it back then, if they had wanted to.

“Because of significant economic and business connections between clients of the bank, it is necessary to do thorough defining, analyzing and measuring of the concentration risk in order to apply the information in accordance with requirements and when identifying additional Tier 2 capital,” said BNB inspectors. However, there was no indication that their recommendations were taken into account.

In short, the Central Bank had indeed been “captured,” not by bringing it to its knees (a strategy successfully implemented at the Financial Supervision Commission), but by crippling its oversight by controlling some key figures. Both audit reports and the testimony of bankers and former employees at BNB confirmed that the bank’s failure had individual figures behind it. The ones to blame were not BNB or the Banking Supervision Department, but the respective heads of departments and deputy governors who had ignored all these red flags. While some of them have already been charged, no court proceedings have started against them.

Besides those who were deemed to be directly involved, we can only speculate whether the rest of BNB’s Governing Council and Bank Governor Ivan Iskrov in particular were familiar with the situation at KTB. We can only guess what kind of pressure and/or corruption tactics were in place, paralyzing the Central Bank for years. We can only hope that one day things will start to unravel when bankers and regulators’ claims clash in court.

THE FINANCIAL SUPERVISION COMMISSION AND ITS UBIQUITOUS ABSENCE IN KTB CASE

OR WHY STOYAN MAVRODIEV SHOULD ALSO TAKE
RESPONSIBILITY FOR CERTAIN IRREGULARITIES AT KTB

More than 20 meetings¹⁹² over the course of six months.¹⁹³ In other words, from July 8 to December 21, 2013, the chairman of the Financial Supervision Commission (FSC), Stoyan Mavrodiev, met Tsvetan Vassilev at the banker's office in Sofia on 15 Tsar Boris III Blvd., fl. 12 almost every week. He usually came with security, according to leaked records documenting the visits at the above address, drafted by the building's security guards.

Vassilev's lawyers initially confirmed the authenticity of these records, but later denied them. In the end, however, no one denied the content, including Mavrodiev himself. Instead, he said that he had met Vassilev on business matters.

Following a comment by Prime Minister Boyko Borisov that Mavrodiev was not a member of GERB and no members of the party were mentioned in the lists, Mavrodiev changed his account and said that his name had been added to those records later and that Borisov respected his integrity.

MAVRODIEV AS A CASE FOR INTEGRITY

In fact, Mavrodiev was more concerned about clearing his name before Borisov than clearing the FSC's image as an independent state

¹⁹² "Vassilev's Business Meetings. The List of Visitors to the Banker's Office or Who's Who in Bulgarian Business Circles," *Capital Daily*, May 14, 2015.

¹⁹³ https://docs.google.com/spreadsheets/d/1Fx_jxZtykYbQEnpyBIJBeedtKkvUqUcYd1g7Pz7qVl/edit#gid=261231683

body before the public. It seemed as if Mavrodiev cared more about the prime minister's approval than about the reputation of the institution he represented. In a democratic society with a functioning market economy the opposite is true – people are transient, but institutions are the watchdogs making sure that everyone follows the rules.

Mavrodiev's meetings with Vassilev were of special significance because he represented the second-most-important financial regulator in the country. FSC monitors the non-banking sector in Bulgaria, with assets worth over BGN 20 billion. Any misstep on behalf of the regulator could harm the interests of millions of insured people, including those who have paid social security, as well as investors on the stock exchange.

The fact that almost every week the FSC chairman visited the office of one of his subordinate banks, often after business hours or during the work day, for just several minutes, a length of time which is hardly enough to discuss anything important, indicated that the regulator and regulated bank did not bother to keep their distance. Moreover, the meetings occurred at key times when the FSC was deciding the fate of other supervised institutions and shortly before the bank was placed under special supervision.

However, Parliament – which theoretically could sanction the FSC for the activities and behavior of its chairman in the KTB case – was undeterred by such unacceptable closeness between the watchdog and the bank. The Special Parliamentary Commission laid all the blame on BNB (not without reason), but it did not mention at all the role of the FSC.

FSC CULPABILITY IN THE KTB CASE

The wrongdoing at the bank kept happening under the nose of BNB. But it was not the only regulatory culprit, because some of the schemes to siphon off money from KTB unfolded undisturbed under the watchful eye of the FSC. For example, KTB or KTB-linked companies issued financial instruments that the FSC should have regulated.

The FSC could also track suspicious stock transactions, as it could verify the origin of the funds, the persons behind the transactions and inform BNB or SANS if it discovered transactions nego-

tiated at prices lower than the market price. On a different note, there is an ongoing trial against Ognyan Donev, one of the main shareholders in Sopharma, a leading pharmaceutical company in Bulgaria, based on similar but very weak arguments.

Ultimately, the FSC turned a blind eye on many KTB-related cases, including the attempt to sell the Pension Assurance Company Doverie and deals for the acquisition of Petrol by companies financed by the bank. The Commission did not react on cases related to Bulgartabac Holding, either.

AN ATTEMPT TO FORCE THE SALE OF THE DOVERIE UNIVERSAL PENSION FUND

The most regular meetings between Mavrodiev and Vassilev allegedly took place in July 2013. Over the course of one week – from July 8 to July 14 – they met three times. Strangely, these visits coincided with a key moment during the sale of the biggest pension company in Bulgaria – Doverie – with assets worth nearly BGN 2 billion.

One of the candidates to buy Doverie was Tsvetan Vassilev's company Bromak. Interested buyers could submit their offers by the end of June 2013, while the selected buyer was announced in mid-July. An offshore company called United Capital won. The actual owner remained unknown for some time. It turns out it was a Russian citizen who owned a small bank whose license was later revoked by the Central Bank in Russia. An interesting fact was that among United Capital's management and shareholders were people who had been managing a third company along with a key KTB employee – Dimitar Vartigov.

Back then, Tsvetan Vassilev said that he was taking part in the sale of Doverie, but only through Bromak, and could not keep track of what all his employees did. He also said that the price offered by the mysterious buyer was very high, while the company itself was shady. Vassilev demanded full transparency on the deal.

Mavrodiev said that if there had been any suspicion about the sale and the buyer, the FSC would not have approved the deal.

Both Mavrodiev and Vassilev's comments came at a time when they met four times over the course of two weeks. By the end of

July they saw each other once more. Two of the meetings took place after business hours.

In the meantime, Doverie and the pension company Allianz had been targeted by a smear campaign, claiming that Alfa Finance Holding, owned by Ivo Prokopiev, the publisher of *Capital Weekly* and *Dnevnik*, was siphoning off the funds from the two companies. This information started circulating around the same time the results of the sale of Doverie were announced. It first appeared on the news site BGNES and was then picked up by the media linked to Peevski. The FSC also subscribed to these claims, which could have a significant effect on the company's selling price.

"It was obviously a purposeful campaign related the sale of Doverie," said the then-chairman of Doverie's board of directors Daniela Petkova, quoted by *Capital Weekly*. Later, in a letter¹⁹⁴ to the press, Petkova stated:

"It is obvious that POC Doverie AD is going through a difficult time because of this deal, accompanied by many unusual events, including malicious and defamatory campaigns..." The case had another aspect. At that time it was already clear that KTB needed a substantial injection of capital. Theoretically, the budget of the largest pension fund could be seen as a source of capital and an opportunity to buy time. The scheme might have looked very compelling, as KTB is a publicly-traded company in which Doverie could invest a lot.

ACQUISITION OF PETROL JSC

The FSC played a key role in this business story, as well. In short, the saga of Petrol, or more precisely of its main shareholder Petrol Holding (Petrol Holding was the main shareholder of Petrol until the winter of 2013), started as early as 2011. The company could not repay issued bonds worth EUR 100 million and decided to refinance the debt with a loan from KTB. Thus, at the end of 2011 KTB

¹⁹⁴ "Doverie's Head Accuses the New Owner of Lying," Offnews, August 29, 2013, <https://offnews.bg/bulgaria/shefkata-na-doverie-ulichi-vlazha-novia-sobstvenik-236126.html> [01.08.2017].

became a major lender of the fuel distributor, with the chain's best 200 gas stations in the country listed as a collateral.

Meanwhile, the two key shareholders at Petrol Holding – Mitko Sabev and Denis Ershov (each owned 47.5% of the company) engaged in a battle to control the group. Some unusual people were among the candidates wanting to acquire Petrol Holding – for example, the former president of Kalmykia, an autonomous republic within the Russian Federation, and the chairman of the World Chess Federation, Kirsan Ilyumzhinov. He even publicly announced that he would purchase Petrol Holding along with Petrol in a matter of days.

But things took a U-turn. At the end of 2012 Denis Ershov's shares were transferred to a Hong-Kong-based company called *Wealth Standart Limited*. Ershov immediately disputed the transaction and publicly said that his signature had been forged. Moreover, people close to Ershov hinted that Alexander Angelov, a lawyer who at that time worked actively for Peevski and Vassilev, who were then still on good terms, was involved in the registration of the Hong-Kong-based company.

Angelov took Peevski's side.¹⁹⁵ (Vassilev repeatedly spoke about Angelov; Angelov took part in the meetings of Bulgartabac's shareholders on behalf of Peevski; Angelov represented Peevski in the correspondence between Peevski and Vassilev to divide their "empire.")

Vassilev confirmed in February 2013 that he had given Sabev and Ershov an ultimatum to solve the company's financial problems or the creditors would take over. Meanwhile, KTB financed the company with cash and a representative of the bank, Georgi Tatarski, joined the management team of Naftex Petrol, the group's wholesaler.

Shortly thereafter, the FSC got involved. The Commission forced Petrol to reduce its capital by 41%, arguing that the shares were already owned by its subsidiary, Naftex Petrol, for over a year. Such a capital reduction would further decapitalize Petrol, which was already otherwise deeply in debt. The management of the company tried to appeal the FSC's decision, but eventually a year later, on January 16, 2014, Naftex Petrol transferred these 41% to two com-

¹⁹⁵ Tsvetan Vassilev, "Vivacom – Too Big of a Bite for Peevski's Greedy Maw," Vassilev's official web site, July 19, 2016, http://www.Vassilev.bg/bg/хапката-вивакомпрекалено-голяма-за-алчната-паст-на-пеевски-7_42 [01.08.2017].

panies funded by KTB and allegedly controlled by Vassilev: Yulinor acquired 23%% of the shares and VIP Properties received 18.3%.

Another key move followed. On December 2, 2013, Petrol sold 47%% of its capital on the stock market (Petrol Holding's share in the distributor, which had been pledged as collateral) at half the market price at that time. A private enforcement agent administered the sale due to unpaid debts. Ershov's circle challenged the deal right away. There was no reaction from the FSC.

Alpha Capital, a company allegedly controlled by KTB, bought the shares. It was among the bank's biggest borrowers upon its closure. A little later, to avoid a bid offer, Alfa Capital sold 18.3% of the shares to Correct Pharm, another company funded by KTB.

At the end of 2013 and the beginning of 2014, KTB took over Petrol. The FSC did not react to the case, despite having several available options.

First, the transfer of shares below the market price could have prompted the Commission to intervene. While stock trades cannot not to be revoked in principle, exceptions can be made in certain cases. Moreover, if the watchdog were interested in knowing where the money for the transactions had come from, it could have consulted the investment intermediary and traced the origin of the funds.

Next, the Commission could have checked the connections between Alpha Capital and Correct Pharm and established that a tender offer should have been launched for Petrol's remaining shares to protect the interests of the fuel distributor's smaller shareholders. Coincidence or not, in the last quarter of 2013 and throughout January 2014 Mavrodiev and Vassilev met often – four to five times a month, according to the leaked list of visits to the banker's office. Most meetings took place in December, around the time Alpha Capital's deal was pending. In addition to the meetings with Mavrodiev, Mitko Sabev, the lawyer Alexander Angelov, the lawyer Tihomir Trendafilov and Georgi Tatarski – all key players in the battle for Petrol – also visited the banker.

CONFLICT IN THE FSC AND THE COMMISSION'S TOOTHLESS RESPONSE TO THE BULGARTABAC CONUNDRUM

Along with all these deals and dramas in the summer and autumn of 2013, the FSC had been shaken by internal scandals. Three of the five FSC members, publicly accused Mavrodiev of managing the committee in an autocratic manner. They included the deputy chairmen of insurance, Borislav Bogoev, and the deputy chairman of investment supervision, Nikolai Popov.

Their statement came after the agency moved into a new building, a decision that, according to Popov and Bogoev, Mavrodiev made on his own and which constituted a conflict of interest. The reasons for this public feud remained unclear. Personal disagreements within the Commission might be the reason for the lack of adequate supervision on the part of the Commission.

Moreover, Mavrodiev often met Vassilev, including almost right after the banker had spoken to other current and former FSC members. In the end, the divisions within the FSC became clear, as the Bulgartabac Holding case started to unfold and concluded in the spring of 2014.

In February 2014 the ownership of Bulgartabac changed hands. VTB Capital sold its 79.8%% share to a newly registered company in Luxembourg – LIVERO Establishment by selling the Austrian owner, BT Invest. Following such a sale of stock in a publicly traded company, the law requires the new owner to make an offer to buy shares up to a 100%% of the capital in order to protect the rights of the small shareholders.

Such a proposal was never made within the 14-day period following the acquisition, as required by law. The FSC also has the right to request such an offer or suspend the right of the new owner to to vote using their shares, i.e. the buyer will not have a say within the company.

The FSC finally intervened and even began to “open its eyes” to irregularities. But this intervention came too late and was easily skirted, which might be due to disagreements within the agency. While Mavrodiev did not see any problems related to the Bulgartabac deal, the Deputy Chairman of Investment Supervision Nikolay Popov found four violations.

In June 2014, after a few months of delay, the FSC imposed a sanction on Bulgartabac's new owner by taking away its voting rights in the company. As a result, the new shareholder sold part of its shares of BT Invest to avoid launching a tender offer and appealed the FSC ruling before the Supreme Administrative Court (SAC). A few months later, in November 2014, SAC overruled the FSC's decision. One of the court's arguments was based on the failure to properly inform the owner, that is, due to the erroneous legal structuring of the document imposing the sanctions. The deputy chairman of the committee sanctioned another one of Bulgartabac's deals: the sale of the Lafka chain, for which a prior approval by the general assembly of the publicly traded company, a document required by law, was missing.

Popov requested the documents on the transaction, but Bulgartabac failed to provide them. As a result, the FSC issued two other rulings which obliged the holding's shareholders to abstain from voting on proposals in the general assembly related to these deals.

Bulgartabac ignored all the FSC sanctions. The holding's management even publicly accused Popov of being „pressured“ by KTB to impose the measures because the KTB's goal was “extortion of the holding's companies,” which they described as a “common approach used by the bank.” These statements came after the public feud between Vassilev and Peevski, when the latter took over Bulgartabac.

Ultimately, the FSC's attempts to regulate the Bulgartabac deal turned out to be futile – on the one hand, because they came too late, and on the other hand because the court struck down its sanctions. After the Bulgartabac case, Mavrodiev remained the head of Commission, while Nikolai Popov, the one who had imposed the sanctions, resigned. However, with or without the support of the court, the FSC had a record of lax oversight in KTB-related cases. The examples listed here are only the tip of the iceberg. There are many more cases where the Commission could have possibly intervened but did not.

These failures are also a sign of the FSC systematically damaging the interest of all market players. With its indecisiveness, the FSC failed to request a tender offer in the Bulgartabac case and grossly violated the rights of minority shareholders, one of the fundamental pillars of a capital market.

WHAT ELSE COULD THE FSC HAVE SEEN?

In a number of other cases the FSC could have taken action and verified the following: How did TC-IME finance the interest payment on the bonds which they issued in 2009 and which, as expected, they failed to repay in 2014? How well protected are the rights of the insured people whose social security payments were invested in the pension funds that have bought these bonds? How and why did NURTS Bulgaria issue and subsequently repay bond obligations worth EUR 40 million? The FSC approved their public offering in the spring of 2013.

Has KTB played by the rules as an investment intermediary, including in deals linked to the majority owner Tsvetan Vassilev? As a publicly traded company, did KTB disclose information on the quality of its assets and transactions with linked parties?

A PRIVATE JUDICIARY

DURING BOYKO BORISOV'S TERM KTB'S INNER CIRCLE
SUCCEEDED IN GAINING CONTROL OVER KEY JUDICIARY
POSTS

Cases in which watchdogs start catering to private interests provide a good illustration of the workings of a captured state. Another such example is the unprecedented capture of the judicial system, especially during the first term of Boyko Borisov.

In an interview, Boyko Borisov somewhat admiringly referred to Ahmed Dogan, the DPS leader, as the first politician to realize that “power is the hands of those who control the media and the courts.”

In the hierarchy of such a system of control, having a tight grip in the prosecution is considered a top priority. The prosecution is the authority which exclusively decides who would be charged and who would be sent to trial. One cannot be convicted if one has not been charged first. If charges are poorly drafted on purpose, there will be no convictions – the corruption trials from the late 1990s or the bank failure trials from the mid-1990s leave just such an impression. In combination with the media, the prosecution can deliver effective sentences, but not in the courtroom but rather in the public domain, which, given the cyclical change of power, may be a much more valuable tool. Control over the prosecutor's office allows control over corruption in all sectors of public life, including the judiciary.

Administrative courts, which aim to protect citizens from the executive power, come second. But the approach here is different. The chairman of SAC is often appointed following a deal with one of the other two branches to ensure favorable rulings in potential legal disputes (following corresponding instructions from top state officials, the court makes sure not to revoke administrative acts, including concessions, property expropriation, important pub-

lic tenders, recruitment competitions, etc.). In return, they get the peace of mind that they will not be pressured when deciding cases of high public interest. One of Tsvetan Vassilev and Delyan Peevski's top priorities was securing control over the judiciary, and first and foremost – the prosecution. Their influence in the sector is key because on the one hand, it guarantees them impunity, while on the other hand, it provides an opportunity to pressure their political and business opponents, if needed.

Delyan Peevski was the one in charge of developing contacts in the judiciary, according to sources in the judicial system, something that became obvious after the fallout between Peevski and Vassilev. In February 2014, Protest Network [a self organization of active citizens designed to be a corrective for the government] alerted the Prosecutor General, urging him to start an investigation into the dealings of Tsvetan Vassilev, Delyan Peevski and his mother Irena Krasteva.

The prosecutors launched an investigation against Vassilev but covered up the one against Peevski and his mother.

Peevski's influence in the judiciary has grown significantly over the years. For example, during the term of Prosecutor General Boris Velchev, he gained control through several key prosecutors. However, following the appointment of Sotir Tsatsarov, the DPS Member of Parliament appeared to be stronger than ever. Tsatsarov secured enough votes for his victory only at the end of 2012, after the DPS had carefully engineered the appointment of members of the Supreme Judicial Council (even including the appointment of Vasil Petrov, a lawyer from the town of Blagoevgrad whose daughter is the mother of Peevski's child).

GOOD FRIENDS IN THE RANKS OF JUDGES AND PROSECUTORS

Tsvetan Vassilev also had leverage in the prosecution. A photo is worth a thousand words, they say. This particular photo is a close up of Tsvetan Vassilev and Deputy City Prosecutor Roman Vassilev. The banker, a big smile on his face, rests his left hand on the prosecutor's shoulder, as the latter looks him in the eyes with respect.

In an interview for KTBfiles Tsvetan Vassilev said the following about Roman Vassilev:

“Similarly, in 2008 there was a lot of tension around Alexey Petrov’s attempts to take over the bank at the time when Sergey Stanishev was prime minister. At least this is what I learned from Peevski. Looking back, I am not quite sure whether it was true. I don’t know whether Alexey Petrov had a genuine interest in the bank or not, but in those days the State Agency for National Security (DANS) and the Prosecution Service treated Alexey Petrov as they are treating Peevski now. At the time, the head of the DANS was Petko Sertov, and Roman Vassilev so-called *flying squad* had free reign.”

Did you get along with Roman Vassilev?

“I have met Roman Vassilev, but so have many others. There is this notorious photograph taken at a cocktail party organized by the bank. *Capital Weekly* kept publishing it to imply that I had close relations with Roman Vassilev. This is an exaggeration. If a relationship must be concealed, it will be concealed. If I were in any way dependent on Roman Vassilev, I wouldn’t have had my photograph taken with him at that cocktail party.”

Between 2005 and 2014, Roman Vassilev singlehandedly supervised all the prosecutors’ work on all investigations into corruption, financial abuse, tax offenses and money laundering in the country. For one reason or another, during the time when the prosecutor Vassilev held a strong position in the prosecution, the institution acted in favor of the banker Vassilev on many occasions.

Roman Vassilev, who stepped down a week before KTB was placed under special supervision, was a proud member of the bank’s inner circles of magistrates. After Peevski’s fallout with Tsvetan Vassilev, the prosecutor chose to align himself with the latter and later began showing increasing interest in the KTB investigation, which was gaining momentum in the spring of 2014. According to sources in the prosecution, this cost him his job.

The prosecutor Vassilev enjoyed all the benefits available to the members of the banker Vassilev’s exclusive inner circle – a KTB

credit card with a high limit of up to BGN 30,000, as well as deposits in the bank. He kept around EUR 300,000 in his personal accounts and a total of BGN 2 million in the accounts of two companies that were officially registered under the name of his brother Kamen. During Roman Vassilev's tenure in the prosecution, the two firms managed to win – either by themselves or in a group with other companies – public tenders worth more than BGN 50 million.

Roman Vassilev was not the only magistrate who was a member of the banker's circle. The head of Sofia's Investigation Unit, part of Sofia City Prosecution, Petyo Petrov, also known as Petyo "Euro," also had a KTB credit card. Before he moved into his current position in 2013, (and previously as the head of Sofia Investigation Service), he had long been posted at the National Investigation Service. There, in violation of the principle of random distribution of cases, he was put in charge of three key investigations: against Ognyan Donev and Lyubomir Pavlov, the former publishers of the newspapers *24 Hours* and *Trud*; on the Tsankov Kamak project (for which the DPS leader Ahmed Dogan received an unprecedentedly high payment); and on the communication infrastructure project for the army, or the so-called Strandzha 2 project (the job that had been assigned to a company linked to Tsvetan Vassilev).

In an interview from Belgrade, Vassilev shed light on the influence the duo had among the prosecutors, which he claimed, was mainly thanks to the contacts of his former partner Delyan Peevski. "Petyo Euro is a brilliant bastard. Give him a bottle whiskey, he'll drink it and then come up with whatever charges you want, against whomever you say," Vassilev said, quoting Peevski.

In March 2013, Petyo Petrov surprisingly was appointed as the head of the Sofia Investigation Unit. We say surprisingly because he had been involved in a number of scandals, thus his appointment could only happen with the approval of the newly appointed Prosecutor General Sotir Tsatsarov. Back then Tsatsarov's reputation was not yet overshadowed by his close ties with Delyan Peevski, which would become clear only a few months later.

In the months following Petyo Petrov's appointment, with Tsatsarov's blessing, some of the most important investigations were sent to the Sofia Investigation Unit. These included the investigations into the former Interior Minister Tsvetan Tsvetanov, who had

temporarily fallen into disgrace; the investigation on the Kostinbrod Printing House; the investigation related to the notebooks of Filip Zlatanov, the former head of the Government Commission on Preventing Conflicts of Interest; the investigation of the plot to assassinate Delyan Peevski, which was allegedly fabricated by the prosecutors; and, of course, the investigation into KTB's collapse.

The management of the National Investigation Service, where Petyo Petrov had been posted prior to his promotion, was also associated with KTB.

For example, those charged with a crime have to pay their bail by transferring the money to a KTB bank account. When Petyo Euro, pressed charges against Ognyan Donev related to the sale of the newspapers *24 Hours* and *Trud*, he set his bail at BGN 500,000, a sum which had to be transferred to KTB. The National Investigation Service switched banks only several months before KTB, formerly the country's fourth-biggest lender, was placed under special supervision.

The network of connections KTB's circle had among the investigators included two consecutive heads of the National Investigation Service: Angel Aleksandrov and Boyko Naidenov. Angel Aleksandrov was the person who made it possible to appoint Delyan Peevski as an investigator, even though the DPS MP did not have the necessary experience for the position.

Upon Aleksandrov's request, in 2005 Peevski was appointed to the Specialized Economic Department of the Investigation Unit in Sofia (at the time his boss there was Petyo Petrov).

In 2007 Aleksandrov was involved in alleged graft scandal involving Delyan Peevski (then deputy minister of State Policy on Disasters, responsible for the state reserve), the Minister of Energy Rumen Ovcharov, his deputy Kornelia Ninova, and Bulgartabac director Hristo Lachev. At the time Aleksandrov wrote a memo¹⁹⁶ to the Prosecutor General Boris Velchev, noting that he knew Peevski and describing him as a person with unorthodox thinking.

Angel Aleksandrov was also a KTB client. In 2007 he and his wife took out a mortgage loan from the bank, which they managed to repay two years later. After the Bulgartabac row, Aleksandrov stepped down from his post but continued working as the head of Economic Crimes Unit (where Petyo Petrov had been posted). In

¹⁹⁶ <http://www.parliament.bg/pub/cW/20130208055538aaaa.pdf>

2008, Boyko Naidenov took over his post. He served as the unit's head until 2012, when, following the appointment of Boris Velchev as a constitutional judge, he served as the acting head of the Prosecution.

In an interview¹⁹⁷ from October 2015, Tsvetan Vassilev, said that Naidenov was Delyan Peevski's candidate for the post of Prosecutor General. However, since he was never nominated, Peevski "replaced" him with Sotir Tsatsarov. A source told KTBfiles that Naidenov had been "convinced" not to run for the highest prosecution post and shortly after the appointment of Tsatsarov, he left the judiciary and went to work¹⁹⁸ for the Doreko Security, a company associated with Bulgartabac.

KTB's influence within the prosecution had quite specific dimensions. For example, in 2011, Tsvetan Vassilev filed a complaint¹⁹⁹ with the prosecution, alleging that the lawyer Nikolai Velkov had accused him of a crime. In an interview for *24 Hours* Velkov claimed that the banker had ordered Kiril "The Japanese" Kirilov, an alleged and infamous underworld figure to beat him up.

The Bulgarian Penal Code stipulates that someone can accuse another person of a crime by filing a claim to the prosecution or the police, but not in a media interview. However, the Prosecutor's Office nevertheless opened a case in response to Velkov's statement. The case file was sent to the Sofia District Prosecution, where it was terminated due to lack of evidence of a crime.

Tsvetan Vassilev appealed the decision and the Deputy City Prosecutor Biser Kirilov (a colleague of Roman Vassilev) overrode the decision to terminate the case and instructed the prosecutor to order the police to launch a preliminary probe. Thus, the procurators used the police as a tool to intimidate Velkov, even though

¹⁹⁷ Tsvetan Vassilev, "Boyko Naidenov Was Peevski's Nomination for Prosecutor General," Darik News, October 7, 2015, <https://dariknews.bg/novini/bylgariia/cvetan-Vassilev-izleze-ot-anonimnost-bojkonajdenov-bil-kandidatyt-zaglavlen-prokuror-na-Peevski-1511195> [01.08.2017].

¹⁹⁸ "The Investigator-Turned-Consultant. Boyko Naidenov Heads a Consultancy," *Capital*, December 6, 2013.

¹⁹⁹ Galina Girginova, "Prosecutors Defend the Integrity of Some Individuals in Violation with the Law," Judicial Reports, December 13, 2013, <http://judicial-reports.bg/2013/12/как-про-куратурата-брани-достойнство> [01.08.2017].

there were no legal grounds for a probe. At the end, Kirilov's decision was revoked.

While the Velkov case might seem petty, there were investigations in which the prosecution sided with the banker when far greater interests were at stake.

One such case involved the glass factory Rubin,²⁰⁰ which Tsvetan Vassilev wanted to acquire. So he asked Roman Vassilev for help. Even though it was a question of a relationship between a lender (KTB) and a borrower (the factory), Roman Vassilev started pre-trial proceedings in the case. The prosecutors used their entire arsenal of powers to pressure the employees of Tsvetan Vassilev's opponent. The latter was even arrested for some time. In the end, the investigation was suspended.

While our sources told us that Roman Vassilev played a leading role in launching and developing of the investigation, his name occurred only once in the case file. The majority of the time Emil Petrov – the brother of Petyo Petrov, whom we had mentioned earlier – was working on the case.

COURTS – LOANS AND, NATURALLY, DEPOSITS

KTB's connections in the judicial system were not as visible as those in the prosecution. A good example of such ties involves Vanuhi Arakelian, former chairman of the District Court in Varna, currently the head of the Appeals Court in the same city.

Notary deeds²⁰¹ of real estate deals show that she enjoyed special conditions on her mortgage loans. Like the credit cards of the Sofia Deputy City Prosecutor Roman Vassilev and Investigator Petyo Petrov, mortgage loans for individuals were not a service KTB advertised openly. Shortly after Vanuhi Arakelian became a client

²⁰⁰ Rosen Bosev, "Arrests, Raids and Searches," *Capital*, April 5, 2013, http://www.capital.bg/politika_i_ikonomika/bulgaria/2013/04/05/2036281_aresti_obiski_pretursvaniia [01.08.2017].

²⁰¹ Rosen Bosev, "We Value Our Judges," *Capital*, November 8, 2013, http://www.capital.bg/politika_i_ikonomika/bulgaria/2013/11/08/2177971_sudiite_sani_skupi [01.08.2017].

of the bank,²⁰² the Varna District Court, whose head she used to be, moved their account to KTB.

Once KTB was placed under special supervision, it was revealed that a number of courts, including the Regional Court in Radnevo, the District Court in Gabrovo, and the Regional, District and the Administrative Courts in Stara Zagora all had bank accounts at KTB, worth a total BGN 3.2 million. According to Supreme Judicial Council statistics, the deposits were fully repaid by the beginning of 2015.

Besides the case with Vanuhi Arakelian, KTB's influence in the courts seemed rather peripheral. When Tsvetan Vassilev's empire was booming, the risk of a case being brought to court seemed quite unlikely. That is, unless one of these three scenarios unfolds: if the prosecutors decided to investigate (a scenario which, with friends like Roman Vassilev, seems unlikely); if there is a trade dispute (the Rubin case shows very well what the outcome was for Vassilev's "partners") or if the state regulators decide to conduct an audit. As the examples we gave earlier illustrate, however, many times the regulators preferred to turn a blind eye in cases where their intervention would have seemed necessary.

In February 2015 the KTB caretakers revealed lists²⁰³ of high-ranking officials and their relatives (husbands, wives and underage children) who had loans and deposits at the bank. The lists included 303 judges along with their relatives, 176 prosecutors (including their relatives), and 79 investigators (including their relatives). These revelations made headlines, describing KTB as the bank of the judiciary, which was not exactly accurate. Magistrates are the largest profession obliged to declare their debts before the National Audit Office, hence the large number of judges, prosecutors and investigators present in those lists. The Supreme Judicial Council announced that it was launching an investigation to see if there were discrepancies between what had been declared before the National Audit Office and the actual assets they owned.

²⁰² http://www.ktbfiles.com/wp-content/uploads/2016/02/Vlojiteli_fizicheski_lica.pdf

²⁰³ http://www.ktbfiles.com/wp-content/uploads/2016/02/Vlojiteli_fizicheski_lica.pdf

Out of all the magistrates whose name appeared in the lists, only Roman Vassilev had enjoyed special provisions. Judge Vanuhi Arakulian; Petyo Petrov, the former head of the Investigation Unit in Sofia; and Angel Aleksandrov, former head of the National Investigation Service were the only ones who had taken out loans from the bank.

The figures in the lists are not very useful, since they do not provide information on when the listed amounts were available, nor on whether transfers had been made between different deposits. The historic Kostinbrod scam, however, is a good example of the “friendly prosecutors” role in a time of need.

THE KOSTINBROD AFFAIR

HOW THE PROSECUTION, BAREKOV AND TV7 TRIED TO INFLUENCE THE 2013 ELECTIONS

On May 10, 2013, at 9:30 am, two days before the early elections, Maya Manolova filed a report with the Prosecution Office under an entry number of 3041. The address she listed was 20 Positano St. where the headquarters of the BSP was located.

The MP from the Socialist party (as of June 2017 she has been serving as the national ombudsman) submitted two and a half pages quoting “reports received by citizens,” according to which “printed ballots had been taken out of the printing house and distributed in order to rig the elections.”

Manolova noted that the printing house Multiprint, which printed the ballots, was owned by Kostinbrod City Council Member Yordan Bonchev and his wife,, adding: “His ties to the political party GERB are the reason why we are concerned that the information we have gotten from a number citizens might be credible.”

The very same day the Prosecutor General Sotir Tsatsarov, who was appointed, less than six months earlier, forwarded the report to his deputy, Borislav Sarafov. Sarafov, who had once competed with Tsatsarov for the post of Prosecutor General, but later became his right-hand man, in turn forwarded it to the acting head of the Sofia City Prosecutor’s Office, Roman Vassilev.

It was Roman Vassilev, who was later revealed as one of the prominent KTB clients in the judiciary, who decided to investigate the information sent by Maya Manolova. He assigned the case to DANS and the Investigation Department of the Sofia City Prosecution, whose head was another KTB customer, Petyo Petrov. A few hours later, prosecutors and DANS agents were already traveling to Kostinbrod.

It took the signatures of three prosecutors to start the largest pre-election scandal in the modern history of Bulgaria, better known as the Kostinbrod Affair.

We say the “largest” such scandal, because it was meant to influence the results of the elections scheduled for the following day. Moreover, the row had been designed to cater to the interests of certain circles, which used as tools the Prosecution and Investigation Service, two institutions which according to the Constitution were supposed to be independent, as well as DANS, whose goal should be to protect national security.

BAREKOV THROWS HIMSELF ONTO THE BARRICADE

The news about what was happening at the printing house in Kostinbrod broke in the early afternoon of May 11, the “day of reflection” before the early parliamentary elections, a day when all election campaigning is banned. At 15:18 the regular program of TV7 – the cable television channel which had received millions of lev from KTB and which was striving to become a leading television channel– was interrupted by breaking news. “Last night, prosecutors and agents from State Agency for National Security carried out a joint operation, aiming at preventing a grand rigging of the upcoming elections,” the anchor said.

Citing “our sources,” his co-anchor added that the election fraud had allegedly been “planned by the GERB party.” In a few seconds, the head of the television Nikolai Barekov started broadcasting live from Konstinbrod. He opened with a clarification: “I am not here as the executive director of a major Bulgarian national media, I am here as a reporter and a citizen who performs his civil and journalistic duty.” Then he went on to say that the previous night prosecutors and DANS agents conducted a joint operation and seized 350,000 “illegal and falsified ballots.”

The same day, the prosecutor’s office published a statement, announcing that it had opened pre-trial proceedings for administrative negligence and establishing and leading a group intending to commit criminal offenses against citizens’ electoral rights, adding that police had seized “more than 350,000 printed and ready-to-ship ballots.”

Apart from the official statement, it seemed as if the prosecutors were feeding unofficial information to the media constantly. For example, on Election Day, bTV, one of the biggest television

channels in the country, quoted the prosecution saying that the seized ballots were not waste materials that are typically left over from a print run. This detail was important because it indirectly confirmed what Barekov described a day earlier as “election fraud.” It remained the leading news throughout Election Day.

NO LAW, LOADS OF SHOW

As early as the day Maya Manolova filed her report, prosecutors began questioning both employees of the printing house and their boss. Police searched Multiprint’s facilities and “arrested” the ballots they had found. To everyone’s surprise, the expert from BNB’s printing house, who was there at the “invitation” of DANS and the investigators, said that Yordan Bonchev’s explanations that the printed ballot papers are waste sounded believable.

These remarks along with other documents from the investigation were emailed to the media the day after the election by an anonymous sender, who signed the letter as a “group of honest prosecutors.” The email said that “the operation was ordered by the DPS MP candidate Delyan Peevski.” On Tuesday Prosecutor General Sotir Tsatsarov, his deputies Borislav Sarafov and Asya Petrova, as well as the acting City Prosecutor Roman Vassilev held a press conference about the investigation at the Palace of Justice.

During the event, the prosecutors showed journalists photos taken during the search of the printing house. The press also witnessed first-hand some of the investigation proceedings, which later became part of the Kostinbrod trial.

At the invitation of the prosecutors, two journalists went to the front of the hall to serve as witnesses – they would witness the opening and cataloguing of the sealed ballots seized from the printing house. Two interesting details should be noted. The first, which is somewhat coincidental (insofar as the representatives of the prosecution invited everyone present at the press conference to become involved in the investigation) – was that one of the witnesses was a reporter from TV7.

The second interesting detail involved Vanya Stefanova, the prosecutor who was monitoring the Kostinbrod investigation and kept the record of this public display of investigation proceedings.

Just three months later she took a job as deputy to Vladimir Pisanchev, who was a DPS ally and who was appointed as the head of DANS, after the failed attempt to install Delyan Peevski in the post.

Less than a week after the press conference, a group of GERB MPs asked the Constitutional Court to cancel the elections – a one of their main arguments was that the prosecution’s operation and the media coverage of the Kostinbrod case had influenced the election results. Their request was rejected.

TIME TO CONFESS – NO BALLOTS FOUND

Before the Constitutional Court announced its decision on the election case, Sotir Tsatsarov also weighed in on the topic. He stated that the Kostinbrod investigation could not have affected the outcome of the elections.

In hindsight, this appears to be an important and interesting detail. Six months later, when prosecutors pressed charges against only one person for the Kostinbrod case – the Chief Secretary of the Council of Ministers Rosen Zhelyazkov – the prosecution said that he had failed to fulfill his duties, as he had not exercised sufficient control over the ballot printing process and thus led to “important harmful impact by creating public attitudes that have led to mistrust among a significant part of Bulgarian citizens towards the electoral process and the proper and lawful functioning of state authorities of the Republic of Bulgaria.”

Zhelyazkov was the only defendant in the Kostinbrod who was brought to court. Later, Zhelyazkov was acquitted. Prosecutors refused to appeal the verdict (likely because five months earlier, Boyko Borisov had taken office again). The former chief secretary told media that he would not seek any compensation for the illegal charges against him because of his “institutional mindedness.”

The prosecutors never reported on the progress of investigating the “establishment and leading of a group intending to commit criminal offenses against citizens” election rights,” which they had widely publicized in the days before the vote.

After the failure of the Kostinbrod Affair, Sotir Tsatsarov discussed the case in interviews. He not only denied that the investigation had been politicized, but he also described it as a “success,” be-

cause the work of the law enforcement agencies had led to changes in the Penal Code.

In an interview²⁰⁴ from May 2015, Tsatsarov said, “The trial was dismissed because there was no criminal procedure in place for holding ballots.” In fact, such a statement was not without significance, since the head of the prosecutor’s office actually acknowledged that the prosecution deliberately initiated an investigation into an action, even though they knew from the start that it did not constitute a crime.

WHAT ACTUALLY HAPPENED?

The Kostinbrod case was part of a whole series of investigations targeting GERB, which the prosecution had launched in the first six months of Sotir Tsatsarov’s term. The list included the so-called energy investigations, which started along with the protests against high electricity prices that led to the resignation of GERB’s first government in February 2013; the “leak” from DANS of a 20-year-old case file on Tsvetan Tsvetanov’s right-hand man, the head of the General Directorate Combating Organized Crime Stanimir Florov, and the subsequent investigation, resulting in his resignation; the investigation against Tsvetan Tsvetanov for illegal wiretapping (he was later acquitted and the prosecutor did not appeal the verdict, just as in the Kostinbrod case); the investigation into the tapped conversations of the deceased former Customs Director Vanyo Tanov, which revealed that Borisov had allegedly ordered the cancellation of an inspection against beer-factory owner Mihail “Beer” Mihov, etc. The prosecution’s pre-election investigation spree, however, failed.

KTB-sponsored Nikolai Barekov and TV7 had played an important role – they delivered the “shocking” breaking news about election rigging just a day before the actual vote. But that was just the tip of the iceberg. In the following months, Barekov and TV7 along with the media linked to DPS fiercely defended Prosecutor General

²⁰⁴ Nova TV, Combina Program, May 23, 2015, <http://www.focus-news.net/opinion/2015/05/23/33021/sotir-tsatsarov-nay-evtinotolesno-i-bezboleznenoeshto-e-da-tvardish-che-pravish-sadebna-reforma.html> [01.08.2017].

Sotir Tsatsarov as well as any action undertaken by the prosecution.

Two days after the election, GERB's leader Boyko Borisov said that the Kostinbrod scandal alone had cost his party 5–6% of the vote: "GERB has been under serious attack during these elections. From beginning to end. Starting with the wiretapping scandal – as of now nobody has clarified what it is all about. Are they targeting anyone else besides us with compromising material? Are there other parties? They have all united against us."

"I do not know how somebody could identify us as players in a plot, since we have never disclosed that this operation is related to a particular party," said Prosecutor General Sotir Tsatsarov in response.

According to a poll conducted by the polling agency Alpha Research five days prior the election, GERB was expected to win 33% of the vote. They actually received 2.5% fewer votes.

Whether we are talking about 5–6% (as Borisov claimed) or 2.5% fewer votes, according to Alfa Research's poll (other polling agencies associated with BSP quoted polls conducted a month before the election, saying that it would be a tie between the two parties), the election results could not secure GERB a majority in the parliament.

In fact, the campaign involving the prosecution, the media outlets linked to Delyan Peevski, as well as politicians from both BSP and DPS, had prepared the ground for launching a quick series of legal amendments that in the spring of 2013, which reshaped the security services in the country.

The most important part of the reform was transforming DANS into a mega-institution by merging it with the GDCOC. What followed next was the appointment of Delyan Peevski as the head of the agency.

On this occasion, Borisov told media:²⁰⁵ "the three parties have prepared a plot to keep me in custody and kill me. I have information that this is the plan." GERB's leader also said that on the day that Peevski was appointed as the head of DANS, "the whole structure of secret agents in Bulgaria has been put into action."

²⁰⁵ Boyko Borisov, "They Plan to Arrest Me and Kill Me," Focus News Agency, June 20, 2013, <http://focus-news.bg/opinion/0000/00/00/24901> [20.06.2013].

On a different note, the first and only official meeting of Delyan Peevski as the head of DANS (he was appointed in June 2013) was with none other than Sotir Tsatsarov. The appointment drew condemnation both in Bulgaria and abroad and in practice rendered the alleged plot – which the Kostinbrod Affair was part of – irrelevant. The demise of the Oresharski government and the impending spat between Delyan Peevski and Tsvetan Vassilev show the futility of the whole plan to gain control over Bulgaria's secret services.

VASSILEV'S POLITICAL PROJECT

WHILE BAREKOV RECEIVED SEVERAL MILLION
FROM KTB, HE TURNED OUT TO BE ONE
OF THE BANK'S CREDITORS

In the autumn of 2014, prosecutors brought to trial BNB's deputy governor, Tsvetan Gunev, demanding his suspension since he allegedly had aided in the siphoning off of money from KTB.

In his statement before the judges, the prosecutor in charge of the case, Ivan Geshev, mentioned, among other things that some of the funds stolen from KTB had been used to finance a political project. While he hinted about it several times, Geshev did not name the political party of the former television presenter and executive director of Vassilev's TV7 and News7 Channels, Nikolai Barekov.

Naming the party is unnecessary, as the data speaks for itself – both documents and the banker's statements clearly indicate that the political endeavors of Barekov, who was elected as Member of the European Parliament, were funded with money from the failed KTB.

"IN THE OTHER CASE FILE"

At the beginning of 2014, representatives of the protest movement Protest Network alerted²⁰⁶ the Prosecutor General of alleged wrongdoing by Delyan Peevski, Irena Krasteva, Tsvetan Vassilev and Nikolai Barekov.

Their report summarizes a number of publicly known facts: the obvious discrepancy between the declared and the actual assets

²⁰⁶ " Prosecutors Acquit Peevski on All Counts from Protest Network's Report," Protest Network, January 12, 2015, <http://www.protestnamreja.bg/прокуратурата-обяви-пеевски-за-невин> [01.08.2017].

owned by Peevski; the suspicious circumstances around the media outlets owned at that time by Irena Krasteva; the many loans KTB granted to people linked to its majority shareholder Tsvetan Vasilev; and, last, concerns regarding the funding of Nikolai Barekov's political project called Bulgaria Without Censorship.

The Protest Network's letter stated that since the summer of 2013, the head of TV Nikolai Barekov launched a series of initiatives under a project called Bulgaria Without Censorship, which became a political party at the end of 2014.

"Mr. Barekov's activities require considerable funding, as they consist of tours across the country, buying print advertising and billboards ads. The traveling team includes a branded bus for Bulgaria Without Censorship, another bus for the team, several trucks with equipment provided by TV7 and the entertainment company Joker Media Rental, a portable stage, security staff (some bodyguards are responsible for the security at the events, while others protect Barekov himself) and a personal convoy for the television presenter," reads the letter. The activists estimated that Barekov's budget was likely to "exceed one million lev."

The Protest Network stated that Barekov's movement had started opening offices "in all district capital cities in the country," which most likely meant they were paying rent for those spaces.

"The source of this funding is unclear. Mr. Barekov publicly claims that he personally sponsors the campaign of his party Bulgaria Without censorship. In an interview for the bTV program "Let them Talk" on November 10, he said: "I'm financing myself." On another occasion, Mr. Barekov was forced to publicly reveal the amount of his salary as the head of TV7 and a television anchor – he received BGN 6,000 per month. Whatever savings Mr. Barekov has accumulated, the discrepancies are obvious and the prosecution has reason to start an audit of Mr. Barekov as an individual, as well as to audit TV7, New Frame Media AD, B Media Group AD to determine the origin of the funds with which Bulgaria Without Censorship has been funded," the report says.

A year after filing the report, Boryana Betsova, a prosecutor from the Sofia City Prosecutor's Office, notified the Protest Network that it had declined to launch an investigation into Peevski and Irena Krasteva. Betsova also said that the materials against the leader

of Bulgaria Without Censorship comprised a separate case file, the investigation into which was still “pending.”

Later this “separate case file” was expanded to also include investigation launched after two television reports aired during the elections for European Parliament in 2014, revealing that people had been recorded as donors of the movement without their consent.

In the spring of 2015, quoting the registries of the Administrative Court of Sofia, the news site Dnevnik.bg reported that the Ministry of Internal Affairs had requested that the court disclose Barekov’s tax and social security payroll information, a sign there was an ongoing tax investigation against him.

A tax audit issued on 19 September 2015 obliged the journalist-turned-politician to pay a total of BGN 48,000 lev in tax and interest for the period 2008–2012.

Only a year earlier, Barekov had asked in an interview for Nova TV Channel: “Since when is it a crime to sign a contract, to get paid and pay your taxes?”

A ruling by the Administrative Court in Plovdiv, which upheld the tax act, showed that Barekov had filed only one tax return for the entire period. He received a monthly salary of BGN 5,000 when working for bTV and nearly BGN 10,000 per month for his work at TV7 Channel.

WHERE DID THE MONEY GO?

Barekov gave conflicting explanations of how he had funded the movement. In the spring of 2014 Bulgaria Without Censorship announced that the main sponsor of the movement was its leader, who had donated BGN 500,000, a sum which he had earned as an individual.

Then Barekov said that his income – around BGN 5 million per year – came from his salary as a senior manager in three television stations (a net income of BGN 8,000 per month), as well as from a sale of shares in a company he claimed to have founded.

Later, Barekov added that he had received a total of EUR 2 million in compensation three months after he had left TV7 and News7. “I had a five-year contract. I was to receive BGN 10 million lev if I met my goals. I’ve earned fair and square 20% of that sum. When we ended the contract, the board of directors offered to give

me 20% of what I had been promised, so I would relinquish claims to the entire sum,” said Barekov.

Tsvetan Vassilev’s version of events is a bit different. In July 2014, when the former banker was already on the run from the police, he sent an open letter, distancing himself from Nikolai Barekov:

“I’d like to stress that I made a mistake by recommending Mr. Barekov to the owners of TV7 some time ago. They were forced to “reward” him so he would agree to step down from his post as CEO. The suspicions about his financial integrity, however, remained.”

In fact, the reason for this distancing is quite practical. At the same time, Yane Yanev, advisor to Prime Minister Borisov during his second term, alerted the prosecutor’s office, providing documents showing that in January 2014, Barekov was paid BGN 1.35 million by TV7 and EUR 450,000 by the Balkan Bulgarian Television (News7) as “remuneration under a contract for management and supervision.”

The lists of accepted creditors’ claims to the two televisions show that TV7 and News7 (BBT) owed KTB close to 6.2 million lev.

THE RUSH TO SAVE THE PROPERTY

In March 2014 the news site Vesti ran a story²⁰⁷ revealing that Nikolai Barekov lived in a luxurious house on Leshnikova Gora Street in Dragalevtsi, a wealthy suburb of Sofia.

The property was owned by a company called Invest BG, registered under the names of Bulgaria Without Censorship’s members: Magdalena Hristova, a member of the party’s managing council, and Ivanka Nedelcheva, Barekov’s publicist. The company acquired the house for BGN 1 million only two weeks after the firm had been registered in the Commercial Register.

When the story broke, Barekov failed to give a meaningful explanation about the property. He said that he was renting the property for work-related purposes and that the young women owned the house.

²⁰⁷ “New Politician Barekov Lives in a Luxury House,” March 4, 2014, <http://vevesti.bg/1248/noviat-politik-barekovs-nova-luksozna-vila-dopalnena> [01.08.2017].

At the end the 2014, however, things took a turn for the worse, as tax authorities sought to foreclose on the house because “it would be difficult to collect future public debts, possibly amounting to a total of BGN 1,075,000.” The foreclosure request showed that a company called Investitsia BG financed the deal with a loan from another company – Represent EOOD, then owned by Tatyana Stoyanova, member of the Board of Directors of the production company New Frame Media, owned by Nikolai Barekov.

AlixPartners’ report shed light on where Represent got the money. According to the document, one of the key companies for pumping money out of KTB, Technotel Invest (which received EUR 75 million from KTB at the end of 2013), had transferred EUR 500,000 to Represent’s account at Raiffeisen Bank. That is the exact sum of money that Represent sent to Investitsia BG to buy the property on Leshnikova Gora Street.

After the tax authorities began sniffing around Represent, the company was transferred to an offshore company called Sirius Investing, registered in the British Virgin Islands. Its creditor Represent was acquired by a 32-year-old Senegalese citizen, who using a power of attorney form signed in Barcelona, authorized a lawyer based in Montana, a small town in Northwestern Bulgaria, to file the change of ownership to the Commercial Register.

A 500-square-meter office at Hemus Hotel, which Barekov used as the headquarters of the movement, along with four parking spaces, shared a similarly opaque fate. In September 2013 an investor had bought the property for BGN 1.5 million from a company called Interior Group Design, co-owned by Tatyana Stoyanova, the member of New Frame Media’s board of directors.

In June 2014 a company called Extreme Team bought the property for BGN 884,000. Ivanka Stoeva, another member New Frame Media’s board of directors, was the owner of the firm. Shortly after the sale it was transferred to a Senegalese citizen, who with a power of attorney signed in Barcelona, authorized the same Montana-based lawyer to represent him. Eighteen days later Extreme Team transferred the properties to Mastromodus (a company, registered by one Maria Stanimirova, who is allegedly linked to one of Barekov’s associates, Simon Milkov) for BGN 870,000.

For their part, Mastrodumus transferred the property to Mastro Property, a company owned by a Hong Kong-registered offshore

firm associated with Sirius Investment, which owned the house in Dragalevtsi...

While there is clear evidence that the house in the foothills of Vitosha Mountain was bought with KTB money, it remains unclear where the funding of a total of BGN 1.5 million for Barekov's office came from. Since the same scheme was used to acquire the office properties, including the same connected persons and lawyers, this suggests that these funds also came from the bank.

If we try to make a rough estimate, it turns out that Barekov has received BGN 3.2–4.7 million, a sum he is unlikely to pay back following the bank's insolvency. Ironically, he and his romantic partner, former television host Maria Kalenderska, are among the bank's creditors, since they had deposits there worth around BGN 80,000 upon the KTB's shutdown.

5.

**BEFORE, DURING AND
AFTER ORESHARSKI'S
CABINET**

POLITICAL CATAclysms 2012–2014 AND A BANK IS GONE

The period of 2012 to 2014 was quite a turbulent time for Bulgaria from. While governments, political players, and influencers rose and fell, the key actors – who were directly related to KTB’s circles – remained the same. The complex interactions between them ultimately led to the collapse of the bank in 2014.

Under Oresharski’s government, the entire cabinet catered to the sole private interest of Delyan Peevski. This period marked the beginning of the end of the Vassilev-Peevski duo, as a fierce conflict between the two erupted. They were no longer seen as two sides of the same coin, as their interests started to clash. However, it is difficult to point to the precise dividing line between the two camps, since their feud had been developing and mutating for quite some time.

During Oresharski’s term, Peevski literally captured the state, calling the shots in a number of cases.

One was in establishing domination in the field of public procurement. The other was an attempt to realize the South Stream gas pipeline, which was expected to pump fresh money into the #WHO/KOI scheme.²⁰⁸

The State Abandoned Its Role and Peevski Himself Orchestrated the Negotiations at the end of 2013 and the beginning of 2014, the DPS MP Delyan Peevski reportedly used the unlimited resources of the state apparatus to take revenge on his former partner, Tsvetan Vassilev. As a result the bank collapsed in a matter of days. The prosecution and the media allegedly also aided his efforts to destroy the

²⁰⁸ #KOI/WHO – the popular catchphrase is based on the question “Who nominated Peevski?” [for the post of a director of DANS] and the then-government’s refusal to address concerns about the lack of transparency surrounding the appointment. During the protests in Sofia and other Bulgarian cities, which started on June 14, 2013, thousands of people took to the streets to protest Peevski’s appointment; the phrase appeared on posters and was chanted by the crowd. On social media it turned into a hashtag to better keep track of news related to the protest.

bank. A number of events led to a catastrophic bank run. Along with the panicked depositors, there were those who managed to save their money, as they had been tipped off beforehand.

The redistribution of the bank's assets following KTB's failure marked the second phase of the bank fraud plot. The lion's share of funds went to Peevski's inner circle.

Documents obtained by KTBfiles show how and what sorts of projects KTB had been funding over the years. For the first time there is evidence that funds from the bank (i.e. tax payers' money) was used to sponsor political parties and movements. This paints a picture of rampant political corruption in Bulgaria, which ultimately has led to state capture.

POLITICAL TURBULENCE

The period from 2012 to 2014 marked the peak of the model, built on the premise of private interests intertwined with the state ones, political backroom deals, lack of rule of law, and operations against the public interest. During these two years, the true nature of a “captured state” revealed itself, uncovering the elaborate workings of the WHO model, which had been nurtured for years.

In an attempt to offer a comprehensive timeline of events, the KTBfiles team have met and interviewed dozens of sources involved directly in the events described below. They all talked to us under the condition of anonymity; none of them wanted to be identified by names. The picture that follows reflects the accounts of the main players in the political upheaval between 2012 and 2014. Delyan Peevski and Boyko Borisov did not respond to multiple requests for an interview.

At the end of 2012, GERB was still in power. The government enjoyed the political support of the DPS, DPS which was then trying to present itself as an opposition party, but which more or less supported the stability of the cabinet. Out of the public eye, however, the cooperation between Prime Minister Boyko Borisov and MP Delyan Peevski in the distribution of resources and public tenders had been in place for several years already.

“They were terribly close. They trusted each other so much that they were speaking on the phone three or four times a day. They were the two sides of the same coin,” said a source close to Borisov.

There were two versions as to why the DPS decided to withdraw its support of the ruling party. According to a source from DPS’s top leadership, this happened at the end of 2012.

At that time, Ahmed Dogan and the leader of the Socialist Party Sergei Stanishev reached an agreement to oust Borisov’s government and then, following an early election, to install a coalition made up of the BSP and the DPS. Delyan Peevski had been supposedly helped fund the campaign to topple the current cabinet and

the election of a new one. According to two sources familiar with the events, he paid BGN 60 million, reportedly provided by KTB.

It is important to add one more nuance to this plot. At that time, the majority shareholder of KTB Tsvetan Vassilev was still in good relations with Delyan Peevski and their partnership was going strong.

On the other hand, Vassilev had already invested heavily in his political ambitions by supporting Nikolai Barekov and his party Bulgaria Without Censorship. "Vassilev has launched his own political project as an alternative to those in power. Those representing the *status quo*, however, did not appreciate the idea," a source from DPS told us.

"Barekov looked like a necessary evil. Borisov disappointed me. Then so did BSP and DPS. I told myself that it would be good to have someone who would support Bulgarian business. I was sick and tired of the politicians" constant racketeering. At this final stage – the end of 2013–2014 – I made my biggest mistakes, including Barekov. Not so much the fact I funded him, but rather my involvement with him," Vassilev told KTBfiles.

At that time Tsvetan Vassilev – at the end of 2012 and the beginning of 2013 – fancied a very high-ranking political position for himself, various sources claimed. Vassilev himself denied this as an absurd lie and speculation. Shortly thereafter, the January protests erupted.

They started at the end of January outside Sofia as anti-trust demonstrations and then gradually moved to the capital and took an anti-government and anti-political establishment turn. Initially, protesters called for striking down the monopolies (mainly in the energy industry) and the nationalization of companies with strategic significance for the country's economy and energy. The first protests took place in Sandanski, Blagoevgrad and Varna, but at the beginning of February, rallies appeared in most major Bulgarian cities. In mid-February a total of 35 towns across the country were protesting, and the demonstrators' demands went beyond the initial economic demands.

Delyan Peevski's media and especially Nikolai Barekov, who at the time was the head of TV7, enthusiastically supported the mass protests. The television channels covered every rally, while Barekov

ran story after story, exposing GERB ministers, and finally said²⁰⁹: “We are the only television that has been constantly investigating those in power. Three ministers have already been forced to step down – Healthcare Minister Stefan Konstantinov, Energy Minister Traicho Traikov and Deputy Minister Gergana Pavlova. Our position has been crystal clear from the beginning. Some years ago I travelled all over Bulgaria and gave the floor to everyone, they were able to speak freely. We’re the freest television there could ever be.”

In the meantime, Lyuba Kulezich, one of TV7’s presenters, was dismissed following an interview with the Interior Minister Tsvetan Tsvetanov. The interview did not reflect the perspective of protesters, but instead offered viewers just a “political type of narrative,” said a statement sent by television’s management following the firing. “The television’s management would like to distance itself from such practices and would like to express its full support of civil society and covering the protesters” point of view,” said Nikolai Barekov. In return Kulezich accused him of political obsequiousness and lack of integrity.

In an interview for Mediapool, a news web site, she said that during her tenure at TV7 she had to “constantly fight for her freedom” as well as ward off accusations, including on the air, that she was working for a “pro-government and boot-licking television.” “It wasn’t me who turned the tables. It’s impossible to do so in a matter of a couple of hours. I wasn’t the one who maintained close ties with Boyko Borisov. I did not have the pleasure of receiving his text messages,” Lyuba Kulezich said.²¹⁰

This storyline clearly shows the political motivation behind alleged news stories. Until then Barekov had always acted as a mouthpiece for the KTB” circle – that of Vassilev-Peevski – and their attitude towards the government. The moment when Barekov, the journalist-cum- director of TV7, which had been funded entirely by KTB money, called for the government’s resignation and gave him-

²⁰⁹ Milan Nikolov, “Only in PIK. Barekov: I Toppled Down 3 Ministers, Our Investigations Forced the Government Out!” PIK, February 25, 2013, <http://pik.bg/бареков-пред-пик-свалих-3-ма-министри-наши-разследвания-събориха-властта-news54693.html> [01.08.2017].

²¹⁰ Gergana Misheva, “TV7 Fired Lyuba Kulezich,” Dir.bg, February 25, 2013, <http://dnes.dir.bg/news/tv7-люба-кулезиџ-13198024> [01.08.2017].

self a pat on the back for the ministers” resignation, was a sign that the group had withdrawn its support for the government.

Events unfolded quickly. Borisov stepped down relatively easily and without much fuss, a move which was largely anticipated. He had only a few months left until the end of his term, the protests had culminated in widespread fury, and if he had stayed in power, he would have been forced to face the consequences of this wave of mass discontent. At the end of February 2013, President Rosen Plevneliev appointed a caretaker government, while GERB, BSP and DPS were gearing up for the early parliamentary elections. GERB was ready to take over for a second term, while the Socialists and the DPS were planning to govern the country together.

A high-ranking source from BSP, familiar with the events at that time, told KTBfiles a slightly different story. According to him, the protests in January and February were spontaneous, genuine, and “honest,” but at one point they turned against the whole political elite. This caught BSP by surprise and the party failed to score some points by offering a relevant political reaction. Sergei Stanishev pushed for BSP to leave parliament as a sign of protest against the *status quo*, but the internal opposition disapproved.

According to the same source, BSP and DPS indeed struck a deal, but that happened much later – two or three months prior to the elections. The leaders of the two parties, Stanishev and Dogan (even though officially he was an honorary chair of the party, Dogan took part in the key debates at the time), held talks and meetings and agreed to partner. Delyan Peevski also attended all the negotiations.

“Dogan called off his dog²¹¹ just two-three months before the elections. He had been siding with Borisov until the very last minute, but the moment he realized that BSP could perform well [in the elections], he decided to join forces with them. It was his chance to shine and to demonstrate that he could be the one dictating the terms,” the sources told us.

Stanishev’s actions following the elections also proved that BSP and DPS did strike a deal. Once GERB refused to form a government after the elections and returned the mandate, Stanishev volunteered to take over, knowing that he had the DPS’s support.

²¹¹ Peevski- Ed.

The so-called Kostinbrod Affair²¹² also played an important role in the outcome of the elections. According to political observers, the Kostinbrod plot cost GERB at least 2–3 seats in the new Parliament and made the forming of a majority government impossible.

PEEVSKI CLAIMS THE STATE FOR HIMSELF

Plamen Oresharski's government took over on May 23, 2013. It was presented as a technocrat cabinet formed under the BSP's mandate. Oresharski was the technocrat prime minister whose plan for the development of the country in the coming years should have served as an alternative to Borisov's first government. Behind-the-scenes from the public, however, a series of events were taking place which would lead just a year later to a political crisis and the collapse of the fourth-largest bank in the Bulgaria.

Delyan Peevski and Sergei Stanishev were the ones who hand-picked the so-called technocrat ministers. At the time the Socialists believed that even though they did not get hold of the executive power, they were still in control of the situation and could have a say.

One of the DPS's prerequisites to support to the new cabinet was to control the security sector, where Delyan Peevski should be given a key post. Dogan, Peevski, Stanishev, Mestan and other representatives of the senior management of the two parties sat around the negotiating table and engaged in a heated debate, which took place over the course of several meetings. The initial idea was to appoint Peevski as an interior minister. However, the accounts of our sources differ when it comes to the details. According to a DPS source, Dogan personally withdrew Peevski's nomination for interior minister and in exchange Stanishev offered for him to head DANS.

If this is true, then the answer to the question “#WHO suggested Peevski?” is Stanishev.

According to a high-ranking source from BSP, however, it was the DPS who wanted to see Peevski as the director of DANS, and Stanishev agreed on one condition – that the nomination got the

²¹² See „The Kostinbrod Affair“, p. 265.

approval of the foreign services. Tsvetlin Yovchev was tasked to check with the foreign partners. In a few days he, reported back that the nomination had been approved. It is unclear whether this is what actually happened. Tsvetlin Yovchev declined our request for an interview.

Pressured by the DPS and time, Stanishev announced the decision for the appointments first during a BSP party meeting. Then the nomination was officially presented to Parliament. The nomination opened a Pandora's box, sparking a new wave of protests, also known as #DANSwithme. The demonstrations continued for the whole duration of Oresharski's term, which lasted one year.

Over the coming months, something unthinkable happened on the political scene. While protesters chanted "ostavka" [resign] in the streets of Sofia, several politicians put in earplugs, and, undisturbed, took over the governance of the country. The Socialists quickly lost control over the entire government, as well as over the individual ministers. All power was concentrated in the hands of a single person who dictated the rules: Delyan Peevski. He had succeeded in doing so by using a number of tools, including KTB's financial resources, the prosecution, threats and intimidation. Peevski literally managed to buy the cabinet.

A document,²¹³ obtained by KTB files even shows the exact amount the bank invested "for the greater good of those in power:" BGN 25 million. The correspondence dates back to 2014, when the Oresharski government was in power. Three months after the government took office, BSP lost control over the cabinet. Ministers reported directly to the DPS. Their work was centered around one thing – tender-fixing in Peevski's favor and securing contracts and projects for companies that Peevski had personally chosen.

Analysis²¹⁴ of the public tenders from that period shows companies linked to Peevski did win the majority of the public procurements.

During Oresharski's cabinet the South Stream project was reopened. However, the Ministry of Energy was not managing it, but rather the director of Vodstroi 98, Ivan Mirinski. Ministers and vari-

²¹³ See „Political Corruption – Part 2“, p. 341.

²¹⁴ See „Peevski's Construction Business – a State Capture Manual“, p. 292.

ous heads of agencies and government bodies who did not wish to cooperate were pressured to do so.

„They started to embezzle money from the state. The BSP was just a bystander, doing nothing [to stop them]. The moment the protests faded away, they spun out of control and decided to take over the state. They tried to push BSP into the corner. It was like all hell had broken loose for a few months. At that time Peevski felt almighty,” said a source from BSP, who was familiar with the events.

In October 2016 Plamen Oresharski did not respond to our request for an interview regarding the above information. Instead, he asked if the questions we asked were related to the presidential race, in which he took part as an independent candidate, later supported by the DPS.

THE KTB LINK

Gradually, the duo Tsvetan Vassilev – Delyan Peevski began to grow apart, and this ultimately led to the KTB’s collapse.

Shortly after Oresharski became prime minister, Vassilev seemed to realize that he would not get what he had been promised. “It turned out that Peevski was a worthy replacement of Borisov’s minions, and he managed to devour what others as a group couldn’t. He had his tentacles spread far and deep. That was the time when Vodstroi 98 was booming, thanks to public tenders, all won by using my name: Vassilev wanted this, Vassilev wanted that. This is something that Sergei and Monika Stanishevi also acknowledged when I saw them in May-June of 2014.

But Peevski was not dominating just public procurement,” said Vassilev in an interview for KTBfiles.

The relations between Vassilev and Peevski had slowly cooled off, reaching rock bottom when they became entangled in a public feud. Here is a summary of the events that followed, as told by direct witnesses and sources. Naming Peevski as the head of DANS triggered a wave of protests. As tension started to escalate quickly, Vassilev tried to convince Peevski to step down from the political scene and give up his plans. At that time Vassilev had already become inconvenient because of his political ambitions – by supporting Barekov’s party – which he did not try to conceal.

Signs of Vassilev-Peevski's ailing relationship could be noticed as early as mid-2013. For example, Peevski's media outlets had been instructed that Vassilev was no longer „one of us.“ One of the large construction companies that previously worked in close cooperation with KTB was ordered to move their money to another bank.

In the meantime, Peevski, who had already clearly decided to break off his partnership with Vassilev, started preparing the establishment of his own bank.²¹⁵

At the end of 2013 and the beginning of 2014, the conflict between them was irreparable. The South Stream project had been suspended, which further challenged their relationship, depriving them access to substantial cash flows. Vassilev asked Peevski to repay the money – a main source of funding for his businesses over the years – that he owed the bank.

“In general, I was my idea it, but he was already a step ahead, trying to dig up some dirt on me. Along with Aleksander Angelov they had inside information and used DANS to profile me, so they could attack me later. They did a good job. He managed to create some tension between me and the main political players. For example, he told Dogan that I took 500 million-1 billion euros from the bank.”

“For extremely greedy people like Dogan, this could have been a serious reason to turn against me. I suppose he pulled the same trick with Borisov. In short, the guy recorded me and did everything possible to get rid of me. At some point in April – May 2014 I started hearing that all political leaders had given up on me because I wanted to become a prime minister and I wanted to oust Oresharski,” added Vassilev.

In the spring of 2014 a short period of negotiations between Vassilev and Peevski followed, in an attempt to distribute the assets they had acquired over the years with joint efforts. Once they failed to reach an agreement, Peevski delivered his verdict. He employed all the resources of the state apparatus, and within weeks the bank had collapsed. Vassilev fled the country.

Meanwhile, political fortunes in Bulgaria were shifting again. “At that time the strain between DPS and BSP increased. The DPS

²¹⁵ See „Peevski's Construction Business – a State Capture Manual“, p. 292.

tried to renegotiate with GERB. It was clear that things could not go on like that and no political measures could do the trick... The government fell apart, because at one point it became clear that the DPS had some criminal intentions. It was impossible to stop them, unless the government stepped down,” said a high-level source from BSP. There was another event that predetermined what followed next. In late July Borisov and Peevski met, struck a deal and marched together into GERB’s second term.

PEEVSKI'S CONSTRUCTION BUSINESS – A STATE CAPTURE MANUAL

There is one very clear indicator of Delyan Peevski's influence within the government. If his companies thrive, thanks to state resources, it means that he calls the shots, especially since he wins almost all public tenders in a supposedly competitive environment.

The rise of Vodstroi 98, one of the large companies allegedly owned by Peevski (officially the company is not registered under his name but media publications²¹⁶ have unraveled his links to the firm) is a case in point of his thriving business during Plamen Oresharski's term. The company won the most public tenders and was the main driving force in the South Stream project (later suspended). The development of Vodstroi 98 also proves the claims of our sources that Peevski's goal during Oresharski's term was to get hold of the state.

THE FIGURES

Vodstroi 98, linked to the DPS MP Delyan Peevski, enjoyed special access to public resources, a well-known fact which was confirmed by the Financial Report²¹⁷ of Construction Companies in 2015. Thanks to winning the bulk of public tenders, by the end of program period Vodstroi 98 had the highest profits in the sector – its turnover grew by 80% to BGN 292 million, while its profits rose by over 46%, compared to a year earlier, reaching BGN 22 million. Since 2007 it has won contracts – either individually or in a consor-

²¹⁶ "WHO Controls the Construction Industry? After Gaining Hold of Vodstroi 98 Billion-leV Worth of Public Tenders, Delyan Peevski Fancies a Bank," *Capital*, June 13, 2014.

²¹⁷ <https://docs.google.com/spreadsheets/d/1QN0pf5XUwJe6ml8o290QU0R-6ALAoYaNVdKoc2xhvSY/edit#gid=431830306>

tium with other firms – worth more than BGN 976 million, according to the data search engine run by the investigative site Bivol.

Just seven-eight years earlier, Vodstroi 98 was a little-known construction company with an annual turnover of 2 to 3 million lev. Such a success story could be attributed to two main scenarios. Vodstroi 98 could be a smoothly-running company that, thanks to excellent management and a proper business strategy, had gained an increasing market share. Given, however, that huge part of its revenue has come from public tenders and EU funds, another possible explanation is likely – it is just another darling of the state, whose success would not be possible without major support from the government.

In an interview with KTBfiles, the majority shareholder of KTB Tsvetan Vassilev, who had sponsored the company through the bank for years, said: “What is Vodstroi? All they had were two wrecked dump trucks. This was an embezzlement scheme.”

Up until 2014, Vodstroi 98 had been funded by KTB. On the one hand, its success was directly related to the good ties between Peevski and Vassilev, and on the other hand – to Peevski’s political clout with the government. After the very public conflict between Vassilev and Peevski, the latter kept Vodstroi 98 for himself, and the state officially entered as a partner: The Bulgarian Development Bank, BDB, became Vodstroi 98’s creditor.

THE BACKGROUND

Up until 2008, Vodstroi 98 was a relatively small construction company, established to privatize Vodno Stroitelstvo-Sliven, which Vodstroi later acquired. It was hardly impressive. With an annual turnover ranging from several hundred thousands to 2 to 3 million lev, it was a rather small player on the construction market. One of its founders and directors was Rumén Yonchev. He later became the chairman of the Agrarian People’s Union, a small agrarian party, and was elected as a MP from the Coalition for Bulgaria, a left-leaning alliance in Bulgaria, led by the Bulgarian Socialist Party. However, he later left the coalition’s parliamentary group and signed an agreement with Nikolai Barekov’s Bulgaria Without Censorship.

In 2016 Yonchev headed the People's Union, which joined the United Patriots, a coalition of nationalist parties. In February 2017 he left the alliance. From 1999 to 2001 he was deputy director of the State Fund Agriculture as well as manager of the team that carried out the certifying of the Fund as the government body in charge of payments and project implementation under SAPARD, an EU-funded agriculture program.

In December 2008, PM Control, a company owned by Ivan Mirinski, acquired 99.98% of Vodstroi 98's shares. Previously, Mirinski had run an architectural business, with his biggest project being the reconstruction of the Palace of Justice.

PM Control bought 96.4% of Vodstroi's shares for BGN 2 million, which had been provided with a two-year loan from KTB, as the company's financial reports show. Up until 2014, the bank was practically the only lender whose money had been fueling Vodstroi's growth during those years. According to the company's financial report, upon the end of 2012 it owed the bank BGN 8.6 million for an investment loan, BGN 1.6 million for the purchase of its new headquarters in Sofia, and BGN 7 million for the privatization of the company Promishleno Stroitelstvo Holding, which it acquired in 2011 for BGN 12 million.

DEVELOPMENTS DURING THE SECOND GERB GOVERNMENT

Vodstroi's started to grow in 2009, at the same time when Borisov's first cabinet came to power. In our interview with KTBFiles, Tsvetan Vassilev said that Peevski and Borisov were like two sides of the same coin – two clans, which together governed the state.

“Well, you should ask Borisov! Why do all of his mayors have contracts with Vodstroi? How does it work? It's easy. First, you get rid of the competition, sign a contract with Vodstroi, which then hires subcontractors, takes its share of 10–15% and leaves the rest for the other companies. They didn't give them even that much. They've ripped off half of the country, threatening anyone who dares to ask for their money. Have a look at the contracts Vodstroi signed with the Railway Infrastructure Company when Ivaylo Moskovski was a transport minister – those framework contracts were

illegal. Look at the criminal contracts with the State Reserve, check the renovation of the oil bases done by Vodstroi and Integrirani Patni Systemi AD, (IPS).”

In 2009, the turnover of the construction company increased from BGN 6.7 million to BGN 144 million.

At the only time then-director Tihomir Trifonov commented on the company’s sudden success, he attributed the growth to their hard work in the field of residential and infrastructure construction. The company paid BGN 100 million to subcontractors, its financial reports showed. The main contracting authority that kick-started Vodstroi’s booming business was the Ministry of Regional Development and Public Works, MRDP.

Prior to the change of ownership in 2008 (during the term of the Three-Party Coalition cabinet), MRDP signed two contracts with Vodstroi 98 for the repair of the water supply system in Zlosten for over BGN 2.5 million. After Ivan Mirinski bought the company, another contract with MRDP followed for the construction of a drainage system in Panaretovsti, a village near Sliven, worth BGN 516,467 (excluding VAT).

The contract was signed in the last months of Stanishev’s administration. In fact, the three contracts were part of a total of BGN 300 million worth of contracts with construction companies, which the MRDP had signed without having the actual funds. GERB’s government paid the debts after the firms agreed to a 10% cut.

In the period 2010–2013, Vodstroi 98 was approved as one of the darlings of the new government, winning contracts all across the country,²¹⁸ including in Burgas, Devin, Vratsa, Sliven, Petrich, Sofia, and Gorna Malina. It signed framework agreements with Maritza East 2 TPP, Kozloduy NPP, Bulgartransgaz, The *National Railway Infrastructure Company*, and NRIC. Interestingly, the municipalities that chose to work with Vodstroi 98 were either controlled by the BSP or GERB. In 2013 the company won the reconstruction of Sliven’s water and sewerage system, a contract worth BGN 47 million. The mayor at the time was from the Socialist party. The firm won two other contracts for the reconstruction of the water supply and sewerage system in Vratsa – one worth BGN 30 million and another

²¹⁸ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Porchkite-na-Vodstroi-98.pdf>

one worth BGN 15 million, when in 2012 the mayor was supported by BSP and other parties. In 2011, under GERB's administration, Vodstroi signed a contract for the rehabilitation of the water supply system in Burgas worth 11 BGN million.

The year 2009 marked the start of actual work under the European "Operational Programme Environment 2007–2013," although the payments continued to be allocated long after 2013. Vodstroi's work at that time was predominantly in the water industry – rehabilitation of water supply and sewage systems, repairs of wastewater treatment plants, waste management systems, emergency reinforcement and drainage. While it signed projects worth of hundreds of millions of lev, the company employed a small team, made up mostly of engineers, with no proper equipment and no regional branches, which would make the implementation of those projects difficult.

That is why some of Vodstroi's projects were done in cooperation with large construction companies (Rai-Commerce, Stanilov, GP Group, Glavbolgarstroy, Trace Group Hold, Hydrostroy, etc.), which used it as a tool to win public tenders. For small water-supply contracts around the country, the company hired local firms, ostensibly responsible for supplying materials and equipment. In practice, however, they did all the work.

THE GOLDEN ERA

The beginning of Oresharski's terms marked Vodstroi's boom. Over the course of a year and a half, the company had significantly expanded its portfolio outside the water sector, while its team of 200–300 people almost doubled.²¹⁹ In the period Vodstroi 98 won several signature contracts – building Sofia's northern bypass, worth nearly BGN 200 million (in cooperation with Hydrostroy), only after the CPC and the SAC took care of the competition; for landfills in Stara Zagora and Yambol, railway repairs, projects at Sofia Airport, construction of sports halls, reconstruction of the railway station in Sofia (in cooperation with Glavbolgarstroy) and others.

²¹⁹ <https://docs.google.com/spreadsheets/d/1QN0pf5XUwJe6ml8o290QU0R-6ALAoYaNVDKoc2xhvSY/edit#gid=431830306>

The construction of Sofia's northern bypass was a case in point. Initially, the Italian company Salini-Impregilo, which had experience with infrastructure projects worth billions of dollars around the world, won the contract. However, teaming up with Hydrostroy, Vodstroi (the partnership was also known as HPVS – SST) challenged the decision.

The CPC heard the appeal only a month after the government of Plamen Oresharski took over and Peevski was appointed as the head of DANS, and issued an unprecedented ruling: the Italian giant lost the bid and the project was awarded to HPVS – SST. In its reasoning the commission said that Salini-Impregilo had suggested a project manager who did not have the required professional experience, and that the company had failed to show enough earnings. Then SAC upheld the CPC's decision.

In this period, Vodstroi 98 was also part of a consortium selected to build the Bulgarian section of the South Stream pipeline,²²⁰ a project worth over BGN 2 billion. According to unofficial sources the selected contractor was called Stroitransgaz Consortium and was made up of the Russian Stroitransgaz and the Bulgarian the Gazproject South. The consortium was registered at 13–15 Sandor Petofi St., Sofia, the same address where Vodstroi 98's headquarters were located and was composed of: Promisheno Stroitelstvo Holding EAD (owned by Vodstroi 98), Technoexport-Stroi EAD (owned by an offshore company, privatized with a loan from KTB and managed by the sister of Kiril Dobrev, a MP from BSP), Glavbolgarstroy, Pontstroengineering EAD (described as Oresharski's company) and PST Holding AD (at that time under the control of First Investment bank). In March, this unofficial information was confirmed, not by the Oresharski's government, which had vowed to be "transparent" regarding the South Stream project, but rather by sources quoted by Reuters.

At the same time, PST Holding (now PST Group) – a company that was part of Vasil Bozhkov's road holding – was acquired by an offshore company linked to First Investment Bank. According to sources in the road industry, Vodstroi 98 also bought shares in the company, securing resources for the construction of Sofia's

²²⁰ See „The Grand Finale: South Stream“, p. 326.

northern bypass highway (which was built by PST Group and Hydrostroy).

As a result, Kamen Kichev – a former deputy minister of transport and now a representative of First Investment Bank – and Tsvetan Tsonev, a road industry expert and representative of Vodstroj 98, became members of the board of directors.

Thanks to projects outside of South Stream, in 2014 Vodstroj 98 reported an annual turnover of BGN 162 million, double its turnover from the previous year. The company ranked as the second largest company in construction in terms of revenue.

The company applies a well-known scheme, acting mainly as a “broker” – it wins public tenders with a low bid, sometimes with the help of the CPC and the SAC, when necessary, then hires subcontractors to do the various tasks, of course, only after charging them a project management fee.

This led to a dangerous concentration in the construction industry, as dozens of small companies depended on a larger one; it also created coordination problems, delayed payments, and thus delayed projects. The state and the municipalities were the ones who had to bear the financial risks.

In July 2015 the Bulgarian Development Bank again intervened (after it already taken over lending to Vodstroj 98 following KTB’s collapse).

At that time the bank announced a scheme to purchase the debts of construction companies from municipalities working on EU-funded projects. To this day, the Bulgarian Development Bank refuses to say which companies it has funded. What little we know is that by the end of 2015 the bank had paid over BGN 80 million under that scheme.

THE PERIOD AFTER THE BANK’S DEMISE

Before their falling out, Peevski and Tsvetan Vassilev appeared to be attached at the hip. KTB provided the funding, while the DPS MP lobbied for winning public tenders. However, their business partnership quickly fell apart, following the conflict between the two.

“Public tenders are mainly being distributed through the connections of this man, who is currently accusing me of trying to kill him. This person sees himself as the state’s shadow king. Some of his puppets speak on behalf of the state. For example, they distribute all the construction sites and projects. All this is happening publicly. For example, the puppet, installed as the owner of Vodstroi, is called Ivan Mirinski,” said Tsvetan Vassilev in an interview for bTV from June 2014. From that point on, it was clear which construction companies were in the banker’s sphere of influence, and which others remained with Delyan Peevski.

In fact, following their “divorce” Peevski kept the majority of construction businesses – initially including Vodstroi 98, Promishleno Stroitelstvo Holding, partly PST Holding, Technoexportstroy, and Integrirani Patni Systemi AD, IPS, represented by Veselin Bushev, about whom Tsvetan Vassilev claimed in his blog²²¹ that he was working along with Biser Lazov, i.e. with Peevski.

While later Peevski sold Vodstroi 98 to Hydrostroy, unofficially the company continued to gravitate around the DPS. PST Holding was allegedly controlled by First Investment Bank.

Despite the feud between Vassilev and Peevski, Vodstroi 98 kept growing, especially after the intervention of the Bulgarian Development Bank. At the end of 2016 it funded the company with over BGN 50 million. In 2015, the company urgently completed and got paid for a number of infrastructure projects, and its turnover had reached new record heights. The PST Group, where control was allegedly divided between First Investment Bank and Peevski, seemed to have an even brighter future. The company won a number of public tenders to maintain the country’s roads, securing a steady income for years to come. The company was among the major winners of public tenders for lucrative infrastructure projects, along with GP Group, Glavbolgarstroy, Hydrostroy, Agromah and others.

Nearly a yearlong public tender for the construction of 60 km of the Hemus Highway was about to conclude in the winter of 2015. Instead of the initial estimate of 400 million lev, it turned out that

²²¹ “Tsvetan Vassilev Blamed KTB’s Trustees for Costing the Bank Hundreds of Millions,” *ECONOMIX.BG*, July 20, 2016, <http://economix.bg/Vassilev-ktb-vivakom-tehnomarket> [01.08.2017].

the two lots of the highway would cost nearly BGN 1 billion. Despite the lengthy procedure, the decision to select contractors was announced only after a few days: a consortium led by JP Group won the bid for the first lot and another consortium led by PST Group and Hydrostroy won the second. The lowest offers for both lots were quickly ruled out, a decision that both the CPC and the SAC upheld. It seemed like the cartel in the construction industry, which had eliminated foreign competition and which had extended its domination over local businesses, was about to cement its position as a monopolist for years to come.

The Hemus public tender consisted of two stages – candidate selection and evaluation of the bids submitted by the selected companies. Shortly after the call was announced, the Austrian company Strabag appealed the tender terms because the project did not have funding and there was no option to adjust the prices.

The CPC rejected the complaint. Sixteen companies took part in the public auction. During the first stage, the selection committee excluded the French construction giant NGE Contracting, with an annual turnover of more than EUR 1.3 billion in 2012 and a team of more than 7,000 employees. In their decision the committee noted that the firm had not submitted supporting documentation, confirming available funding of BGN 20 million and had not provided evidence of participation in at least one project involving designing a conceptual or technical plan of a motorway or first-class road and tunnel in the past three years. The Turkish company YTY ASFALT İnşaat Madencilik Nakliyat was excluded because it did not show that it had built bridges and at least one road-, rail- or metro-tunnel.

The Turkish consortium Gulermak Heavy Industries Construction & Contracting Co. Inc, the Austrian Strabag and the Italian Cooperativa Muratori E Cementisti C.M.C. Di Ravenna withdrew their offers once they studied the tender documentation. The lack of available funding for the project and the low price estimates were among the reasons they changed their minds, according to a source from one of the firms that withdrew their offers. As a result mainly Bulgarian companies made it to the finals, as one-third of the competition had been eliminated.

The selection committee's favoritism towards the consortiums around PG Group and PST Group was clear as early as the evaluation of technical offers, when they were awarded the high-

est score. Surprisingly, the consortium Hemus BG (ISA 2000 and ORS Infrastructure) and the Turkish company Taşyapı İnşaat Tahhüt offered a 20% lower price for the constructions of the two lots. The Committee did not accept their price assessment. The tender winner was announced after only six days: GP Group and PST Group.

In the meantime in London, Ivan Kiselov, a Bulgarian student in the UK, asked Prime Minister Boyko Borisov: „Do you see Peevski when you look at the mirror?“ „That was the straw that broke the camel’s back,“ Borisov said later. A few days after he returned from the UK, he posted on Facebook: „I instructed the Minister of Regional Development and Public Works Lilyana Pavlova and the National Company Strategic Infrastructure Projects, NCSIP, to immediately terminate the tender for the construction of two lots of the Hemus Highway. The actions undertaken are in relation to Lot 1 and Lot 2.“

„Officially or unofficially, there have been concerns about the legality of the tender. I’d like to state that it has been carried out in accordance to the law. However, when speculations are circulating about a deal worth BGN 800 million of taxpayer money, I would like to lift any last bit of suspicion that I’ve done something wrong. So I canceled the tender and I ordered the launch of a new one right away, for all the journalists to see,“ Borisov told reporters.²²²

To a question as to whether rumors about certain people’s involvement worried him, he replied: “[Rumors] have been circulating on the one hand – though I’d like to reiterate for your viewers and listeners, they are not involved, nor the companies are registered under their names – but there have been [rumors] circulating that Zlatev is behind one of the companies and Peevski is behind the other.”

In the following months Peevski had allegedly started to withdraw from a series of businesses, but it is hard to say whether that was really the case. Ivan Mirinski sold Vodstroi 98 to Hydrostroy,

²²² “Borisov Canceled the Hemus Tender Following Speculations About Peevski’s Involvement in Construction,” Darik News, February 15, 2016, <https://dariknews.bg/regioni/varna/borisov-spira-hemus-zaradi-sluhove-za-uchastie-na-delqnPeevski-v-stroitelstvoto-1551946> [01.08.2017].

First Investment Bank gained full control of the PST Group, a Burgas-based firm Stroi Invest bought Promishleno Stroitelstvo Holding, while changes to the board of directors of Technoexportstroy had been announced.

At the same time, Peevski's other businesses continued to grow, as he acquired more and more key assets from the failed KTB. His publications kept up the pro-government rhetoric, while Peevski continued benefitting from his political clout with the government. That is why his so-called exit from the construction industry at the end of 2016 sounded as unconvincing as his explanations a few years earlier that he had no monopoly in the media sector in Bulgaria.

THE ENERGY SECTOR – A TOP PRIORITY FOR KTB

KTB'S INNER CIRCLE HAS BEEN WINNING NEW PROJECTS UNDER EACH AND EVERY GOVERNMENT, WITH ITS PEAK DURING ORESHARSKI'S TIME IN OFFICE

Alexey Miller, the executive director of Gazprom, visited Bulgaria at the end of October 2013 to discuss the South Stream project. Miller's meeting about the pipeline with the Bulgarian Prime Minister Plamen Oresharski lasted a total of four hours. Where did the meeting take place? In the building of the Council of Ministers.

It was expected that their talks would culminate in praise of a long, beneficial and very profitable cooperation. Afterwards, Oresharski and Miller decided not to answer journalist's questions regarding the South Stream project. A few hours later, the call for public tender for the construction of the pipeline was announced. It turned out that there were no minutes from the meeting, according to a reply to a FOIA request we submitted.

Two well-connected firms, Russian Stroitransgaz controlled by Gennady Timchenko, (who, according to the US Department of Treasury managed Vladimir Putin's money), and the Gazproect South consortium (in which the leading player was Vodstroi 98, then still linked to Delyan Peevski) would benefit the most from the project.

Both Peevski and KTB's inner circle (banker Tsvetan Vassilev and the businesses funded by the bank) would score their biggest energy deal if the project took off. The Bulgarian consortium Gazproect South's share amounted to EUR 1.3 billion and even just the regular return on the offer would be a major source of funding for to the duo, who would come to dominate the energy sector only in a few years' time.

In 2013, Peevski and Vassilev (together or individually) already had the Ministry of Energy, the Bulgarian Energy Holding, the State Energy and Water Regulatory Commission at their disposal... However, things did not go according to plan. The South Stream pipeline [an abandoned pipeline project to transport natural gas from the Russian Federation through the Black Sea to Bulgaria and further to Austria] was already old news, an unexpected development that raised the tension among all those in Bulgaria with a vested interest in the project.

Those events further severed the already strained ties between Peevski and Vassilev and ultimately led to the collapse of the KTB Empire.

FIRST INROADS INTO THE ENERGY SECTOR

Energy was undoubtedly at the top of the agenda for the Vassilev-Peevski duo, both together and individually.

Vassilev's interest in the energy sector could be traced back to the late 1990s, when his brokerage firm Bromak signed a contract with Bulgargaz, a deal that whet his appetite for doing business in the sector. Under the contract the state-owned company's entire cash flow went through Bromak. Even considering the low gas prices at that time, Bulgargaz sent up to BGN 500 million a year to Gazprom and its partners in exchange for gas deliveries.

The Bulgarian Energy Holding (BEH), established in 2008 as a successor to Bulgargaz Holding, should maintain records about those transactions. BEH usually refuses to provide such data. In a response to a FOIA request we sent them, the state-owned company said that they kept such data only for up to five years.

"I've heard about it," the executive director of one of the state-owned companies said ambiguously. Moreover, Bulgargaz and later Bulgartransgaz – a company that became emancipated from the holding – were not only the first big clients of the bank, but also the companies with the largest deposits. "I spent four months in front of the office of Bulgargaz's director to convince him to become our client," said Yanko Ivanov, a former shareholder and

executive director of the bank, in an interview²²³ for TV7²²⁴ from 2011.

At that time such lobbying could not take place without enjoying substantial political patronage. The gas sector was one of the most sensitive matters for the government of Ivan Kostov and each deal went through a careful examination. Today, however, it is hard to say what the scale of this political protection was, as many of the actors involved (conveniently) do not seem to recall the events from that time.

In 2001 KTB had expanded its business in the energy sector, as the bank became a key intermediary in the privatization of state energy assets. Vives AD, for example, bought Energoremont Holding through the bank and other companies affiliated with Tsvetan Vassilev. Later the buyer subdivided its shares and then transferred them to the end buyers. KTB funded the acquisition with a loan. Fina-TS was the state's financial intermediary during the privatization procedure. This scheme was developed to shield the actual buyer from outside competition.

Three groups of investors gained control of Energoremont Holding following its restructuring. The best-known among them was the energy entrepreneur Bogomil Manchev, the owner of Risk Engineering.

Manchev was believed to be Tsvetan Vassilev's connection in the energy sector during the NDSV government (2001–2005). At that time, Risk Engineering's owner had a decisive say in the energy policy of the Simeon Saxe-Coburg-Gotha's cabinet. Manchev was a close ally of energy minister Milko Kovachev, with whom he had studied at the Technical University in Sofia (even though they were three years apart); they later worked together at the Kozloduy NPP. A WikiLeaks cable²²⁵ from the US Embassy in Bulgaria described Manchev as the "shadow energy minister."

After Kovachev's resignation in 2010, he became co-owner of Millennium 77, along with the former head of Kozloduy NPP Yordan

²²³ millioner.tv7.bg/faktorat-koshlukov/newsdetails&id=2997682

²²⁴ In the meantime, TV7 shut down on September 17, 2016, according to Wikipedia. The television's web site – www.tv7.bg – is no longer working.

²²⁵ "Controversial Economy/Energy Minister Goes to the US Seeking Investment," Bivol, May 27, 2011, <https://bivol.bg/07sofia252-2.html> [01.08.2017].

Kostadinov, Petar Manchev (Bogomil Manchev's son), and Stilian Hristov, son of Vladimir Hristov, the former director of investment in NEC in the late 1990s. With 33.03% of the shares, the company was a main shareholder in Energoremont Holding.

Curiously, energy minister's father, Dimitar Kovachev, had been long-time director of the Energoremont DSO during the communist regime.

Mileniya 77 was a typical shell company, which remained under the control of people associated with KTB until the end of 2007 (from 2007 on it has been registered at 17 Debar St. Through Millennia 77, Energoremont Holding's shares, previously bought by Vives, eventually ended up in the hands of the group of businessmen close to Manchev. They acquired the shares controlled by KTB at the end of 2007.

Manchev refused to comment on his relationship with Vassilev at that time, but unofficially it is known that Yanko Ivanov²²⁶ introduced the two. He was the person who strengthened the bank's position in the energy sector (it is unlikely he achieved that by simply waiting around in front of offices of the managers of state-owned companies) and spent long hours in the halls of the Energy Ministry.

Manchev's role was to secure the first large deposit of a state-owned company. For him that was a piece of cake, given that people in his circle were part of the managing bodies of several energy companies. For example, in 2001 Vladimir "The Jeep" Hristov was appointed as a member of NEC's board of directors. Hristov was a regular participant in the Energy Ministry's staff meetings, according to a former high-ranking official, who did not want to be identified.

At that time, KTB did not yet play a key role. Between 2001 and 2003 many media publications exposed the fact that companies linked to Vassilev acted as proxies for Manchev. KTB was a preferred fixer, but failed to turn into a major factor. According to the above-mentioned source from the Energy Ministry, Milko Kovachev regularly inquired about the deposits of state-owned companies in the bank, which showed no concentration at that time.

²²⁶ See „The First Long-Term Deposits Attracted“, p. 54.

Moreover, back then the two camps of “multatsi” and “riskadzhii” were still fighting for control over the energy ministry – a “multak” is a person who works for or is somehow associated with Multigroup. A “riskadzhia” is a person who works for or is somehow associated with Manchev’s Risk Engineering. In 2003 the murder of Iliya Pavlov, Multigroup’s director, aided KTB’s rise in the energy industry. Multigroup had huge influence in the energy industry, as it called all the shots between 1995–1997. In 1995, it forced the state to work with Topenergy (a joint venture between Bulgargaz and Gazprom), which took over the import and transit of natural gas through the country. But after Ivan Kostov’s government launched a war against the economic group, Multigroup was pushed out of many economic sectors. In 1999, Credit Bank,²²⁷ a lender linked to the holding which financed numerous energy companies, collapsed. It turned out that its main depositors were NEC and several state-owned thermal power plants.

Pavlov’s assassination reshaped the camps in the energy sector, as some “multatsi” were looking for a new patron. KTB was the obvious go-to...Some of them even headed companies associated with Bogomil Manchev – for example, Slaveiko Hadzhidimitrov, who back in 2000 had represented Borosport, a company linked to Multigroup. He then became the managing director of Riverside Residential Park owned by Bogomil Manchev and joined CEZ Electro Bulgaria AD’s board of directors in 2006 when Risk Engineering had much clout with the Ministry of Economy and Energy.

Later, the murder of Emil Kyulev also sped up KTB’s expansion in the energy industry. The owner of DZI Bank was shot dead in Sofia at the end of 2005. At that time, DZI Bank, which in 2001 had acquired the Credit Bank, was already a key factor in the energy sector. Manchev himself participated in a joint venture, Bulgarian Energy AD, with one of Kyulev’s previous banks – TSBank.

“In 2006, everyone was fighting for the ruins of Kyulev’s businesses,” said an energy expert who did not want to be named.

KTB started to grow right after 2005, when it started servicing a number of state-owned energy companies. Shortly after the BSP, DPS and NDSV government took office that same year, parity

²²⁷ Teodora Peeva, “Credit Bank About to Be Sold Dirt Cheap,” *Sega*, October 18, 2001, <http://www.segabg.com/article.php?id=198757> [01.08.2017].

among Bulgarian-owned banks was still common. However, the trend gradually began to swift.

SEVERAL JUMPS CLOSER TO MONOPOLY

KTB made the first big stride towards gaining a monopoly in the energy sector between 2005 and 2006, a report²²⁸ on KTB's assets showed. The symbiosis that led to snagging most energy cash flows and public procurement in the sector, however, materialized in 2008, when the number of deposits of state-owned companies in the bank jumped significantly. One by one, more and more state-owned energy companies started opening KTB accounts, while their departments in charge of public procurement started to cater not to the state's business plan but to someone else's. That was the time when Tsvetan Vassilev emancipated himself from the businessmen who had previously worked with him in the energy sector, and he unleashed his potential. That was the time when his partnership with Delyan Peevski grew stronger. "Then Vassilev changed," Bogomil Manchev recalled in an interview²²⁹ for bTV.

The scheme is simple. Big energy companies have significant cash flows and relatively fixed time schedules to pay their contractors. In practice, considerable financial resources sits idle, as state-owned enterprises do not have a system for flexible management of investments and most of the money is locked up in checking accounts. If a financial institution combines the budgets of several energy companies with different payment schedules, this allows it to manage a substantial amount of money which more or less remains stable and which the bank can freely operate with.

The cost of this resource is minimal, at least compared to the amount of money that would be accumulated as a deposits.

For example, the working capital of the Kozloduy NPP, before it was cut in 2013, amounted to BGN 310 million, which meant that

²²⁸ <http://www.ktbfiles.com/analizi/razmert-i-rolyata-na-drzhavnite-depozitiv-ktb>

²²⁹ Bogomil Manchev, "I Proposed to Tsvetan Vassilev to Transfer My Business to Him for Free," bTV Novinite, February 13, 2016, <http://btvnovinite.bg/article/bulgaria/ikonomika/bogomil-manchev-predlozhih-na-cvetan-vassilev-da-mupodarja-biznesa-si.html> [04:55 min. on].

at any time the nuclear power plant's bank account should have between 10 and 40 million lev, whose flow could be easily predicted.

Between 2009 and 2010 the energy sector generated for the bank a capital of between BGN 400 to 621 million, with which it could freely operate.

This is why financial institutions usually compete so fiercely to attract such clients. "It was an open secret that we, banks, pay good salaries to attract cheap resources. It's no coincidence that state-owned companies keep huge amounts of money in their checking accounts only in select banks. We're talking about significant amounts, millions, not about a lev or two," said an executive director of a small foreign-owned bank, who wished not to be identified, in a 2009 interview with *Capital Weekly*.²³⁰

Gaining such clout was not an endeavor pioneered by KTB. The local division of BNP Paribas hired as a consultant the former Minister of Energy Milko Kovachev, undoubtedly to secure influence in the energy sector. Previously, when Kovachev was in office, the French bank also received two consultancy contracts in the energy sector.

The model worked smoothly, at least until KTB came to dominate this business in the transport and energy sectors. "The first thing that struck me was that more than half of this sum, about 60%, was concentrated in three banks. The other thing that struck me even more was that three-quarters of the money was held in overnight deposits at a low interest rate," said Finance Minister Simeon Dyankov before Parliament in 2010.

Then Dyankov hinted at an organized scheme. KTB's march to gain "market power" coincided with three key events.

In 2007, after the Bulgartabac-related row between Rumen Ovcharov and Delyan Peevski, Sergei Stanishev suddenly reshuffled his government. The Minister of Economy and Energy Ovcharov, who had strong positions (both as a party member and as an expert), was dismissed. Petar Dimitrov, who entered the industry almost by chance, took over.

Ovcharov's replacement upset the fragile balance of lobbies in the energy sector. While Ovcharov had been close to Manchev since the 1990s, (and as a minister appointed some people linked to him

²³⁰ Dimitar Peev, "Suspicious Consensus," *Capital Weekly*, November 11, 2009.

as representatives of the state in different state-owned companies), their friendship did not necessarily translate into Manchev's return as a shadow minister, as he used to be under the NDSV government. Ovcharov had preferred to juggle multiple interests at the same time in order to preserve the scope of his influence. He even maintained good relations with the US Embassy, a move that was otherwise unusual for a member of the Socialist Party, as shown in a leaked cable²³¹ from the US embassy in Bulgaria.

Ovcharov's dismissal provoked a chain reaction of other reshuffles. The replacement of the board of the directors of the Maritsa East 2 TPP was a good example. Georgi Hristozov, who at that time co-owned the TPP Vidahim, a company that later became part of the larger enterprise Energy Market, entered the board. Mihail Mikov, a MP from BSP, and Nina Chilova, a MP from NDSV, were lobbying for his appointment. They were both MPs from Vidin, a small town on the Danube River. Ovcharov, however, was hostile towards Hristozov.

The appointment of Ilko Zhelyazkov to the TPP's board, who had worked at the Military Reserve Force, was indicative. Zhelyazkov was one of the people whom many energy experts and businessmen associated with Peevski. At the time, Peevski, as deputy minister of state policy on disaster relief and emergency situations, was in charge of the State Reserve.

Years later Tsvetan Vassilev would describe Zhelyazkov as „Peevski's lieutenant.“ The topmanagement of other companies were also being reshuffled. Vassilev and Peevski's relationship kept going strong, as the latter expanded his influence in the public procurement of state-owned enterprises.

The second event was the liquidity crisis of 2007–2008 that Bulgarian banks faced. At the end of 2008, the BNB reduced the minimum reserve requirement, which financial institutions are obliged to maintain, releasing capital²³² of a total of BGN 3 billion. Officially, the move aimed to support the real economy, but it was clearly meant to improve the stability of the banking system, which

²³¹ “Bulgaria Favors Russian Bid to Build Belene NPP,” WikiLeaks, October 24, 2006, https://wikileaks.org/plusd/cables/06SOFIA1481_a.html [01.08.2017].

²³² BNB's Press Release from February 13, 2009.

had been hit hard by the global financial crisis that burst the real estate bubble in Bulgaria.

At that time some banks needed support, but unlike 2014, when KTB went bankrupt and the state aided First Investment Bank financially, the whole operation was kept under wraps. One of those banks was KTB. A minister from the Three-Party Coalition government indirectly confirmed this, implying that the government had aided several banks by transferring deposits of some state-owned companies there. "This was often done to assist this or that bank to overcome their temporary problems. Several such state-owned firms with large deposits, including RVD, Sofia Airport, energy companies, have been used for the purpose."

KTB's financial reports from 2006, 2007 and 2008 illustrate that approach. In 2006, the bank had no bank deposit from the state budget, while the funds from state-owned enterprises amounted to BGN 328 million. A year later, the state budget money deposited there was BGN 223 million, while the funds of state-owned companies grew to BGN 427 million. In 2008, the finance ministry withdrew most of its funds from the bank, leaving just a deposit of BGN 66 million, but the state-owned companies' funds in the bank rose to BGN 725 million.

Even after the Oman Investment Fund bought a stake in the bank in 2009, a move which aimed to improve KTB's capital adequacy as a fast-growing bank and which should have improved its liquidity, money from public companies kept increasing. The question is: Why? Was there a central order to deposit state money in KTB, or once started, the momentum could no longer be controlled?

"If I tell you that no one has come to me to ask where his enterprise should keep its money, I'd be lying. I told my colleagues: "Check the situation there." But during my time in office there was no direct order to transfer the funds into a certain bank," said a former minister of economy and energy who did not want to be identified. Two other ministers of economy and energy, who were in office at different times, also confirmed his words. All three of them claimed that if there was pressure, it was probably the boards of the state companies which were pushed to transfer their funds. However, after 2009, when the concentration of state resources became apparent, this could not have happened without an order from the very top.

The parliamentary elections in 2009 were the third factor which undoubtedly had fueled KTB's rise. Since the 1990s BSP politicians had worried that the party had been losing political ground because of a hostile media environment, as they described it. As early as 2001 when Georgi Parvanov won the presidential elections, he was trying to build a group of friendly publications. Initially, the group of media included BBT, a private television station owned by arms trader Petar Mandzhukov, who was close to the president. But in 2003 Parvanov also tried to force a change of ownership of *Sega Daily*,²³³ but it fell through. His failed attempt, however, mattered little, since KTB would roll out a much larger scheme to control the media. After 2007–2008 with the financial support of KTB, Delyan Peevski gradually began to monopolize the media market and offer favorable coverage to incumbent governments. BSP was the first party to benefit briefly from his services.

A MANY-HANDED BANK

Delyan Peevski and KTB's influence in the energy industry had been gradually expanding over the years, reaching its peak in 2013–2014, a time that also marked the end of the Vassilev-Peevski Duo. However, their interests in the sector were not limited to a one niche only.

They began by attracting the deposits of state-owned companies in the energy sector. Even though after 2010 the total amount of energy companies' funds at KTB shrank, the concentration actually increased. The situation shifted in 2013, when the caretaker government of Marin Raikov decided that a state-owned company could not keep more than 25% of its funds in one bank.

Despite the new rules for selecting a financial institution, adopted in 2010, KTB continued to be

the energy companies' bank of choice. A bit later, Simeon Dyankov said that state-owned companies were managed independently and their principals did not have a lot of leverage. "Unfortunately, I stress – unfortunately – the selection of which bank to use was not within its purview," said the Minister of Finance. After that,

²³³ "Overgaz in Search of a Future without Gazprom," *Capital*, December 18, 2015.

KTB significantly improved the terms and conditions it offered its clients – they were competitive or even better than those offered by other banks. For the bank that had already been scaled up, however, such offers were not a problem.

After 2009 KTB and Delyan Peevski's influence had expanded significantly, conquering new niches in the energy sector. Besides the funds of the energy companies, KTB also opened a trust account for the private Enel Maritsa East 3 TPP, which processed all payments made by NEC (a total of BGN 408 million for 2009, according to the company's financial report). It was also to serve as a guarantee in case the state-owned firm suspended payments – then the private investor would be able to collect his debts from the payments of the electricity supply companies to NEC. The thermal power plant generated annual sales of around BGN 600 million.

In addition, Victoria, an insurance company with links to Vassilev, tried to push the Energy Insurance Company out of the energy insurance²³⁴ industry; KTB financed the carbon quota purchases in Maritsa East 2 TPP, while companies, associated with Delyan Peevski took over the delivery of limestone for the plant.

Tsvetan Vassilev also was behind the plans to modernize and privatize the Maritsa East 2 TPP. Later, after 2012, the duo's interests in the plant translated into pressure to remove Bogomil Manchev from the Belene NPP project, to make the plant part of the South Stream project, as well as pressure on private investors in the energy sector.

VASSILEV&PEEVSKI, VOL.2 – THE THERMAL POWER PLANT PROJECT

The case of TPP Maritsa-Iztok 2 epitomized the Vassilev-Peevski duo's influence. Since the beginning of the 21st century, the company had been an arena of fierce competition, since along with the Kozloduy NPP, the two plants were the first energy companies to be modernized. Foreign companies had done the bulk of work, but the competition among the subcontractors had been fierce. Bogomil Manchev was one of the main players.

²³⁴ See „Pressure On Insurance Companies“, p. 209.

Following Georgi Hristozov's appointment as the company's executive director in 2007, project implementation sped up, but with some quirks. For example, the TPP concluded a contract for "reconciliation services between TPP Maritsa East 2 and Mitsui Energy Projects" with SG Consulting, Mitsui's consultant company. For his services, Stefan Gamizov, the owner of SG Consulting, bagged a hefty fee. Gamizov used to work for Manchev, even though only briefly, and after he emancipated himself from Manchev, he turned out to be one of his fiercest rivals.

After 2009, the TPP made some bizarre moves that were wholly for the benefit of KTB and companies associated with Delyan Peevski. Some of them were aimed against Vassilev's previous mentor Bogomil Manchev.

In 2010, the TPP decided to change its insurer:²³⁵ it switched from Energy Insurance Company to Victoria, where Tsvetan Vassilev was a member of the board of directors.

A smear media campaign ran along with the signing of the deal, similar to attacks on Allianz a year earlier when Victoria seized BSR and NRIC's insurance. Procedural tricks helped get rid of Energy, where Maritsa-Iztok TPP 2 was a shareholder, even though all of the accusations that the company was trying to monopolize the energy sector could very well also be true about Victoria.

The campaign was one of the first cases of hitting the sweet spot between Peevski's media power and Vassilev's financial interests. The probable explanation for this is that people had been appointed to the state-owned power plant's board people who worked directly to further the DPS MP's interests.

The change of limestone suppliers for Maritsa East 2 TPP went along with similar attempts to tarnish its competitors' reputation. In 2011, the plant changed its suppliers, even though the winners of the public tender were two companies that did not even have a limestone-quarry. Kaolin, a competitor (whose main shareholder Alfa Finance Holding was controlled by Ivo Prokopiev,²³⁶ the co-

²³⁵ See „Pressure On Insurance Companies“, p. 209.

²³⁶ Two years earlier as a deputy-chairman of the Association of Publishers in Bulgaria, Prokopiev sent a FOIA request, inquiring where the funds of state-owned companies had been deposited. The inquiry shed light on the concentration of taxpayers' money at KTB and prompted an open conflict between Prokopiev, Boyko Borisov, Tsvetan Vassilev and Delyan Peevski, which had been raging for

owner of *Capital Weekly* and *Dnevnik*) along with Ognyanovo-K appealed the decision before the CPC. However, the commission ruled in favor of TPP Maritza-Iztok 2, stating that any potential suspension of supplies could jeopardize the performance of the company.

Interestingly, just a year earlier the company also canceled a tender in which Zavodski Stroezi, owned by Alfa Finance Holding, took part. Officially, the company was excluded due to gaps in the tender documentation, but the actual reason were media publications saying that the company had a concession for the extraction of dolomites, instead of limestone. At that time Peevski was not interested in that particular business niche, unlike the Political Club Ekoglasnost. The association had consistently attacked any businesses linked to Alfa Finance Holding after TEM -1 OOD lost a dispute for a concession in Avren municipality.

Georgi Avramov Dimov, a former MP from the Grand National Assembly and a member of the management of PC Ekoglasnost until the end of 2006, was the company's main shareholder.

In 2012 Peevski's media conglomerate picked up the topic and caused a media storm. The attack on Kaolin's reputation centered around its limestone supply contracts for Enel Maritza East 3 and AES Galabovo. The main refrain alleged that the company was a monopolist, as well as that the limestone supplies made the electricity more expensive. In fact, Holsim and the Swedish Plena (the owner of Ognyanovo K), and several other smaller companies were among the suppliers of the two plants. Electricity companies usually choose the best offers to maximize their own profits. It seemed as if the purpose of the attacks was to force the two US plants to introduce a new supplier. However, they did not yield to pressure. Later, the Vassilev-Peevski duo would find new reasons to attack Enel (and its successor ContourGlobal) and AES.

At that time Peevski was already eyeing the limestone supply business of TPP Maritza East 2. In 2011, Hay Med Tech EOOD, owned by Ina Agafonova, the daughter of businessman Georgi Agafonov, became one of the plant's suppliers. The company had no formal connection with either Delyan Peevski or Tsvetan Vassilev, besides the fact that Maksim Dimov (co-founder of Bromak along

years and had had an impact on a number of Prokopiev's endeavors in various sectors.

with Vassilev) represented it during limestone supply negotiations (the company received its first exploration permit as late as 2013).

At the time of media attacks on Kaolin, KTB scored big by signing a deal with the Maritsa East 2 TPP. At the end of 2012, the plant announced a tender call for the purchase of carbon quotas. Two candidates, KTB and NVL Ltd, registered in the UK, applied. The Bank won with a slightly lower bid by offering a bonus of EUR 1.8 for each quota bought, according to the report²³⁷ by the Temporary Committee of Inquiry into the State of Energy (also known as Simeonov's Commission).

In 2013 the European Energy Exchange (EEX) in Germany traded carbon quotas at EUR 4.4, meaning the agreed margin was 41% of the price. At the same time, the usual commission fee on such deals was between EUR 0.1 and 0.3 per quota.

At the time of signing the contract with KTB, the company bought at once almost all the necessary 10 million quotas for both 2013 and 2014, wary of a potential price increase. However, the quotas' price was set at the end of 2012 at 7.13 per ton (excluding the trader's margin), as the annual financial report of TPP Maritsa-2 shows. Indeed, in 2014, the price of quotas rose, but it was far from the high price set in 2012. AES Galabovo and ContourGlobal Maritza East 3 bought quotas for 4.80 euros per ton in 2013 and 6.90 euros per ton in 2014, according to unofficial sources quoted by *Capital Weekly*.²³⁸ In comparison, the state-owned TPP Maritsa East 2 paid a significantly higher price – 23–57% more. The company could have saved up to EUR 30 million out of the total of EUR 89 million spent on carbon quotas.

Such a deal could not have been possible without the support of TPP Maritsa East 2's management.

The correspondence²³⁹ between Vassilev and Peevski had a section called "Emissions." In it, Peevski stated: "Clause 5 – "for the greater good of [those] in power" – 25,000,000 lev- – This is not serious – what is the value of the benefits – the "emissions" value alone is greater." It's likely that "emissions" was code for the carbon quotas

²³⁷ http://www.parliament.bg/pub/cW/20160425111103653-65-1_Doklad_VAK_proverka_i_otsenka_sastoyanie_energetika_RB_kam_31.01.2015_s_PR.PDF

²³⁸ Ilin Stanev, "KTB and Bogomil Machev's Quotas," *Capital*, June 10, 2016.

²³⁹ http://www.ktbfiles.com/wp-content/uploads/2017/05/Korespondentsiya_KTB.pdf

deal, where the “value” of EUR 30 million was indeed higher than the sum invested in buying political influence.

Following the KTB bankruptcy in 2014, NVL Ltd took over the Maritsa Iztok 2 contracts. The company’s CEO was Neli Beshirova, who also held the same position at Risk Engineering AD – the heart of Bogomil Manchev’s energy business.

This was the latest deal where Vassilev and Manchev’s business interests clashed, showing that after 2010, their relations had deteriorated beyond repair.

The interest of the KTB circle (Peevski and Vassilev) in the Maritsa East 2 TPP went beyond individual deals. In 2012 a new company called TPP Maritsa East 2 (9 and 10) was established. The company’s aim was to plan the construction of two new power blocks. As the plant did not have the necessary funding, it was expected to find an outside investor to buy 49% of the shares of Maritsa Iztok 2 (9 and 10), a convenient way to use a tried-and-true scheme to raise the capital of the company and turn the private investor into a majority one.

The plant was not involved in the conceptualization of the project, which was developed as early as the end of 2009. In 2010 Tsvetan Vassilev approached Boyko Borisov to ask for support, according to a source who wanted to remain anonymous. Borisov did not reject the plan, according to the same source.

Rosen Karadimov law firm provided legal aid, while the project inception dated back to the end of 2008 and early 2009. Karadimov was part of BSP’s leadership, but he was also an ally of DPS MP Delyan Peevski.

Later BEH and TPP Maritsa Iztok 2 gradually warmed up to the idea, but with the emerging crisis in the energy sector in 2013, the project hit a dead end. Shortly after Plamen Oresharski’s government took over, the project was mentioned for the last time. Then, alongside the attempt to attract Westinghouse as an investor in Kozloduy NPP, it was rumored that American companies wanted to supply turbines for the modernization of coal-fueled power plants in Bulgaria.

The latest scandal²⁴⁰ related to Peevski’s tightening grip on TPP Maritsa Iztok 2 erupted in 2016. Back then the plant assigned

²⁴⁰ Iglia Filipova, “Failed State-Owned TPP Awarded a 30-Million-Lev Tender to Vodstroj 98,” *Capital*, March 8, 2016.

a consortium – in which Vodstroi 98, a company linked to Delyan Peevski, had a 50% stake – to design and build a fence and security facilities in the northern part of the site.

The deal, worth BGN 30 million, was awarded based on a 2014 Framework Agreement, without a call for tender. The ostensible reason for the expensive project was an investigation conducted in 2011. It is unclear why such work suddenly needed to be commissioned five years later, especially at a time when Maritsa Iztok 2 TPP was experiencing serious financial difficulties. In 2015, the plant reported losses of around BGN 72 million, according to the company's financial statement. Following a story in *Capital Daily*, Prime Minister Boyko Borisov canceled the deal, as part of the efforts to end public procurements given to businesses linked to Delyan Peevski. This campaign had been initiated by the government of GERB, ABV and RB.

DRUNK ON POWER

Since the second half of 2013, once the Oresharski government took over, virtually all the institutions responsible for the energy sector had been captured, along with a major part of the state-owned energy companies. The South Stream project had also been launched. At the time it seemed as if Peevski was already trying to isolate Vasilev and to take over the businesses created by their cooperation over the years.

As soon as Plamen Oresharski started picking his cabinet members, it was clear that Peevski and Co. would take over the energy sector. Dragomir Stoinev, who was appointed to be Minister of Economy and Energy, definitely did not feel comfortable at the post and even before taking office, he became a target of attacks coming from within the party. In reality, the minister did not have a say on the appointments within the ministry or in BEH. Ivan Ayolov, executive director of the Electricity System Operator until the beginning of 2010, was appointed as the deputy minister in charge of energy. He later worked at Tehenergo, a company owned by Energoremont Holding, where Mileniya 77, a company linked to Bogomil Manchev, had a stake.

Georgi Hristozov, the executive director of the Maritsa Iztok 2 TPP, was also considered for the post. Eventually he joined BEH's

board of directors, a position that was actually more important, as it allowed control over the multi-billion-dollar financial flows in the energy sector.

Ilko Zhelyazkov, the chairman of the board of directors of Maritsa East 2, and its economic director Boyan Boev, also became members of BEH's board. The TPP's team would soon infiltrate the boards of the remaining large energy companies, while people close to Georgi Hristozov were appointed in other companies in the sector.

It was no secret for anyone in the energy sector whose interests Hristozov and his team represented. Within the BSP itself, Rumén Ovcharov and Kiril Dobrev²⁴¹ led the camp of those unhappy with the recent developments, who pointed to the links between Hristozov and Vassilev.

Boev later became chairman of the Energy and Water Regulatory Commission, EWRC,

where, he along with fellow commissionmember Dimitar Dimitrov were seen as Vassilev and Peevski's lobby in the commission. Dimitrov and Boev were among the frequent visitors to the banker's office, according to the list of visitors to Vassilev's office. Boev himself did not deny the visits. In fact, he brought along and introduced other people to the former banker.

The new team spent June and July in a flurry of activity, laying the foundations for a major reshuffle of the energy sector to the benefit of new players. As early as June, during the visit of the Russian Deputy Minister of Energy Anatoly Yanovsky – despite an official statement that the talks were centered around Belene NPP – they started detailed discussions about the construction of the South Stream gas pipeline.²⁴² Shortly thereafter the supporters of the Belene NPP project (which had been frozen in 2012) were the subject of a series of negative articles, which was likely aiming to destroy their reputation for the sake of gaining support for an alternative project for a new reactor at Kozloduy NPP. Meanwhile, BEH was busy revising the contracts of its subsidiaries and pos-

²⁴¹ He is a son of the interior minister (1996–1997) Nikolai Dobrev (BSP) and an ally of the former president Georgi Parvanov.

²⁴² See „South Stream – Doomed to Failure“, p. 324.

sibly amending some of them to the benefit the new strongmen in the energy sector.

In the meantime, the EWRC adopted a price model that relied on a cost reduction from green energy. Their goal was to cut electricity prices for household users by 5% to assuage the political pressure on the energy sector, and thus deflect the increasing public interest towards the industry. If the above plan had succeeded, the planned makeover of the energy sector would have gone smoothly. One of Hristozov's first moves was to pick new insurance companies, a well-known practice. In the end of June 2013 BEH decided to oblige all of its subsidiaries to terminate their contracts with the Insurance Company Energy.

The next task on the to-do list of the new energy team in Plamen Oresharski's cabinet was to target Bogomil Manchev. At the end of September, prosecutors searched the offices of Risk Engineering and Worley Parsons, NEC's consultants on the Belene NPP construction project. Prosecutors alleged both companies of destroying documents, but it was unclear what documents they had in mind. Previously the Sofia City prosecution announced an investigation into the embezzlement of EUR 18 million from the Belene NPP project. The accusation was that NEC kept paying contractors, even though the project had been suspended in March 2012.

In 2015, the prosecution terminated the case for lack of evidence. Manchev blamed²⁴³ "a 1.90 meter-tall man" for engineering the attack on him. In a later interview for bTV, a former BSP MP and leader of Movement 21 Tatiana Doncheva said that Delyan Peevski fit that description. The owner of Risk Engineering, however, avoided mentioning Peevski's name at all costs. At the same time, he was certain that his participation in the Belene NPP project was one of the reasons for the operation against him. What remained unclear was the goal – did someone want to take over the project or stop it? A little later, the latter turned out to be true. The Oresharski government suddenly embraced a new nuclear power plant project – the building of Unit 7 of the Kozloduy Nuclear Power Plant by the American Westinghouse – which was launched in 2011 when Traicho Traikov was economy minister.

²⁴³ Ilin Stanev, "Who's Who in the Energy Sector," *Capital*, September 27, 2013.

The idea was to use the plan as a tool to pressure Russian Rosatom on the Belene NPP project, but following the shutdown of the latter, the development of the Kozloduy Nuclear Power Plant was back on the table. Suddenly the new project for installing a new power unit at the old plant became a priority. Just a few months after Oresharski's cabinet took over, the Energy Minister Dragomir Stoinev said that Bulgaria did need a new nuclear power plant, but it should be built by the American company.

The supporters of the project in Bulgaria were rushing its launch because they worried that any delay would give a competitive advantage to the Belene project. Then DANS and the prosecution came to the rescue as, undoubtedly, they had a lot to investigate about the 30-year-old saga of the Belene project.

KTB already had "experience" in nuclear projects. For example, Sunny Invest, a company linked to the bank, (Vives and Ventsislav Veselinov Panchev shared an equal stake), was a shareholder along with Riverside Residential Park and Risk Engineering of Sunny Riverside Residential AD. The project aimed to build residential and administrative buildings for the Belene NPP's workers and dated back to the days when Manchev and Vassilev used to be partners.

Previously, along with Kozloduy NPP, the State Property Fund of Ukraine, Chernovetska Korporatsiya Elektroavtomatika, and Elektro-montazh AD, Vives used to be a partner at Interpriborserviz OOD. InterPriborserviz was specialized in the maintenance and repair of energy facilities, mostly at the Kozloduy NPP. Vives held a minority stake but its share indicated Tsvetan Vassilev's interest in entering the business of nuclear facilities maintenance.

During the brief term of Plamen Oresharski's government, the Peevski-Vassilev duo didn't manage to realize all their goals. The South Stream project, which was designed as a scheme for Delyan Peevski to control the tenders, was shut down. The project at Kozloduy NPP went as far as signing a project agreement before it was canceled. Moreover, as early as the beginning of Oresharski's term, things between the former partners started to cool off, and since the end of 2013, the beginning of 2014, the two quickly turn into competitors.

So we can only assume what some of their future endeavors were to have been. For example, in June 2014, the EWRC decided to cut by half the amount of electricity that NEC was obliged to buy

from AES Galabovo TPP, ContourGlobal Maritsa East 3 and renewable energy power plants. In the case of the thermal power plants, the decision violated their long-term contracts with the state-owned company, while in the case of the renewable energy power plants, it was at odds with the legal requirement to buy a certain quantity of each type of renewable electricity, a quantity that was regulated by the Commission itself. The EWRC also filed formal complaints to the European Commission, which claimed that the two TPPs and the renewable energy power plants had benefited from state aid against the rules.

Could such a move have come as an urgent measure to refill NEC's huge fee deficit, which had occurred following the regulator's previous price adjustment from 2013? Those affected by the decision, however, fear the long hand of Peevski and Vassilev. Price pressure could be used as a way to force the plants' owners to sell their shares. At the time, some saw the shadow of the notorious duo in every aspect of public life in Bulgaria, often times unreasonably. However, the above suspicions were justified.

At the beginning of 2014, the state was trying to suspend the license of the utility companies (CEZ, EVN and Energo-pro), accusing them of having pocketed money that NEC owed them. This could be seen as a punishment to force private companies to follow the rules more closely. But shortly after the new cabinet took over, BSP MPs, including Yavor Kuyumdzhiev, tried to convince the public that the electricity distribution companies must be sold and then resold to new, "more responsible" investors. Kuyumdzhiev used to be a frequent visitor²⁴⁴ to Vassilev's office in 2013 and 2014.

State pressure would naturally make CEZ, EVN and Energo-Pro more open to negotiations and press them to sell at a price lower than the actual market value of their assets.

Curiously, the protests in February 2013 were against those exact private investors. As the government of BSP and DPS came in power, supported by Ataka, the pressure intensified.

The case with the two American TPPs followed a similar scenario. In 2012 Vassilev and Peevski's media launched an attack on them, so the follow-up campaign in 2013–2014 did not come

²⁴⁴ "Tsvetan Vassilev's Meetings with Regulators, Politicians and Publishers," *Capital*, May 14, 2015.

as a surprise. A source from one of the companies openly admitted that in 2013 they were looking for a prospective buyer for part of their shares, to protect themselves from worse pressure. In the meantime, a Turkish investor who started a big business of exporting electricity from Bulgaria during Oresharski's term, expressed interest in acquiring the same company. After his failed attempt, he gave up and suspended his business in Bulgaria.

The case with the renewable energy investors was the most intriguing one. The owners saw the long hand of DPS leader Ahmed Dogan in the attacks against them and saw Peevski as his hitman. Dogan was believed to be the actual owner of Hermes Solar, a producer of photovoltaic panels.²⁴⁵ It was founded at the beginning of 2011 in Sofia by four partners: the then 33-year-old Hairie Hadzhiiska and her brother Mustafa Shan, who respectively held 85% and 5% of the shares, and two Russian citizens. Hairie Hadzhiiska was said to have been secretary to Ahmed Emin, Dogan's administrative secretary, who committed suicide at the end of 2008 under strange circumstances. After his death, Hairie, her brother and her mother joined several companies related to the production of renewable energy.

The company was initially registered in Sofia – at 93 Evlogi and Hristo Georgiev Blvd., sharing the same address as other renewable energy companies associated with Mustafa Shan and people linked to DPS. The company had been generously funded²⁴⁶ by KTB.

At the end of 2013, the ecology minister Iskra Kolarova (DPS), part of Oresharski's cabinet, initiated changes to the "Regulation on Product Fees," which also included photovoltaic electricity. The State Agency on Management of Environmental Protection Activities (SAMEPA), which was part of the ecology ministry, collected the fees. The regulation stipulated that if photovoltaics had not been imported (as they usually were in the country), but instead were made in Bulgaria (by the only producer Hermes Solar), the companies were exempted from the fee. That put the importers of solar panels in a disadvantaged position. It is hard to say for sure whether it was an orchestrated attempt to pressure companies in

²⁴⁵ <http://www.ktbfiles.com/ktb-top100/hermes-solar-ood>

²⁴⁶ Rosen Bosev, "In Morphic Resonance with KTB and the Government," *Capital*. April 23, 2016.

the sector. However, those troubling times certainly helped unite the private businesses in energy around a common cause, something unprecedented until then.

SOUTH STREAM – DOOMED TO FAILURE

Just when the sky seemed to be the limit for the Peevski-Vassilev duo, their partnership fell apart. Like in an ancient Greek tragedy, the heroes suddenly collapsed once they saw their aspirations realized. The ending of this contemporary Bulgarian drama, however, featured ugly twists and none of the leading characters went through catharsis (though the expression turned into a cliché when used in regard of Peevski).

Vassilev and Peevski's relations began cooling off during the first months of Plamen Oresharski's cabinet and continued to deteriorate around the Petrol deal, but they hit rock bottom at the time of the South Stream project. Initially, Vassilev felt left out from the project, and later when the open war between the two was fully raging, KTB refused to issue guarantees to Gazproect-South. Without those guarantees the company could not sign the construction contract. It turned out that no bank in Bulgaria was willing to issue the guarantees, as this would have risked angering the US Department of the Treasury, since the Russian partner Stroytransgaz had been officially on Washington's blacklist of those involved in the crisis in Eastern Ukraine and Crimea.

Other events followed the shutdown of the South Stream project: the KTB insolvency, the fall of Plamen Oresharski's government, and the collapse of the empire carefully built by Peevski and Vassilev over the years.

Bogomil Manchev took over some of KTB's businesses, including the TPP Maritsa-Iztok 2. Other companies significantly diversified their financial accounts.

THE BIG QUESTION

The most important question is: Could such pyramid scheme have been implemented without the support of the political class in

Bulgaria? The short answer is: No. The long answer is that politicians welcome and encourage such schemes, as Vassilev said in his interview with KTBfiles, because they provide an opportunity to use alternative ways to finance political parties and their media campaigns. A brief glance over the notebooks with records of Tsvetan Vassilev's meetings at the KTB headquarters on Tsar Boris III Blvd show that his visitors included politicians from different parties, regulators, media owners and businessmen, a whole network of trustees who benefited from the existence of such a model and have contributed bit by bit to its epic rise. The worst part is that the scheme has not been destroyed, just one of its most disgusting manifestations has collapsed, not thanks to the efforts of the state, but under its own weight, having embezzled billions of taxpayer dollars.

THE GRAND FINALE: SOUTH STREAM

THE FAILURE OF THE LARGEST ENERGY PROJECT COINCIDED WITH THE BEGINNING OF THE END OF THE VASSILEV-PEEVSKI TANDEM

“We have no doubts that in December 2015 the first gas will arrive in Bulgaria via the pipeline,” said Alexey Miller, chairman of the Russian gas company Gazprom, after meeting Bulgaria’s Prime Minister Plamen Oresharski and Minister of Economy Dragomir Stoynev. It was July 2013, when the Russian delegation arrived a bit unexpectedly. Then, it also left quickly and without much publicity.

Another meeting for the South Stream project for building a new natural gas pipeline took place in October of the same year. The talks between Miller, Oresharski and Stoynev continued for four hours. It turned out later that there was no recording of the discussion.

The first Borisov government continued laying the foundations of South Stream, a process initiated during the term of the Three-Party Coalition. However, the actual dénouement came under the Oresharski government. Days after taking office, economy minister Dragomir Stoynev informally met Russia’s Deputy Minister of Energy Anatoliy Yanovskiy. The two talked specifically about South Stream. After the new government was appointed, one could notice a great deal of activity regarding the project. Gazprom representatives visited Bulgaria often.

South Stream could be considered from two strategic perspectives: Bulgaria’s position in the gas connection between Russia and Europe, and what the benefits for the country could be from it. There were plenty of questions and disputed issues in this regard, and they remained unresolved.

More interesting about this case are the behind-the-scene plans and schemes regarding the pipeline, which were arranged under the table. It was not the state who was managing and controlling the whole process, but a group of private interests led by Delyan Peevski.

TIMELINE OF EVENTS

The South Stream project entered its active phase in late 2012. At that time, state power was still in the hands of the first Borisov government. The government then made the decision and gave the green light to BEH to sign the final investment resolution to participate in the project. At that time, the project was estimated to cost EUR 3.1 billion shared between Bulgaria and Russia. According to the arrangement²⁴⁷ between BEH and Gazprom (the Russian partner in the project), Bulgarian companies should assume about 20% of the work on building the pipeline on Bulgarian territory, which equaled approximately EUR 600 million in budget. This also meant a great boost for the construction industry, which in any case relies mainly on state capital.

In 2013, several Russian officials visited Bulgaria. Chairman of Russia's Gazprom Alexey Miller and Russia's Deputy Minister of Energy Anatoliy Yanovskiy came. Meetings with the members of the new Oresharski government took place behind closed doors. Public information on them was scarce. The occasional statements made it clear that both the Bulgarian and the Russian partners were in a hurry to make this project happen.

It is even more interesting that at precisely the same time, the name of the future construction company building the pipeline, Stroytransgaz, owned by Genadiy Timchenko who is close to Russian president Vladimir Putin, appeared in the Russian press. This was the first sign that the outcome of the future tender, which had not even been announced yet, had been agreed upon in advance. The notorious delay of the South Stream project, which BSP made much ado about at the time, was obviously caused by Russia's desire to get the situation in Bulgaria straight and make it clear whom they should come to terms with for the construction works.

That became clear on October 31, 2013. After a four-hour meeting between Plamen Oresharski and Alexey Miller, the project was given final permission to launch. Two very telling events occurred. On that same day, the project company South Stream-Bulgaria announced the invitation to tender for choosing a contractor to build the pipeline. The time for bidding was only two weeks, and the ini-

²⁴⁷ Mariyana Boykova, "More Than 1.2 Billion Euro Remain in Bulgaria from South Stream," *24 Hours*, Nov. 18, 2012.

tially announced budget grew by another EUR 300 million. Later, when signing the agreement with the contractors on April 29, 2014, instead of falling, the price went up by yet another EUR 300 million, reaching EUR 4.1 billion, or approximately 30% higher than the initial estimate of the cost of the construction works. That, of course, came as no surprise after the terms of the tender had been set in such a way as to limit possible competition. For example, they were looking for a contractor for the execution of the entire project, which was not unusual, but it reduced the number of potential tenderers to a minimum.

In November 2013, seven tenderers submitted their bid, but their names were kept secret. In December, the invitation to tender was re-opened, the most probable reason being that one of the previously chosen potential contractors for the construction works had not been able to gather the documents needed. That time the announcement came on the last workday (a Saturday) before the long Christmas break, and potential tenderers were given the chance to bid only until January 10. International companies which wanted to take part in the procurement objected to the procedure, but their objections were not taken into consideration. On account of that, however, the European Commission later initiated an infringement procedure against Bulgaria for failing to implement EU procurement law. The name of the winning consortium was kept a closely guarded secret until the official announcement of the winner. Unofficially, its name was well-known and of no surprise to anyone. They were the companies from the constellation of Vodstroi 98 and DPS Member of Parliament Delyan Peevski, together with the other usual winners in public tendering. This became clear as early as November 1, 2013, when they registered the Gazproekt-Yug consortium.

ADVANCE ARRANGEMENTS

According to KTBfiles sources from the construction industry who took part directly in the meetings and talks on preparing the project, it had been known from the very beginning which companies would join the pipeline construction works and how much they would bid. There had been talks since 2012, but they had become

more intense after the Oresharski government took office in 2013. The companies had been directly in touch on the matter.

At that time, the preparation for founding the consortium that would later win the construction works contract was taking place. Stroytransgaz was participating on behalf of Russia, while participants on the part of Bulgaria included Vodstroj 98, Technoexportstoy EAD and Promishleno Stroitelstvo-Holding (organizations controlled by Delyan Peevski), Glavbolgarstroy (GBS), Ponsstroyengineering EAD (PONS, allegedly a company of Plamen Oresharski²⁴⁸), and PST Holding AD (PST, at that time controlled by FIB²⁴⁹). Fifty% of the control was to go to Peevski's companies, while the other 50% would be distributed equally among PONS, GBS, and PST. All these details were specified in the spring and summer of 2013 during operational meetings in Sofia and Moscow, one participant on the part of Bulgaria said. "All meetings in Sofia were held at the Vodstroj office and presided over by Ivan Mirinski in person. The lawyer Alexander Angelov was present as an external consultant. Some ministers would also come – Dragomir Stoynev, for instance. The state had ceded it everything to Vodstroj, which was handling all the documentation. The ministry would merely sign at the end," our source said.

According to two other sources, during the visits of the Russians, who took care of the operations on putting the project together, most meetings took place at the Radisson Hotel in Sofia, but there were also some dinners at the restaurant of the Berlin Hotel, whose ownership is associated²⁵⁰ with Delyan Peevski. Such visits included, for example, representatives such as Leonid Chugunov, Head of Project management Department at Gazprom, as well as MP Alexander Babakov, considered a special delegate of Russian President Vladimir Putin.

The constituent assembly of Gazproekt Yug took place on November 1, 2013. Promishleno Stroitelstvo-Holding, Glavbolgarstroy, Technoexportstoy, Ponsstroyengineering, and PST Holding received equal shares. The board of directors consisted of: Ivan Mi-

²⁴⁸ Mila Cherneva, "The Sinking of Builder PONS," *Capital*, 6 Jan. 2017.

²⁴⁹ First Investment Bank

²⁵⁰ "SANS Hits Peevski's Den: Berlin Hotel," Frog News, March 1, 2016, <https://frognews.bg/novini/dans-udari-legovishteto-Peevski-berlin>. [01.08.2017].

rinski from Vodstroi, Kalin Rogachev from Technoexportstroy, Kalin Peshov from GBS, Milko Milkov from PONS, and Ivan Sharlandzhiev from PST Holding. The registered address was at Vodstroi: 13–15 Sandor Petofi Street. Later, the consortium moved to GBS's address.

THE ISOLATED BANK

At that time, the Vassilev-Peevski tandem was already cracking, and the way events around South Stream unfolded demonstrated this once again. KTB was isolated from the project, but it was unclear whether Peevski purposefully kept Vassilev at a distance or the banker refused to support the project financially. As a matter of fact, the Bulgarian Development Bank was to a great extent engaged for the financial backing of South Stream, and that by the initiative of Prime Minister Oresharski.

There is another very important detail. At that time, Peevski already had a plan to create his own bank, which would be an alternative to KTB, a source of ours has revealed. The idea was to have the construction companies as shareholders, while the bank would be a financial institution supporting that industry. "The ambitions of conquest were so high that no one thought about the risk of being accused of a cartel," a representative of the construction industry said.

A bit later, after Peevski appeared among the would-be buyers of Tokuda Bank, his ambitions started taking shape. Three independent sources from the construction industry confirmed²⁵¹ this for *Capital*. According to them, if a deal was reached on the bank, it would have to focus on financing the construction industry.

According to people in the market who had been invited to join the scheme, the cost of the future deal was to be covered by the construction companies. The buyer would be a company incorporated especially for the case, with more than ten large companies in the sector acting as the shareholders. In return, they would rely subsequently on the bank for financing and guarantees when tendering in public procurement. To make the offer more attractive, there was discussion among those very familiar with the plan about doing ev-

²⁵¹ "WHO Rules over Construction," *Capital*, June 13, 2014.

everything possible to transfer the money of state companies there as well, as part of that money still with KTB, the report in *Capital* reads. This was the planned scenario as of the beginning of 2014.

A source for KTBfiles, who was also invited to join, confirmed this information.

In any case, many of the ambitions of the group around Peevski did not succeed, this time due to external factors. The suspension of the South Stream project made dreams of hundreds of millions of euro vanish. It also ruined the plan for a bank of their own, while the conflict between Peevski and Vassilev was deepening. The tension between the two was so intense that there was no turning back. The breakdown was already visible, but the cost of it was not yet clear. The events during the following weeks and months would show that the cost was high, and everyone ended up paying for it.

THE FACE OF POLITICAL CORRUPTION

HOW COSTLY IS DIVORCE AND WHAT DOES TAKING STOCK OF IT SHOW?

At the beginning of 2016, Tsvetan Vassilev was already in isolation in Belgrade and gave an interview²⁵² to journalist Sasho Dikov. The most interesting part of it was a list of “Urgent Tasks”²⁵³ that the banker showed on screen. That list contained assets acquired with money from KTB that Vassilev’s former partner, Delyan Peevski, claimed. Bulgartabac, BTC, Dunarit, Universiada Hall, IPK, etc. were among these assets. According to these claims Vassilev, Vassilev was supposed to transfer shares of all those companies in order to “redeem” himself.

“This list came from Peevski, it was brought by his lawyer Alexander Angelov. This is pure racketeering,” Vassilev said during his interview. “I showed Dogan a list of his business guru’s business enterprises, and his smile froze. By that time, the fate of the bank had been decided. The logic behind the attack against me was that I had made money with the support of DPS, but I had rendered no account. I showed the specific profits Peevski [had gained] with my help,” Vassilev added.

There is a story behind the above list. It is a part of a much longer and in-depth correspondence²⁵⁴ between Vassilev and lawyer Alexander Angelov. Angelov wrote on behalf of Delyan Peevski. KTBfiles had a copy of this correspondence and has managed to confirm its authenticity.

The whole logic and history behind the model created by Tsvetan Vassilev and Delyan Peevski over all these years since 2001–

²⁵² Antoniya Apostolova, “Tsvetan Vassilev’s Truth about Peevski, Tsatsarov and KTB,” Just Dikov, BIT, February 21, 2016, <http://www.bitelevision.com/istinata-na-tsvetan-vassilev-za-peeviski-tsatsarov-i-ktb-v-prosto-dikov> [01.08.2017].

²⁵³ At minute 21:15 of cited video.

²⁵⁴ http://www.ktbfiles.com/wp-content/uploads/2017/05/Korespondentsiya_KTB.pdf

2002 until the fall of the bank are gathered in those five or six pages. They show where KTB's money – or more precisely, that of its depositors, who to a great extent had been state companies and later private persons – was invested. The correspondence between the former partners reveals the dynamics of their relations – chaotic, playing for high stakes, without much accountability and “opportunity for control.” At the end, they tried to divvy up the KTB empire the same way, by slicing up the pie randomly, based on the principle “I'll take this, and you take that.”

One can see the amounts invested, and they are quite impressive: more than BGN 200 million invested in joint projects. These are the same assets that were financed by the bank, but which Delyan Peevski claimed. The logic behind the massive acquisition of media outlets also became clear – it was meant “for common use,” i.e. both of them took advantage of the influence given by media ownership.

In that correspondence one could see for the first time in writing evidence revealing political corruption. Since at least 2010, money for political purposes had been disbursed from the bank – to either finance individuals or parties (such as the DPS) or to support entire campaigns (such as “the events” of 2009 and 2013). We are talking about at least EUR 50 million that has been “invested” in politics over the past few years, amounts and facts which, for unknown reasons, have not drawn the attention of prosecutors.

THE BACKGROUND OF A CORRESPONDENCE

The scheme Delyan Peevski and Tsvetan Vassilev had built started cracking as early as 2013. With varying intensity, the conflict became evident some time at the end of 2013 and the beginning of 2014. Over the first months of 2014, Delyan Peevski was openly attacking his former partner through alerts to prosecutors. Vassilev said that those were “ordered from the top.” In return, the banker still had hopes that he could agree with Peevski and was trying to negotiate with him about the future of their relationship and their common business. According to the correspondence, he proposed different options to solve the conflict – either to divide the businesses or for Peevski to pay back the debts he had to the bank and to Vassilev in person.

Peevski in return did not accept any of the proposals and demanded the transfer of the shares with no compensation.

On behalf of Peevski, the lawyer Alexander Angelov was the mediator during this attempt to reach an agreement. Vassilev led these peculiar negotiations himself. “We started negotiating as to how to part. At some point Alexander Angelov arrived. He showed a list and said: “That’s it.” I said that there was no way for that to happen, and that Peevski and I should meet. He said that Peevski did not want to meet me because he felt offended. He rejected my proposal about how to share our business, even my offer to cancel his debt with TV7. Then, the things you know happened. In a criminal way, an investigation procedure was immediately opened [against me], and the steps in the whole plot became clear.” This is what Tsvetan Vassilev said in his interview for KTBfiles, when answering the questions about the correspondence.

VASSILEV’S PROPOSALS

In an attempt to come to an agreement, Vassilev provided Peevski with a list of “joint projects” which had been funded by the bank and for which the partition should be 50/50. Some of the entries consist only of a word, and the amount invested by KTB is written by their side. There is a note for every project about whether there is an opportunity for control or not, i.e. whether Peevski would be the only one to have control, despite financing coming from the bank, or whether Vassilev would also have some “opportunity for control.” Here are some interesting project that, so far, we know little about:

Zaguba zhito²⁵⁵ – for this entry, **18 million lev** has been given by the bank, the table reads. This was spent at the time Peevski was deputy minister and had direct control over the State Reserve. Peevski had been creating schemes to siphon off the reserve, Tsvetan Vassilev said during his interview for KTBfiles. One of the reasons for such minimal disclosure on these schemes is the fact that contracts and projects concerning the reserve are considered in-

²⁵⁵ (Transliterated from Bulgarian) Loss grain.

formation of importance to national security. For instance, on such grounds no public procurement procedure is needed.

During our investigation, we filed a request with the reserve under the APIA. The term of 14 days in which the institution should have made a decision expired on September 27, 2016, but the State Reserve did not send any answer.

According to KTBfiles sources, the entry with an indicated loss in the list was an operation to swap out grain from the reserve, while Peevski was deputy minister. The purpose was to have a company associated with Peevski sell the grain at a high price and then buy back it at a lower one, with him keeping the difference as pure profit. However, the price started going up unexpectedly and instead of profit, a loss was incurred. KTB provided the guarantee for that deal. At the same time, the Bulgartabac scandal with Hristo Lachev was ongoing, and Peevski was accused of pressuring Lachev. Vassilev preferred to cover the loss instead of renegeing on the guarantee and exposing the bank to risk; in this way, he had his partner's back. Both partners, Vassilev and Peevski, should have been responsible for covering the losses incurred in that operation, but Peevski never paid back.

Imot Valeks Sofstroy – BGN 24.4 million. This was the scheme through which Delyan Peevski's new printing house was built. It was entirely financed through KTB. This scheme had a long history. The land (without the printing house and the equipment in it) cost the bank nearly BGN 25 million. The plot of 206, 000 square meters was state property until 2006. Then, Sofstroy, a municipal company, sold it to a firm associated with Lyubomir Pavlov for BGN 1.8 million, VAT excluded. Three years later the property was sold to a company close to Tsvetan Vassilev for EUR 12.5 million, and the deal was financed by a loan of EUR 13.5 million from KTB.

Selling the land was part of a larger deal between Vassilev and Pavlov that included the property at Kristal, which was later turned into a luxury apartment.

At the beginning of 2010, through United Bulgarian Newspapers, Tsvetan Vassilev and Irena Krasteva founded the company IPK Rodina 1, which bought the property for EUR 15.1 million. They became subject to non-possessory pledge secured by "all current and future claims on IPK Rodina 1 accounts at KTB." In 2012, the properties were mortgaged, again with KTB, now for EUR 20 mil-

lion, and the equipment (printing machines, newspaper dispatching equipment, cutter, waste-paper treatment) was pledged as collateral at BGN 53.39 million in favor of Partner Leasing, a company linked to Tsvetan Vassilev.

In October 2013, through a new agreement between IPK Rodina 1 and Partner Leasing, the property and equipment were leased and clearly overvalued – the property and equipment were valued at approximately BGN 110 million.

When dividing the businesses between Tsvetan Vassilev and Delyan Peevski, the DPS member of parliament left the printing house to the banker.

“Let’s not forget his printing house, where he owed BGN 80 million. We funded that printing house so that he could pay off part of his debt. The condition was that Yuri Gagarin claim the debt under the lease agreement with the printing house. This is something he did not do,” Vassilev said in his interview for KTBfiles.

In August 2016, a bailiff put the land and the buildings of Delyan Peevski’s new printing house up for sale. The initial starting price was approximately 15 times lower than the value of the mortgage at KTB for the buildings and property.

In October, a company linked to Delyan Peevski bought the property and the buildings of printing house IPK Rodina 1. The deal went through the newly founded Sofia Print Investment, a subsidiary of Sofia Press, which the MP had acquired about half a year earlier from the publisher of *24 Hours*, Venelina Gocheva. Bidding was not expected because the building could hardly be used for other purposes, and it was also full of expensive equipment which was not up for sale with it. As a result, the property (a plot of 55,000 square meters and buildings with a total built-up area of 11,000 square meters) located near Sofia airport were bought at the starting price of BGN 4.4 million, approximately seven times lower than the value at which they had been mortgaged at KTB three years earlier.

The media. The correspondence also shows how much money had been provided by the bank for the acquisition and support of various joint media projects. For example, KTB invested about BGN 13 million in the distribution network of Peevski and his mother Irena Krasteva. The bank spent BGN 21 million for the support of the Monitor Group alone, for instance. That, however, did not give Vassilev

an “opportunity for control.” A total of BGN 18 million was invested in *Trud* and *24 Hours*, a bit more than BGN 6 million in *Standart*; the acquisition of *Weekend* cost almost BGN 13 million, while the founding and maintenance of the *Presa/Tema* group – BGN 15.2 million.

The final calculation shows that KTB invested exactly BGN 184.8 million in the joint projects by Vassilev and Peevski.

Some money was returned to the bank over the years: either Peevski covered part of his debt or it was a profit from joint business. Stroitelstvo and allia is interesting to mention in this regard. According to a KTBfiles source, this was again an operation at the State Reserve: the renovation of the reserve’s oil and grain bases. Tsvetan Vassilev hinted at them in his interview with our project.

“A minimum of BGN 100 million had been stolen from there under Stanishev and the first Borisov government. The renovation cost at the oil and grain bases of the State Reserve was inflated several times. I’m not quoting specific numbers to avoid being accused of inaccuracy. Since the time of Emel Etem, Peevski has always controlled the State Reserve. Another grand theft: the exchange of petroleum products,” Vassilev said.

The details about these contracts can be found here.²⁵⁶

AN ATTEMPT TO MAKE A DEAL

A review shows that Vassilev claimed a total of nearly EUR 17.9 million from Peevski. Another EUR 24.3 million could be added as debt to the bank for funding Peevski’s personal projects.

The banker claimed a total of EUR 41.4 million from his former partner.

Based on this debt, Vassilev offered a deal. The DPS MP should either cover his debts or provide “opportunity for control” over part of the joint assets. Vassilev wanted to have control over *24 Hours*, *Trud* and *Presa*, and suggested that the tabloid publications stay with Peevski. Vassilev was ready to give up his shares in Yuri Gagarin and the printing house if Peevski refinanced the two assets. Vassilev proposed to acquire Technoexportstroy and relinquished Promishleno Stroitelstvo-Holding (PSH), and so on and so forth...

²⁵⁶ See „Government Reserve for Private Use“, p. 87.

Peevski did not accept these suggestions. He disagreed with most of the debt that was attributed to him. In response, he sent a counter-list that became known as “Urgent Tasks” in Vassilev’s interview with Sasho Dikov. The DPS MP wanted to receive the shares in a greater part of their joint ventures. After Vassilev refused, Peevski went on to attack and bring about the collapse of the bank.

POLITICAL CORRUPTION: THE EVIDENCE

“Q: In what way was [Peevski] useful to you?”

A: In more than one way. He has inexhaustible energy and is very active. Back in 2003–2004, he decided to side with Dogan. In a way, he acted as an intermediary between me and the DPS. This gave me a sense of security in my dealings with the DPS, because the corporate nature of the Turkish ethnic party is hardly a secret.

Q: What did the DPS gain from the bank in exchange for providing protection?

Nothing except financing for various ventures that originated from Peevski. But I don’t know how Peevski reported to his superiors.”

This is how Tsvetan Vassilev answered during his interview with KTBfiles about Delyan Peevski’s role in the development of the bank. In summary, Peevski used his political connections to protect the bank, arranged projects to develop it, and in return he received financing for his own business ventures.

However, that was not the only thing Delyan Peevski got from KTB. He secured protection from the DPS, while, again, everything the DPS received from KTB passed through him.

KTBfiles has acquired written evidence of this. Some of the documents we obtained in the course of our investigation are printouts of two accounts, one in euros and the other in U.S. dollars. These were internal accounts kept by one of the companies under KTB and operationally managed by Biser Lazov, a confidant of Tsvetan Vassilev at the time, who later joined Peevski’s camp. A KTBfiles source confirmed that the two accounts existed and that the funds

from them were available to DPS MP Delyan Peevski. They were meant “[f]or the party’s needs.”

Every month the bank deposited amounts of 100,000 in the respective currency in each account. For the period between January 1, 2010, and May 26, 2014, when the bank was already under attack and pushed into bankruptcy, the amount of funds accumulated was EUR 6.2 million and USD 105,000, respectively. In addition, the interest accrued on the euro account was nearly BGN 2.5 million.

The existence of these “investments” by KTB as “payroll” to the party is also proved by the correspondence between Tsvetan Vasilev and Peevski:

“Let’s not forget that EUR 6,153,000 (not including the interest) was allocated for the party’s needs. Interest paid for that period was EUR 2,469,868 and USD 104,852. I hereby provide a reference of the transactions on this account, where all transactions can be seen. In green, one can see the monthly installments (made by me), and in red – the interest I paid.”

There is evidence that it was not the only injection of money into politics. Further below the correspondence reads:

“In addition, for the period 2009–2014, I have provided for free more than EUR 40 million as monthly installments and other payments. This included the monthly cash installments for almost BGN 60 million, as well as all other payments made through him [Peevski] (including those for the events of 2009, 2013).”

The election campaigns and the corresponding elections took place in 2009 and 2013.

Peevski’s reply contained a little more information about these payments:

“Under item V, “for the greater good of this power” – 25 million lev. This is not serious – what is the value of the benefits (?) – the profit from the “emissions” alone is bigger.”

The correspondence is from 2014. At that time, the Oresharski government was in power.

Plamen Oresharski did not respond to our invitation to give an official answer to questions regarding the above information. He

only asked if there was a link between the questions and his presidential campaign (in the fall of 2016).

Based merely on these documents, the balance shows that for the period 2009–2014 the bank funded, in different ways, political initiatives for more than EUR 50 million, an amount that needs no comment.

POLITICAL CORRUPTION – PART 2

WHERE DOES FINANCE MINISTER VLADISLAV GORANOV WORK WHEN HE IS NOT A MINISTER?

In the course of our investigation, we came across another interesting fact:

“In this 42nd National Assembly, there is no possible way to make real policy and be useful to those who supported me in the elections or to myself. That is why I have chosen to leave Parliament, to keep my position as a person who, according to his friends, has always been an expert, a professional, and to go my own way working on private projects. If you follow the process in recent months, the way policy is made in this Parliament... I, as a relatively young man, am not satisfied with it.”

With these words, quoted by Focus News Agency, Vladislav Goranov, a GERB MP, considered the party’s financial expert, left Parliament in February 2014. He announced his decision in person two days before the GERB congress.

Goranov returned to the political scene in the fall when the second Boyko Borisov government was formed. There, he was appointed finance minister.

It is interesting what Goranov did in that brief, but eventful period of time between his service in the National Assembly and the Ministry of Finance. He indeed entered the private sector, as he said himself. He started working, but not just anywhere – he took up projects related to the business (though hidden) of DPS MP Delyan Peevski. KTBfiles was able to confirm this information via two independent sources. In 2014, two companies indirectly linked to Peevski paid the social security contributions for the former MP and future minister: Fopis Konsult EOOD and Traneks AD.

THE PEEVSKI CONNECTION

On record, Peevski did not own many businesses. He owned Balkan Media Company EAD, which he had received as a gift from his mother, Irena Krasteva, and was a partner in NSN Investment until Entrust Limited, a company from Ajman Free Zone, acquired it.

This does not mean that Peevski has no control²⁵⁷ over dozens of businesses through companies with nominal owners, with him standing behind them.

In the same way, he is behind the two companies that in 2014 paid the social security contributions for Finance Minister Vladislav Goranov, an investigation by KTBfiles showed.

Fopis Konsult EOOD is a company established in 1994 by two partners: Zdravko Popyordanov and Kiril Georgiev Slavkov. The company was registered in Darvenitsa, Block 40, Entrance G, Floor 6, Apt. 90. In 2007, Popyordanov transferred his shares to his partner, and Kiril Slavkov became the sole owner and executive. In October 2011, Slavkov appointed his daughter Veselina Slavkova as the procurator²⁵⁸ and transferred the management of the company to her.

In May 2012, Kiril Slavkov sold the company to Aneliya Vasileva Toteva at the nominal value of BGN 100 for each of the 50 company shares. After the deal, the registered address of the company moved to 18 Svetlostruy Street, Floor 3, Apt. 11. Later, Toteva changed her name to Dzharkalova, and since October 2013, the company's registered office was at 11 Plovdivsko Pole Str, Entrance 4, Floor 5, Apt. 73.

In April 2015, Energy Power, registered in the Czech Republic, bought 100% of Fopis Konsult. The representatives and managing directors of the company were Alexander Ivanov, the Bulgarian with a Czech passport, and Dilyana Krasimirova Krumova.

Fopis Konsult is a consulting company with fairly modest activity, at least according to what the Commercial Register shows. In 2013, revenue from sales was BGN 34,000, but a year later it jumped to BGN 424,000. That was the time when the company paid

²⁵⁷ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Korporativnataimperiya-na-Peevski-2016.pdf>

²⁵⁸ Under Bulgarian law, the procurator [prokurist] is a person with the powers to represent the company in all transactions related to economic activities.

social security contributions for Minister Goranov. In 2013, the cost of staff was BGN 30,000, while in the following year BGN 56,000.

Despite its modest revenue, the company took part in considerable public procurement infrastructure projects. An example is the construction of the water cycle in Stara Zagora, where the company participated with the Water Project Stara Zagora Consortium with Vodstroj 98 as the main contractor.

The company also participated in the renovation of the National Dance Arts School and the Classical High School in Sofia.

The company website listed in the Commercial Register does not work. We tried to contact a company representative at the phone number listed in the register for a comment on the above. The only available number for contacting Fopis Konsult was from the time when Kiril Slavkov owned the company. He said he had sold his company a few years ago and did not know the current contact information. Slavkov could not remember whom exactly he had sold the company to, but the buyer was part of the consortium... Vodstroj 98.

Traneks AD, the other company which paid contributions for Goranov during the period of time in question, is also connected to Vodstroj 98. The company was registered in 2010. In 2014 the owners were Rумыana Stoimenova Lyubenova and Ventsislava Mitkova Mitkova-Tsaleva. The former held 98% of the capital, and the latter 2%. The company was registered at 2 Sveta Sofia Street in Sofia. According to the company's annual report, it works in consultancy and project implementation.

At that time, Ventsislava Mitkova-Tsaleva was a Vodstroj 98 employee. For example, she was listed as the company's representative in a record²⁵⁹ of the Ministry of Defense from a tender for "awarding the design, creative supervision and execution of construction, assembly and repair works necessary for the construction of NATO Force Integration Unit under the NATO Security Investment Programme." Mitkova-Tsaleva was listed as programs and projects expert at Vodstroj 98. The only phone number that one can find on the Internet is that of an accounting firm. Traneks' chief accountant, Emiliya Aronova, is the accountant of many other companies within

²⁵⁹ http://www.ktbfiles.com/wp-content/uploads/2017/05/488_Prookol-na-MO_Vodstroj_T_Vodstroj-98.pdf

the Vodstroi 98 constellation, including of consortia registered at the address of Vodstroi 98: 13–15 Sandor Petofi Street.

We contacted Minister Goranov for an official comment, and we sent him a list of questions through the press center of the Ministry of Finance. We did not receive an answer to them. Here are the questions:

- From which legal entities did you earn any income between February 2014 and November 2014?
- Have you been employed by or worked as a consultant with either of the two companies Fopis Konsult EOOD and Traneks AD, or both?
- What exactly was your commitment to these companies? How did you come into contact with them?
- Is there a conflict of interest between your work for the said companies and your positions, first as MP and then as minister?
- Our research shows that the two companies are linked to DPS MP Delyan Peevski. How would you comment on this fact?

In an interview²⁶⁰ for *Capital* at the end of 2014 Minister Goranov said the following:

“Q: In your opinion, how big of a problem is political corruption in the country? The public is already aware of such stark examples as Tsvetan Vassilev in the past or as Delyan Peevski now. To what extent are these schemes a product of political cover-ups and of direct pressure through regulators?”

A: I cannot say I have not seen such a thing with my own eyes. It is no coincidence that the credibility of politicians and of the political model has reached such low levels. I try to act in the opposite direction – to remove these dependencies. This, on one hand, can be effected through the way appointments to senior positions are done, and through the dependencies that arise with these appointments. On the other hand, it can be effected through a strong civil society that, as we see, has been showing zero tolerance in recent years for such distortions.”

At first glance, the relations between the finance minister and the two companies are insignificant. Once put in context, however, they become of great importance and show Goranov’s close ties

²⁶⁰ “The Vladislav Goranov Case,” *Capital*, November 5, 2014.

to DPS MP Delyan Peevski. In fact, Goranov made an odd return to politics only a few months after he had publicly declared that he was abandoning his political career because of insufficient financial incentives. In the Borisov 2 government, he was known as a GERB minister who was acceptable to the DPS.

He also had another important role: as the finance minister, Goranov was actually in charge of the Deposit Insurance Fund at the time of KTB's bankruptcy, when the former became one of the most important institutions. The Fund was managing the bank's bankruptcy as its largest creditor. The Fund also hired external consultants to investigate the bank's activities and track the path of the money that had left the huge hole. One of the first things Goranov did after returning to politics was change the Fund's leadership. The result was inefficient bankruptcy management and a second round of distribution of the bank's assets, many of which ended up in the hands of Peevski and other key players with political connections. The details about this are described here.²⁶¹

²⁶¹ See „The Ktb Assets: Re-Distribution“, p. 377.

A DEAL WITH THOSE IN POWER

DURING BOYKO BORISOV'S FIRST TERM OF OFFICE,
PEOPLE FROM HIS CIRCLE RECEIVED STAKES IN KTB
COMPANIES

“If someone claims that they’ve been doing big business in Bulgaria without reporting, in some manner, to someone in high government, then I suggest they sit for a lie detector test and make a clean breast of things. The Bulgarian political elite bulldozes business people into all manner of corruption schemes for personal gain on the threat that it will otherwise set the entire state apparatus against them.” This is the confession Tsvetan Vassilev made in his interview for the KTBfiles project.

Under each and every government, this “reporting” had a specific definition, but it was when the first government of Boyko Borisov came to power that the reporting took on a more comprehensive form. Then, the group around KTB and the Vassilev-Peevski tandem changed their attitude towards the new prime minister literally in a day, and from “Boko the Pumpkin” he became a decent politician.

One particular deal seems to be hiding behind that change. Vassilev showed documents about it during his interview with Sasho Dikov in November 2016. These, as well as the indirect evidence, help to put the puzzle together and shed some light on details about the scale of the money flowing from the circles around the bank to the political circle of GERB.

Tsvetan Vassilev said²⁶² that Alexander Staliyski was personally appointed Borisov’s representative. He also said it directly in his last interview²⁶³ with Sasho Dikov. In 2009–2010, various people

²⁶² <http://www.ktbfiles.com/intervyuta/interview-tsvetan-Vassilev>

²⁶³ “Mafia Lessons: Tsvetan Vassilev in a Special Interview for Sasho Dikov,” BIT, November 21, 2016, <http://www.bitelevision.com/mafioticskiurotsi-tsvetan-Vassilev-v-spetsialno-intervyu-za-sasho-dikov> [01.08.2017].

serving as fronts, about whom it was difficult to prove any connection with the higher levels of politics in Bulgaria, entered companies close to the bank. “They acquired shares, both open and hidden, in companies for which they had not paid a penny,” said²⁶⁴ Vassilev for KTBfiles. Over the years, Staliyski had been one of Borisov’s loyal friends in playing cards and soccer, as well as outside their sports activities. A source of ours from the first Borisov government said that at some time in the past Staliyski had been a regular guest at the prime minister’s home every evening.

The companies with new shareholders in 2009–2010 were Dunarit, Avionams, TV7, Universiada Hall, IPK Rodina and others. Various stakes in them passed into the hands of people associated with Staliyski. In 2013, these same owners left the companies. That was the year when Borisov fell from power.

DUNARIT

In 2005, Tsvetan Vassilev privatized 92% of the Dunarit military factory in Ruse through Dival 59 EOOD. He was considered to have primary control over the company by the end of 2009. In March 2009, the plant had the following owners: Kemira EOOD owned 49.52% of Dunarit AD’s capital, and Incoms Telecom Holding AD had another 49.52%. The Ministry of Economy held the rest.

At the end of 2009, Incoms transferred its shares to Kemira, which then owned 92% of the plant. In 2010, shortly after Borisov’s rise to power, some more significant changes took place with the company. By coincidence or not, at the beginning of July 2010, an enforcement officer levied a distraint over the shares of the then-owner of Kemira, Alexander Atanasov Tsvetkov²⁶⁵ for a debt of BGN 3000 lev to Toplofikacia Sofia, the heating company in Sofia. On July 27, the distraint was removed, and on August 5, a person by the name of Gospodin Chaney filed a request to acquire 50% of Kemira, i.e. almost half of Dunarit. On that same day, August 5, 2010, Tsvet-

²⁶⁴ <http://www.ktbfiles.com/intervyuta/interview-tsvetan-Vassilev>

²⁶⁵ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Zapor-Kemirayuli-2010.pdf>

kov and Chanev signed an agreement²⁶⁶ for selling those 50% for the amount of BGN 2,500. Chanev, however, did not enter the management board of the plant, and remained just an owner for some time.

Gospodin Chanev is the first person of interest. He was completely unknown until that moment. However, a random media appearance showed a direct connection to Borisov. Half a year after acquiring part of the plant, he played soccer with the prime minister during his traditional Sunday practice and injured the prime minister's head. "We crashed into each other going for a ball," Chanev said for *bTV*. Borisov had stitches on his forehead for some time after that.

In March 2011, Chanev returned the acquired shares at par value to Alexander Tsvetkov. A breakup of the personal relationship is believed to have been the cause.

Before that, on November 29, 2010, another important change had taken place. A new member of the board of directors, Miroslav Donchev Milenov, had been appointed at an extraordinary general meeting. He had never appeared as anyone's representative until that moment.

Miroslav Milenov is the other person of interest who deserves some attention. At the end of 2011, he was not only the managing director, but he also acquired a stake of the plant through his own company MDM Links. On December 16, 2011, he bought 50% of Kemira. The deal mirrored the one with Chanev, but this time the price for the shares was BGN 7000, and for that Milenov acquired half of Dunarit. He remained on the management board of Dunarit and Kemira until the summer of 2013, when Borisov's term of office had already expired.

In 2013, the time for breaking up came. On July 27, MDM Links sold its 50% stake in Kemira to the other partner, Hedge Investment Bulgaria. That company owned the remaining 50% of Kemira and was under the control of Tsvetan Vassilev. The sales price was deleted in the application for accepting a new partner and in the purchase and sale agreement, but it became known from tracing the money transfers from KTB to its borrowers in the AlixPartners report. According to the report, Hedge Investment paid EUR 12.9 mil-

²⁶⁶ <http://www.ktbfiles.com/wp-content/uploads/2016/01/CHanev-novsdruzhnik-v-Kemira-avgust-2010.pdf>

lion to MDM Links on August 5, 2013. The purchase and sale agreement served as the grounds for the transfer. These EUR 12.9 million were provided by KTB, while the payment went into MDM Links' account with First Investment Bank (according to the same report).

In summary, the scheme looks as follows: in 2010, KTB sold, or rather gave away, about 50% of Dunarit for BGN 7,000 and then bought it back in 2013 for EUR 12.9 million. In the meantime, Dunarit paid dividends in 2012 and 2013 for a total of BGN 6.5 million. Milenov received BGN 3.2 million of this money via MDM Links. In this way, Milenov made a profit of BGN 28.4 million from his Dunarit deal.

Tsvetan Vassilev mentioned Miroslav Milenov in one of his comments on his website: "A company that in 2014 was saved from the hands of Peevski and Staliyski, who tried through Lazov to impose people from their circle, Miroslav Milenov in particular (we will be talking about the business background of this character in another format when the time comes), as an executive board member with the purpose to gain command of Dunarit and Avionams." In his interview with KTBfiles, Vassilev answered the question about where Staliyski's interest could be detected: "In addition, I suppose that quite a lot of money could be found on his or on Sechkova's accounts, or on accounts of companies such as KTS and so on."

On the grounds of these two statements, Milenov could presumably be the nominal owner in Dunarit with Alexander Staliyski's interest behind him.

THE CONNECTION BETWEEN MDM LINKS (MIROSLAV MILENOV) AND KTS INVEST (ALEXANDER STALIYSKI, ACCORDING TO VASSILEV)

On record there was no legal connection between MDM Links and KTS Invest until 2015. There were, however, indirect signs that showed a link.

After 2015, the two companies were acquired²⁶⁷ by the same legal entity – Gresatick (Gresatick Limited) from Belize, represented by Vladimir Bozhilov.

²⁶⁷ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Gresatik-kupuva-MDM-Links2015.pdf>

From 2011 to 2013, KTS Invest was a shareholder in Avionams, and MDM Links was a shareholder in Dunarit. KTS Invest was owned solely by Kaloyan Todorov Stoynev²⁶⁸ until 2015. Between 2011 and 2013, Stoynev was part of the management board of Avionams, and Milenov was part of Dunarit's.

All entries in the accounts of both KTS Invest and MDM Links in 2010–2015 were filed by the same person – Svetlana Angelova Ivanova, owner of SAI Consult. She was also the one to prepare the annual reports of the companies. In addition, the payments of the state fees for these entries were made at the same place, the Tokuda Bank office at 39 Debar Street in Sofia. This is only a block away from the address where Tsvetan Vassilev had a number of registered companies, as well as a KTB office at 17 Debar Street.

Both companies called a general meeting on June 9, 2014. Ivanova filed the entry, and the scans of the minutes from both meetings were similar. The difference in format and content is only in the changed company name, owner and corresponding signature. The two files even have the same names – Prot-1269 for KTS Invest and Prot M-1²⁷⁰ for MDM Links.

Other key business events of the two companies are also similar. They made their main investments in July-August 2011; their acquisition by Gresatick was on the same date. There is also one detail that is either a mistake or reveals the real connection: when acquiring MDM Links, the new owner exonerated Miroslav Milenov from his liability and discharged him as the managing director of KTS Invest. However, according to the Commercial Register, he had never been such or at least there are no records of his appointment. He was involved in another company – KPCM.

²⁶⁸ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Naznachavane-na-Kaloyan-Stojnev.pdf>

²⁶⁹ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Prot-1-OSA-na-9-yuni-2014-zaedno-s-MDM-Links.pdf>

²⁷⁰ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Prot-M-1-OSA-na-9-yuni-2014-zaedno-s-Kej-Ti-Es-Invest.pdf>

AVIONAMS²⁷¹

KTS Invest became a shareholder in Avionams at around the same time that MDM Links took half of Dunarit. On June 22, 2010, Hedge Investments Bulgaria²⁷² and AGP Developments transferred a total of 33% of Avionams (then Telecom AD) to KTS Invest, as evidenced by the endorsement²⁷³ available with the Commercial Register. The transfer value is unknown. The general meeting of Avionams, when Kaloyan Stoynov was elected member of the management board of the repair plant, was held on the same date.

A year later,²⁷⁴ on October 31, 2011, the board voted to approve an Avionams capital increase²⁷⁵ of BGN 50 million. Both Hedge Investment Bulgaria and KTS Invest deposited their share: BGN 33.3 million and BGN 16.7 million respectively (at this point AGP had transferred its stake entirely to Hedge and the latter owned 67%). The money entered the Avionams account with KTB on December 8 and 9, 2011.

However, the money came entirely from KTB, i.e. the new shareholder KTS Invest did not pay anything. According to the reports by CONPI²⁷⁶ and AlixPartners, on December 8, 2011, Hedge received a loan of EUR 22 million (BGN 43 million) from KTB. A total of BGN 33.2 million was transferred to Avionams' account for the capital increase, and BGN 9.8 million was wired to Sintetik, which transferred it to KTS Invest. The latter received a wire of BGN 9 million from Aflik Bulgaria. In this way, KTS Invest provided BGN 16.6 million coming from KTB to Avionams. The difference of BGN 2.15 million went to other companies linked to KTB: BG Corporation and TC-IME.

It is not known on which date exactly KTS Invest had returned the 33% to Hedge Investment Bulgaria, but on August 9, 2013, the

²⁷¹ <http://www.ktbfiles.com/dokumenti>

²⁷² <http://www.ktbfiles.com/ktb-top100/hedzh-investmnt-blgariya-ad/>

²⁷³ <http://www.ktbfiles.com/wp-content/uploads/2016/01/VU-dzhira-iprehvryaneto-na-33-na-22-yuni-2010.pdf>

²⁷⁴ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Zapisvane-na-aktsiit-noemvri-2011.pdf>

²⁷⁵ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Spisk-aktsioneri-31-oktomvri-2011.pdf>

²⁷⁶ Commission for the Withdrawal of Illegally Acquired Property

latter already had 100% ownership²⁷⁷ of Avionams. For that purpose, Hedge paid BGN 43 million to KTS Invest, but tracking the cash flows showed that KTS Invest kept only BGN 23 million for itself. The rest were sent back to Hedge Investment Bulgaria. KTS Invest even kept the money with KTB, but in 2014 transferred it to its own account with FIB.

After this transaction, both KTS Invest and Kaloyan Stoynev disappeared from Avionams. The shares were transferred by August 9, 2013, and Stoynev was removed from the management board of the factory on August 19, 2013.

All this meant Hedge Investment Bulgaria was forced to pay twice for its shares in Avionams: once in December 2011 by financing KTS Invest, and once in August 2013 by buying its 33% stake.

In 2010–2013, KTS Invest received from Hedge Investments Bulgaria a net of BGN 40 million, according to the reports of CONPI and AlixPartners. This is the net profit from KTS Invest's involvement in Avionams. Part of this money, BGN 23 million, was first kept in an account with KTB from 2013 until 2014, but in the middle of June 2014, days before KTB closed down, it was transferred to a KTS Invest account with FIB.

In summary: It turns out that the linked companies MDM Links and KTS Invest gained BGN 51 million from the transactions with the shares of Dunarit and Avionams and from the Dunarit dividends, all these from June 2010 to August 2013.

In his interview with Dikov, Vassilev said straightforwardly that Staliyski was Boyko Borisov's right-hand man during his first government. He had collected the money and, acting as his messenger, had forced the banker to buy the shares of Dunarit and Avionams which had been given away for BGN 43 million. In response to this statement, Borisov said he would sue Vassilev for slander, while Staliyski denied racketeering him in an interview for *Trud* and said that they had been very close and even exchanged presents, but the banker had betrayed him.

At the beginning of December 2016, in an interview for Nova TV, Grisha Ganchev confirmed what Vassilev had said about a meeting between him and Borisov, which took place "about ten

²⁷⁷ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Hend-investmnt-Blgariya-pritezhave-100-ot-Avionanms-na-9-avgust-2013-g.pdf>

days before KTB fell and before they accused Tsvetan Vassilev of wanting to kill Delyan Peevski with the three thugs.” The reason for the meeting was that Vassilev wanted help from Borisov because he had information “that they would bring the bank down,” but Borisov explained to him that he could not do anything, allegedly saying: “in what role should I save it, being in opposition?” Ganchev helped arrange the meeting, personally taking Vassilev there and attending upon Borisov’s insistence. “The whole conversation was about some millions distributed here and there,” said Grisha Ganchev. According to his statement, it was about approximately BGN 240 million in total. Tsvetan Vassilev had said that he had given different amounts, sometimes to Alexander Staliyski and sometimes to Delyan Peevski, who had claimed to be taking the money to Borisov. The then former prime minister, in his turn, told him that all he had received over the four years of his term from Vassilev was an icon with a silver repoussé cover that is at the Council of Ministers building, that Vassilev and Peevski had deposed him, and that he had not seen Staliyski since he had left the government.

THE COMPANIES AROUND TV7

After April 2015, MDM Links and KTS Invest had a new owner. It was the above-mentioned Gresatick Limited registered in Belize. Vladimir Bozhilov was its legal representative, and Svetlana Angelova Ivanova, the same lawyer who filed the entries for MDM Links and KTS Invest before the change of ownership, provided service for the company. The Tokuda Bank office at 39 Debar Street was used again for bank transfers.

Bozhilov had an indirect connection to Alexander Staliyski and his girlfriend Violeta Sechkova around TV7.

In January 2014, Sechkova was still a shareholder in No Frame Media along with Emil Koshlukov. In May, the ownership was changed and transferred to Prime Time Invest, which was controlled by three companies close to Tsvetan Vassilev. In this way, Sechkova left the company.

No Frame Media was the production company that worked primarily for TV7. In return, it got unbelievably generous contracts.

According to Miroslav Ivanov's blog,²⁷⁸ the transfers made to No Frame Media served as "reporting" to the political establishment, in particular to Prime Minister Borisov. "According to sources, when founding the television, the deal was negotiated at 50/50 following the system, "Vassilev finances the whole scheme, Peevski returns half the cost," and the television would glorify Boyko Borisov and his government. However, it also had a more important function: reporting to the GERB leadership. In exchange for that, Vassilev got the chance to be left to work undisturbed, and Peevski and the DPS were left at ease to maintain [their] positions in certain sectors of the state administration," Miroslav Ivanov wrote.

Going back to Bozhilov, his company, Bulits, bought a property from the Ministry of Defense next to a TV7 studio in the village of German. Prime Time Studios, where Sechkova was again a shareholder, owned the studios. These were the same studios Tsvetan Vassilev referred to in one of his interviews, saying: "The actions of another "great" investor, Alexander Staliyski, followed the same pattern. He received money from selling his studios, built with European funds, after extensive extortion, organized together with his business partners Peevski and Barekov... However, the receivers allowed him to use the studios for free, although they were serving as collateral to the bank. At the same time, the "partnering characters" in question were stealing the pledged equipment as marauders... I don't know how exactly they got the money,²⁷⁹ but a company, which was obviously linked to them and was the owner of some famous studios in German sold these studios to a company financed by the bank. They received this money in accounts with the bank. How they got it to their personal accounts, I do not know. The reason for this sale was an exclusive agreement signed by the former director of the television Nikolay Barekov, a rental agreement contract in which the only interested party was Staliyski's company."

A check of the registers shows that Prime Time Media was the beneficiary of three projects that received European funds. Two of

²⁷⁸ Miroslav Ivanov, "The Peevski Offshore Company Appropriated Staliyski and Sechkova's Deposits with KTB," Miroslav Ivanov's Blog, November 25, 2014, <http://www.miroivanov.com/search?q=Ной+фрейм+медиа> [01.08.2017].

²⁷⁹ After the collapse of KTB, Staliyski and Sechkova managed to rescue, through sessions, their deposits of a total of BGN 40 million.

them were suspended, while the third one was completed. The latter was for just over BGN 2.5 million, and it was carried out between August 2013 and September 2014. Its purpose was “[i]nvestments in equipment to reduce the energy intensity and increase the production efficiency of No Frame Media AD.”

At the end of 2014, after the KTB bankruptcy, Bozhilov bought Studio Tsenarna Rabotilnitsa.²⁸⁰ It produced scripts for TV7 shows while Sechkova was still with the production house. Then, Bozhilov sold it in February 2016.

THE TELEVISION MONEY

After the end of Borisov’s term of office, several transfers were made to Sechkova and Staliyski. On August 28, 2013, for example, Sechkova received BGN 6.3 million to her account with Eurobank Bulgaria from a borrower from KTB: Risk Engineering-D. An additional BGN 1.1 million was transferred to Prime Time Studios, owned by Prime Time Invest AD, where Sechkova was the managing director until February 2014.

Between May 16 and 19, 2014, Prime Time Invest received a loan of EUR 34.1 million from KTB. It transferred EUR 24 million of it to Sechkova and Staliyski, each receiving EUR 10.4 million euro and EUR 13.6 million respectively. Staliyski transferred EUR 10.4 million to an account of his with Eurobank EFV, while the remaining EUR 3.2 million was sent in multiple wires to an “unknown beneficiary.” The stated reason for the transaction was: “A fine collected under Article 8 and Article 9 of the clauses under the Deposit Agreement with Advance Payment of Interest of 05.16.2014.” Sechkova parted with EUR 1.6 million of her money for the same reason and transferred the remaining EUR 7 million to her own account with Eurobank EFV, too.

According to the report by AlixPartners, the pair personally made EUR 26 million in total. There is another amount of EUR 4.9 million that went through them to an “unknown beneficiary.” There is no information on who he or she is.

²⁸⁰ (Bulgarian) Script Workshop Studio.

The CONPI report²⁸¹ does not mention Sechkova and Staliyski at all.

These few examples hint at the events that took place in 2009–2010 and in 2013, i.e. at the beginning of the term of the first Borisov government and after its end. If Tsvetan Vassilev's statement about Alexander Staliyski being appointed by the prime minister as his representative is true, at the beginning of the term, people close to Staliyski were brought into key companies. At the end of the term they left the companies, and KTB started making payments, apparently for Vassilev to buy his shares back. This corresponds to Vassilev's statement: "He [Staliyski] was his most trusted person, and he was dealing with everything related to Borisov, including being the collector of due payments together with his friends – the trio from Pernik."²⁸²

We invited Prime Minister Borisov to have an official meeting so that we could ask him questions related to the above facts. Our invitation remained unanswered. Alexander Staliyski also did not respond to our invitation to answer questions.

²⁸¹ http://www.ktbfiles.com/wp-content/uploads/2016/04/Reshenie_otnemanie_Tsvetan_Vassilev_deklasificirano_koreg.pdf?x21734

²⁸² A town near Sofia, a regional capital city.

TOMCATS, TIGERS AND OTHER PUBLIC ANIMALS

WHO ARE THE PEOPLE ALLEGEDLY CLOSE TO PRIME MINISTER BORISOV AND WHO IS ALEXANDER STALIYSKI?

In Bulgaria, shadowy arrangements and illegal allocation of capital are often explained by the existence of so-called circles, which receive symbolic names. Since 1989, many of these have been “identified,” including Orion, Olympus, Monterrey, and others. Several remain in existence until today, the circle attributed to Boyko Borisov *Kotaratsite* or “Tomcats” being among them. Although there is not much official information about that circle, it was born from the words²⁸³ of a politician – Sergey Stanishev.²⁸⁴ “Ask the prime minister who Kotaratsite are and whether he has such a circle of friends,” he said as advice to journalists shortly after losing his grip on power in 2009.

The name intrigued the sensationalist media, and they started developing versions of the story. Soon, a consensus was reached that Kotaratsite were a group of businessmen from Pernik: Ivan Aleksiev, Bogomil Gyorev, Rosen Rusimov, Lyudmil Stoykov, Feodor Feodorov and others. Aleksiev, his cousin Gyorev, and Rusimov are partners in a construction business with developments in Sofia and on the Bulgarian sea coast. The three of them are co-owners in a group of companies united under the name of Ibera: Ibera, Ibera Stroy, Ibera Consult, Ibera Development, Ibera Brokers and Ibera Security, the latter providing security guard services.

A few years ago, Ibera Invest also belonged to the group. Its project was the famous Capital Fort Building located on Tsarigradsko Shose Blvd at the exit from Sofia. The company was also a

²⁸³ Sergey Stanishev, “Kotaratsite: Borisov’s Circle of Friends,” *Dnevnik*, October 23, 2009.

²⁸⁴ The Bulgarian Socialist Party leader.

subcontractor for Trace Holding in the public procurement for the Tsarigradsko Shose metro station. In the summer of 2014, Ibera Invest was renamed Ibera Commerce and transferred to Yuri Sokolov from Pernik. He is the brother of the husband of Irena Sokolova, a GERB MP from Pernik elected through plurality voting. As of August 2016, Ibera Commerce became the property of Ivan Dimitrov Ivanov, who, according to the records in the Commercial Register, is the owner of more than 20 companies.

The fairly similar annual reports of the other companies from the Ibera Group do not speak to the financial power attributed to Gyorev, Aleksiev and Rusimov. They reported mostly modest revenue and profits, even loss. Ibera Stroy is the one that stands out with higher revenue: slightly over BGN 4.5 million for 2014 and a profit of about BGN 170,000.

The former owner of Duni Holiday Village Lyudmil Stoykov, who was taken to court together with Mario Nikolov for siphoning millions off the EU pre-accession fund SAPARD for agricultural and rural development, was allegedly²⁸⁵ an important figure in the circle – the person in charge of coordinating and keeping in touch with important people. In fact, many versions point to former president Georgi Parvanov as the “father” of the circle. Stoykov was one of his advisers when the scandal broke out. The businessman was leading the For Pernik Association which nominated Parvanov for a second term.

There are two versions about who drew Borisov in the Pernik circle.²⁸⁶ According to one,²⁸⁷ Chavdar Chernev, former head of the Second District Directorate of the Ministry of the Interior and police chief in Sofia, who was believed to be the leader of another circle known as “Bankya,” is to be given credit for it. He was considered a confidant of both Parvanov and Borisov.

²⁸⁵ Ivaylo Dosev, “Mafia Lessons: How to Steal a Factory in front of the Whole Country,” FrogNews, October 15, 2015, <https://frognews.bg/obshtestvo/underground/mafioitski-urotsi-kak-krade-zavod-pred-tsiala-darjava.html> [01.08.2017].

²⁸⁶ Borislav Naykov, “Exclusive! Kotaratsite Conquer Bulgaria,” AFERA.BG, January 14, 2014, <http://afera.bg/еклузивно-котараците-за-владяват.html> [01.08.2017].

²⁸⁷ Lyubomir Denov, “The Bankya Circle – Old Friends from the Services and the Militia,” *24 Hours*, March 2, 2013.

According to another version, the story is simpler and the credit for the connection between Borisov and Kotaratsite goes to his buddy in soccer and cards, Alexander Staliyski. The alleged hub of Kotaratsite was Staliyski's restaurant in Sofia's Dianabad neighborhood.

Alexander Staliyski, the 44-year-old president of the bodybuilding federation, is the heir of a prominent family. His grandfather, also named Alexander Staliyski, was one of the extreme right-wing politicians in Bulgaria in the first half of the twentieth century, serving briefly as the minister of justice. His father, who had the same name, was the defense minister, also briefly, in the Philip Dimitrov government. Later, he was brought to light as a communist State Security collaborator. Both were well-known lawyers in their times.

In interviews, Staliyski III said he had no interest in politics for the time being, although he is a co-founder of GERB. He confirmed that he has known Borisov from the stands of the Gerena soccer stadium in Sofia since the time Borisov was general secretary of the Ministry of the Interior, and that he had been playing soccer and cards with him for years. A year ago, however, Borisov himself, who also never hid his friendship with Staliyski, said they had broken off relations with each other.

Overall, Staliyski was making effort not to attract public attention. Until 2013, his name was mentioned in the media only regarding his friendship with Borisov and for a short while regarding a scandal on illegal construction in the Sea Garden of Varna, which quickly faded away. He had an inherited house there, and instead of repairing it as he had said he would, he demolished it and built anew.

After the bankruptcy of KTB, however, Staliyski became a character in the context of shadowy deals and political scandals. KTB-files sources attribute to him the important role of intermediary between Tsvetan Vassilev and Boyko Borisov at the time when the former was the majority shareholder of the bank and the latter was prime minister. This information is indirectly confirmed by a story Tsvetan Vassilev told (confirmed later by Grisha Ganchev as well). The story says that Staliyski was the alleged go-between taking care of the millions from KTB designated for Borisov. Details can be found here.²⁸⁸

²⁸⁸ See „A Deal With Those in Power“, p. 346.

The prime minister's friend also turned out to be a large depositor in KTB, who managed to save his deposits of BGN 30 million through cessions and setoffs. Subsequently, he took control over one of the bank's assets – the glass manufacturing plant Rubin in Pleven. This acquisition was also one of the topics discussed in the Yanevagate recordings [recordings of scandal conversations between Vladimira Yaneva, a former head of Sofia City Court, and her colleague Romyana Chenalova talking about obvious and secret arrangements in the state].

His name was also involved in one of the public tenders suspended at the beginning of 2016 due to Borisov's "catharsis" – the one for cleaning Sofia Airport for BGN 13 million.

Borisov ordered the termination of the contract with Obedinie Airport Clean. The selection of the contractor had taken place with the alleged intervention of Alexander Staliyski. The tender was never opened again, and the ministry used the upcoming airport concession procedure as an excuse.

For a person who has been involved in transactions of such scale, Staliyski has a modest portfolio of registered businesses. According to the Commercial Register, he is the sole owner of two companies. Ascom-72 – Aleksandar Staliyski was registered as early as 1994, but there are no financial reports published by the Commercial Register in which one could see the scale of the company's activities. It is known that years ago it operated the parking lot at the airport.²⁸⁹ Registered in April 2016, Tsalapitsa Invest, on the other hand, has a wide range of activities. A Google search shows that the business operates within the real estate sector. How Staliyski came to have the BGN 20 million in KTB rescued through cessions (and another BGN 10 million in the name of his girlfriend, Sechkova) is a question no institution has officially asked the president of the Bodybuilding Federation.

Soccer is Boyko Borisov's great passion, and he plays it with friends like Staliyski not only during his "lunch break," but also "professionally" on a team, which also has a cat name. Of course, we are talking about the Bistritsa Tigers, the soccer club from the village of Bistritsa right outside Sofia (their official team name is

²⁸⁹ Dimitar Peev, "Sofia Airport: The Border Between Europe and the Orient," *Capital*, April 28, 2000.

Vitosha). Until recently, the leader of GERB was signed up there (his name has not been officially registered for season 2016–2017) and appeared on the soccer field often.

The third division club has few successes to brag about, but the prime minister's hobby involved it in a big scandal. At the end of Borisov's first term, it came to be known that the team had flown²⁹⁰ with the government aircraft²⁹¹ to Varna to participate in a friendly match against Chavdar Etropole, whose honorary president is the infamous former GERB MP Emil Dimitrov.

According to a publication²⁹² in *Presa*, the prime minister losing a bet during a card game at Euxinograd, a former royal residence on the Black Sea near Varna, now used by the government was the reason for that flight with the government Airbus. Borisov promised to fulfill a wish of his rival. The winner asked the prime minister to play with Vitosha. For the publication, Dimitrov defined the statements about the card games as “figments” and explained that the match was part of both teams’ pre-season preparation.

Later, it turned out that this was far from being the first time that the government aircraft had operated as a private taxi for a fee. Borisov had the misfortune of having the scandal break out shortly before the prime minister resigned at the end of his first term. After the new Oresharski government came to power, their first job was to set up a parliamentary committee of inquiry to investigate the case. Later, an audit by the Court of Auditors found out that Air Detachment 28, the government agency providing air transport for high-ranking state officials, had flown illegally 53 times. Prosecu-

²⁹⁰ “Government Airbus Aircraft Transported the Bistritsa Tigers,” Mediapool, August 15, 2012, <http://www.mediapool.bg/pravitelstveniyatsamolet-earbas-prevozil-bistrishkite-tigri-news196274.html> [01.08.2017].

²⁹¹ From the National Assembly archives: „Temporary Committee of Inquiry to investigate all information, facts and circumstances about the use of the government Air Detachment 28 and the aircraft of the Ministry of Defense in cases of use for purposes different from those of the Armed Forces for the period August 2009-March 2013, including to investigate when, to which destinations (domestic and international), for what purpose, with what staff, and at what cost in financial terms aircraft of said air detachment and the Ministry of Defense have been used.“

²⁹² Ivo Georgiev, “Boyko Flies the Bistritsa Tigers with the Government Airbus,” Actualno.com, August 15, 2012, https://www.actualno.com/society/bojko-vozi-bistrishkite-tigri-s-pravitelstvenija-erbys-news_397260.html [01.08.2017].

tors filed two cases, but they were conveniently forgotten after Borisov's return to power a year later.

Borisov's attachment to the club, however, brought him both disadvantages and advantages. The team recently received BGN 300,000 in funding from the sports ministry to finish its stadium. Another almost BGN 1 million was invested in it, provided by private businesses and sponsors. That happened on a second attempt, after the Sofia Municipal Council first wanted to finance the stadium's renovation with more than BGN 500,000 in April 2012. The initiative was then suspended after a personal order by Borisov to avoid the deal being fodder for political speculation.

The Sofia Municipality is the owner of the stadium, but since 2013 it has been rented out to Vitosha for a term of 10 years and for the small amount of BGN 1,200 per month.

THE ATTACK AGAINST THE BANK

THE BANK'S COLLAPSE WAS AN INTENDED BLOW WITH THE HELP OF MEDIA AND STATE INSTITUTIONS

On June 20, 2014, KTB was placed into conservatorship. A press release²⁹³ by the BNB read: "Today, at 11.40 a.m., the Bulgarian National Bank received written notice from the management of Corporate Commercial Bank AD (CCB) [KTB] that CCB's liquidity had been depleted and the bank had suspended making payments and conducting all types of banking transactions. On these grounds and with a decision by the BNB Governing Council, Corporate Commercial Bank AD has been placed under conservatorship. From that moment on the CCB's shareholders have been divested of their rights and conservators [receivers] have been appointed..."

Before reaching that moment, however, a tangle of consistent and premeditated events had been taking place over the last few weeks. These events would aim at closing down the financial institution. They were the result of Tsvetan Vassilev's failed attempts to reconcile and reach an agreement with his former partner Delyan Peevski; they were also the outcome of a decision apparently made by Peevski at some point in the previous months: that the partnership with the banker be discontinued and the bank attacked. Once the verdict was delivered, key institutions were put to work to produce the desired outcome as soon as possible. Enough indirect evidence shows these included the prosecution, the executive branch, and the banking supervision authorities. The operation was spiced up by a massive media attack designed to panic depositors and clients of the bank. They started quickly queuing in front of the bank's offices, withdrawing their money and emptying it within days.

²⁹³ BNB. Press Release. BNB, June 20, 2014, http://www.bnb.bg/%20PressOffice/POPressReleases/POPRTTheme/PR_20140620_EN [01.08.2017].

That whole attack was against a bank whose controversial model of existence had additionally made it unsustainable: exponential growth generated by artificially high interest rates, corrupt involvement with government structures and political lobbies, and publicly known disturbing facts about the high concentration in its loan portfolio. To a great extent, the blunt demonstration that the bank went from being the favorite of those in power to an object of attacks, was enough to create panic among depositors. In other words, the fall of KTB could be studied on two levels: on one the bank's collapse is the result of an existentially flawed model, while on the other the targeted attack from the outside caused its failure.

INSTITUTIONS PUT TO WORK

At the beginning of 2014, Protest Network filed a report²⁹⁴ with the prosecution against Delyan Peevski, Tsvetan Vassilev and Nikolay Barekov for an organized criminal group. The report was about tax and other offenses. The prosecutor's office used that alert at their convenience and became more active. In February, they announced they had started investigating the case. In the coming months there was a lull, apparently during the time of the attempted negotiations between Vassilev and Peevski.

The attack was resumed in early June 2014. On June 9, KTB's four executive directors received summons. The date and time when they had to show up at the prosecutor's office were the same as the ones of the previously announced general meeting of the shareholders on July 11. By law, at least two of the four executive directors must be available at the bank at any time. If they went together to the prosecutor's office, they could not be at the bank and would break the law. Two days later, a new announcement from the prosecutor's office followed: first, that the Board of Directors of the bank was being questioned after the alert by Protest Network, and second, that three suspects had been arrested under suspicion of

²⁹⁴ Angelova, Polyxenia. The Prosecutor General Orders an Investigation into the Alert by the Protest Network. Protest Network, February 26, 2014, <http://www.protestnamreja.bg/glavnia-prokuror-vyzloji-proverka-po-signal-naprotestnamreja> [01.08.2017].

preparing the assassination of Delyan Peevski ordered by Tsvetan Vassilev. The Bulgarian National Radio and Bulgarian News Agency then reported that Vassilev was under investigation²⁹⁵ for solicitation of murder and that the bank's offices had been searched. There was information about specialized units searching and confiscating documents. In the fall, the Sofia City Court ruled that there was no evidence of the alleged solicitation of murder and the three suspects were released.

Peevski's media outlets²⁹⁶ trumpeted all these alerts coming from the prosecutor's office, and over the coming days, they entrenched the following claims in the public space: that Vassilev had ordered Peevski's murder, that the bank was being searched and investigated for misappropriation, and that the bank's money had been embezzled and it could not pay its depositors back.

On Monday, June 16, people *en masse* started withdrawing money from the bank's offices. By a letter to several institutions, including the BNB, KTB requested intervention to stabilize the situation. In the coming days, the Association of Banks [in Bulgaria] and later the central bank issued official statements to confirm that the entire banking system, including KTB, was stable and with sufficient liquidity. For a while, that calmed depositors down, and the intensity of withdrawals dropped.

In the middle of the week, an anonymous alert was received that the prosecutor's office had started an investigation against Tsvetan Gunev, the deputy governor of the BNB. That same afternoon the prosecution and later the BNB confirmed the information.

Cash withdrawals²⁹⁷ from the bank resumed.

On Friday, June 20, the BNB placed the bank under conservatorship. Later, the central bank said that the shortage of liquidity at KTB was an isolated case and had no relation to the functioning of the rest of the banking sector. On November 6, the BNB withdrew KTB's license, and in April 2015, the decision was carved in stone

²⁹⁵ "Tsvetan Vassilev under Investigation for the Solicitation of Murder Peevski, Searches at KTB," Glasove, June 13, 2014.

²⁹⁶ See „How Peevski's Newspapers Helped Kill KTB“, p. 370.

²⁹⁷ Payments to Private Persons in BGN after June 12, 2014. [Table] <https://drive.google.com/file/d/0B9Y6sbedirJ5TXVqVmFYdG9acVE/view>

by the SAC, which had previously rejected the complaints made by the KTB's large shareholders against the actions of the BNB.

WARNED DEPOSITORS?

The sequence of events suggests that the attack against the bank during the above several weeks in May and June 2014 was premeditated. There is another interesting fact: the key depositors,²⁹⁸ who were supposedly warned, withdrew their money²⁹⁹ just before the campaign against KTB started.

Both publishers of *Weekend* (part of the Peevski-Vassilev media group), Martin Radoslavov and Nedyalko Nedyalkov, serve as an example. Two independent KTBfiles sources reported that shortly before the most massive attack on the bank, the publishers had been warned to withdraw their money from it. By that time, as a result of the deal for *Weekend* in 2009, both of them had significant deposits. Documents available to KTBfiles show that when the bank shut down, Radoslavov had about BGN 3 million and his partner Nedyalkov had about BGN 4 million. The former left his deposit with KTB, while the latter transferred the amount³⁰⁰ to another bank two days before the conservatorship was announced. According to our sources, both had been personally warned by Delyan Peevski that within a few days “this bank [wouldn't] exist.” Nedyalkov followed the advice and moved his money, while Radoslavov left it. The reason was the deposit maturity date coming shortly when he would get an additional interest payment. Besides, for the whole period of time from the deal for *Weekend* in 2009 until the collapse of the bank in 2014, he had been keeping his money on deposit at an off-market interest rate of 10%.

According to documents available to KTBfiles, on November 5, 2014, Radoslavov signed two cession agreements with the company Eurobuild 2003³⁰¹ for a total of EUR 1.17. After the bank was

²⁹⁸ <http://www.ktbfiles.com/dokument>

²⁹⁹ Deposits and Withdrawals. [Table] <https://drive.google.com/file/d/0B9Y6sbedirJ5T1dFQktrUGVBZGc/view>

³⁰⁰ Payments to Private Persons in BGN after June 12, 2014. [Table] <https://drive.google.com/file/d/0B9Y6sbedirJ5TXVqVmFYdG9acVE/view>

³⁰¹ <http://www.ktbfiles.com/ktb-top100/evrobild-2003-eood>

closed, the company remained under the control of Biser Lazov, i.e. in Delyan Peevski's camp.

A number of depositors, both legal and natural persons, had withdrawn their money³⁰² just before the bank closed down. Of course, many of them did it driven by the mass hysteria that accompanied the events before introducing the conservatorship. Others suspected that something could might and prudently moved their savings. Still others, however, like the former and current publishers of *Weekend*, frankly, seemed to have been warned.

Between January 13 and June 23, 2014, nearly BGN 1 billion was withdrawn from the bank. The most withdrawals were the day before KTB closed, on June 19. Almost half of the withdrawals were made by private individuals, a total of 425 million lev. Private companies withdrew BGN 352 million. On June 19, state companies joined in, and on June 20, i.e. the day the bank was closed, other financial institutions did as well.

Many of the companies that had moved their money before KTB was placed under conservatorship were, logically, connected either to Tsvetan Vassilev or to Delyan Peevski. However, it can be assumed that many state-owned companies also received a warning. The withdrawals are listed in detail here.

The private individuals of interest in this case are those who (like Nedyalkov) managed for one reason or another to save their savings at the last minute. The data available to KTBfiles shows that between May 31 and July 31, Alexander Staliyski and his girlfriend Violeta Sechkova withdrew from their accounts BGN 6.4 million and BGN 6.7 million, respectively. Yet, the two of them left a total of BGN 30 million in deposits, which they could not withdraw, as their payment orders of July 20 remained frozen as the bank closed down. Later, they signed cession agreements with a newly registered company that used the receivables to take control over the glass manufacturer Rubin.

Dimitar Chohadzhiev, a former deputy minister of economy during Borisov's first term, also managed to rescue almost BGN 3.5 million. Chohadzhiev's name appeared in the list³⁰³ made by

³⁰² <http://www.ktbfiles.com/wp-content/uploads/2016/01/Vzhod-i-padeniena-KTB-2014.pdf>

³⁰³ http://dif.bg/wp-content/uploads/2016/02/List_art62-12-5-FL_lci.pdf

the trustees in bankruptcy, which showed which civil servants had deposits in KTB. According to that list, Dimitar Chohadzhiev had a total of approximately BGN 8 million in deposits. After his withdrawals, the former deputy minister left BGN 143,000 in the bank.

Tosho Toshev, the former editor-in-chief of *Trud* and current publisher of *Presa*, who was also financed with KTB money, managed to withdraw nearly BGN 2.6 million in the reported period, while BGN 447,000 remained in his accounts.

TV journalist Ivan Garelov saved over BGN 1 million.

Biser Lazov, Tsvetan Vassilev's former right-hand man, who, when the two camps parted, moved³⁰⁴ to Peevski and became a protected witness for the prosecution, drew BGN 1.2 million out of KTB in those last few weeks.

Sociologist Kancho Stoychev withdrew BGN 565,000 and left a deposit of BGN 1,800 at KTB.

Former finance minister and current managing director of the Bulgarian subsidiary of VTB Capital Milen Velchev withdrew BGN 1.2 million just before the bank closed down.

GERB MP Lachezar Ivanov pulled out all his savings, a little under BGN 150,000.

The MP from the leadership of BSP Evgeniy Uzunov had much larger savings. Just before KTB closed down, he withdrew nearly BGN 700,000, and his wife – a little more than BGN 460,000. So did the wife of his BSP colleague Kiril Dobrev, Antonia Dobрева, who managed to save her BGN 110,000.

According to the list of the trustees in bankruptcy, from 2009 to 2014, Evgeniy Uzunov and his wife had a total of BGN 1.8 million in different accounts. It is unclear, though, whether this amount had been in accounts in the bank at the same time, or it had passed from one account to another at different times. The information from the trustees in bankruptcy does not allow an answer to that question. Evgeniy Uzunov did not respond to our invitation to talk on the subject.

Another interesting case is that of the member of the Supreme Judicial Council, Vasil Petrov, who is father of Zara Petrova – the woman who has a child with Delyan Peevski. Just before the

³⁰⁴ "Protected Witness Biser Lazov Takes New KTB Assets," FrogNews, June 11, 2015, <https://frognews.bg/biznes-turizam/zashtiteniatsvidetel-biser-lazov-prevzema-novi-aktivi-ktb.html> [01.08.2017].

bank was closed down, Petrov also withdrew all his money – BGN 326,000. When the case came to be known, Petrov refused to comment for *Capital*.

KTB executives also made withdrawals.³⁰⁵

You can find withdrawals by political figures here.³⁰⁶

All these moves were too timely to be considered a coincidence. They say that, in any case, the fall of KTB had been known in advance. At least by a group of people.

That, of course, was not the only reason for the bank's bankruptcy, but technically it supported the process.

³⁰⁵ <https://docs.google.com/spreadsheets/d/1DqnXqF-e8EFIRWUVPXj7J0g-FuQoRSmQIZY0nD4iB45M/edit#gid=284353266>

³⁰⁶ http://www.ktbfiles.com/wp-content/uploads/2017/05/524_Smetkitegleniya-na-politicheski-litsa.pdf

HOW PEEVSKI'S NEWSPAPERS HELPED KILL KTB

"Tsvetan Vassilev and His Wife Were Drawn in Frescoes in the Gigin Monastery (unique photos)," *PIK*, Sept. 10, 2013.

"The Prosecution and the Police Work the European Way! Tsvetan Vassilev and Monika Stanisheva Brought to Bay! Bombs Reach Readers with PIK Agency!" *PIK*, June 11, 2014.

Article by Valeriya Veleva, Feb. 18, 2011: "I Want to Prove I Am the Best," *Trud*, Feb. 18, 2011.

"Tsvetan Vassilev Allegedly Took Millions out of KTB in the Form of Banknotes Withdrawn from Circulation," *Trud*, July 13, 2014.

"Tsvetan Vassilev Is Mister Economy 2011Vassilev," *Standart*, Nov. 30, 2011.

"Vassilev Ordered Fraud for 206 Million," *Standart*, July 13, 2014.

The above are just a few examples of the schizophrenic behavior of the media in Bulgaria, especially those that are under the control of DPS MP Delyan Peevski and his mother Irena Krasteva.

The most ironic aspect in this model is that it has turned against one of its creators. If in the years of friendship between Delyan Peevski and Tsvetan Vassilev they had been building up the image of the banker as the most successful and reputable financier, businessman and benefactor, after that the media he himself had funded declared him a criminal, a thief and attributed an attempted murder to him. These same media served as an instrument for bankrupting KTB.

MR. ECONOMY

The events could be divided chronologically into two periods: until May-June 2014 and after June. That was approximately the moment when the conflict between the two business partners Vassilev and Peevski came to the surface, although it had actually begun long before then.

Before the conflict Tsvetan Vassilev's public image was skillfully managed. He rarely gave interviews, but on a regular basis the media under his influence portrayed him in a good light, in one way or another. As early as February 2011, Valeria Veleva (a day before *Trud* was bought by Lyubomir Pavlov, Ognian Donev and Christo Grozev, and she left the publication) depicted him in a profile with the headline "I Want to Prove I Am the Best" and wrote about his achievements at school ("ambitious Tsvetan was a straight-A student, top of his class"), about his food preferences ("[he l]ikes making salads, he can cook crème caramel"), about his lifestyle ("[he d]rives a normal Mercedes. He would neither buy a yacht, nor a Maybach"), about his closeness to Peevski ("he says he regards Delyan as his own son. They met during the term of the tsar's government").

Half a year later, *Standart* awarded their grand prize in the contest they organized with their affiliated magazine *Economika* to the banker, and he was declared "Mister Economy." "The banker won the award because he is a prominent business leader; he manages to motivate his employees, values business ethics and develops social responsibility. The award was presented by Deputy Prime Minister Tsvetan Tsvetanov," the newspaper wrote.

SATANIZATION

The change of attitude towards Vassilev happened within an exceptionally short time. It took PIK and the other media under Peevski's control (*Standart*, *Monitor*, *Telegraph*) literally two weeks to make a U-turn and from "Mister Economy" and "the largest taxpayer" to declare Vassilev someone who solicited murder and a thief who took a huge amount of money out of the bank "in sacks." His former business partner Delyan Peevski was being portrayed as an innocent victim.

The first “shot” was fired by *PIK*. At the beginning of June 2014, after the media had spoken of a conflict between Peevski and Vassilev for a few weeks, the online magazine attacked: “ONLY IN *PIK!* “Special” Connections of Banker Tsvetan Vassilev in Brussels! Has the Boss of OLAF Been Bribeed?” (June 4, 2014).

That first story started with *PIK*, but was taken over by *Monitor*, *Standart*, and *Telegraph*. The reports were based on information from “newly elected Bulgarian MEPs” who had alerted EU officials about “special” connections of the KTB owner with European lobbyists and officials.” They said Vassilev had bought the Brussels-based newspaper and website *New Europe*, and “the circles around it/him were trying by all possible means to suggest in the public domain that the media in question are used to pay senior European officials, including the head of the European Anti-Fraud Office OLAF.”

The articles read that “Israeli national Barak Alon who provided the unofficial support for Vassilev’s bank with the EC” was part of the group of Vassilev’s paid lobbyists in Brussels. During one of his visits, the “lobbyist” dropped the bomb that, in fact, he was the one behind Tsvetan Vassilev’s business. Taken aback, the Euro bureaucrats asked him to introduce himself. The mysterious blond introduced himself: Barak Alon, a businessman from Vienna.

This happened after *Standart* reported that Delyan Peevski had filed a libel complaint against Tsvetan Vassilev; the chief of the Third Unit of the Federal Criminal Police in Austria, Ernst Geiger the journalist Markus Bernarth from *Der Standard*; and the international lobbyist Barak Alon after a publication in *Der Standard*, in which Vassilev had been cited as saying that he had received a threatening SMS from Peevski.

THE BEGINNING OF THE END OF KTB

The next storyline began with the interrogation of the members of KTB’s Board of Directors, continued through the investigations by the prosecution against Vassilev, including the alleged attempted murder of Peevski, the accusation that Vassilev had taken millions out in suitcases, and statements about the instability of the bank. All these “bombs” were dropped by *PIK*, and then they were developed

and enriched in the other media of the group. In this premeditated campaign, *PIK* played a key role: it had information unavailable to any other media, including from the investigation and the prosecution, and its “prophetic” articles served as food for thought.

It is an interesting detail that for *PIK*’s second anniversary in 2014, Prosecutor General Sotir Tsatsarov sent a special greeting³⁰⁷ to the media, which read: “In its short existence, your electronic [online] media has managed to take its own place among the Bulgarian electronic [online] portals. I am convinced that your growing popularity is due to the work, professionalism and enthusiasm of the whole team. On your special occasion, I greet everyone working at *PIK* Agency and wish them health, new ideas, new initiatives and a lot of success.”

“BREAKING NEWS in *PIK*! The whole KTB Board of Directors under Interrogation!” (June 11, 2014). The fact that KTB’s board was being questioned was not a secret, most news websites also reported on the news, all citing the prosecutor’s office. The investigation was in response to the Protest Network alert against Vassilev, Peevski and Barekov about “an organized criminal group.”

However, only *PIK* reported that “the prosecution [was] also investigating a serious intentional crime where suspect [was] one of the influential representatives of the bank.” On the same day, *PIK* also published a laudatory speech about the institutions: “The Prosecution and the Police Work the European Way! Tsvetan Vassilev and Monika Stanisheva Brought to Bay! Bombs Reach Readers with *PIK* Agency!” “Prosecution and the Police Showed That All Are Equal before the law. The state prosecution and their colleagues from MOI proved that untouchable people don’t exist!”

The following day (June 12, 2014) *PIK* took another step: “Tsvetan Vassilev under Investigation for a Serious Intentional Crime! The Banker Is Abroad!” The site claimed that “the new proceedings

³⁰⁷ “The Elite Rising to Their Feet for *PIK*. Boyko: You Have the Reader’s Trust! Tsatsarov: Your Popularity Increases! Tsetska: Stay at No. 1! Mestan: You Set the Agenda!” *PIK*, October 30, 2014, <http://pik.bg/елитът-на-крака-при-пик-бойко-имате-доверието-на-читателите-цацаров-популярността-ви-расте-news243781.html> [01.08.2017].

against Vassilev [had] nothing to do with the investigation after the Protest Network report.”

On June 13, 2014, events followed an interesting path. In the morning, *PIK*'s editor-in-chief brought the great disclosure: “HERE'S PIK'S BOMB! Tsvetan Vassilev Being Investigated for Soliciting Peevski's Murder! Witness Unveiled the Planned Network, Four People in the Conspiracy!” The article further noted: “*PIK* kept the shocking information for a few days in order not to obstruct the investigation, but certain political and banking circles are already talking about it... We are ready to give the floor to both sides, hoping that reason will prevail – both for the sake of putting society at ease and of the banking system's stability in our country.”

At lunchtime, the first media reports on the police storming the KTB building were published: “Searches in the Office Building of KTB and TV7” (*Trud*, June 13, 2014) and “Prosecutors at Tsvetan Vassilev's Offices” (*Standart*, June 13, 2014).

Standart covered the events unequivocally and emotionally: they spoke of “killers” who were “nabbed,” there was “an assassination attempt” on Peevski: “Assassination Attempt on Peevski Prevented.”

Monitor retold the events of the day entirely from *PIK*'s perspective. The front-page story was: “*PIK*'s Sensational Disclosure: KTB Boss Ordered a Hit against Peevski. SANS, Cops and Prosecution Search Tsvetan Vassilev's Offices. Three under Arrest, Sofia Regional Court Nailed the Case.”

The peak moment came with a story by Nedyalko Nedyalkov in *PIK*: “Who, Who, Who... Contracted the Killing of Peevski? Tsvetan Vassilev, of Course!” (June 13, 2014). Later, it was removed from the website, and now it is no longer accessible even through search engines.

After the eventful day, Judge Dimitrina Angelova of the Sofia City Court set all three detainees free without any coercive measure considering that no evidence had been gathered against them to give reasonable grounds to suspect them of organizing the attempt on the MP's life.

In strong language, *Monitor* attacked the judge who took the case: “Scandalous Judge Sets Free the Trio Who Tried to Kill Peevski!” (June 15, 2014). The judge was called “scandalous,” the arrestees were “killers” who attempted the “assassination” of the “representative of the people” and were released from “the cell,” while lawyers were “shocked.”

Nedyalko Nedyalkov surprisingly called for peace in *PIK*, implying again that the financial system was in danger: “It would be a disaster if the interpersonal conflict between two of the most influential Bulgarians moved to an institutional level. What if the solid businesses of both of them suffered, if they reached bankruptcy, if thousands of people lost their jobs, if companies structuring our economy got in trouble? The greatest disaster would actually be if the reputation of the Corporate Commercial Bank (KTB), one of the stable and professionally functioning Bulgarian financial institutions, suffered.”

THE QUEUES AND A FORESEEN ENDING

The last straws that broke KTB’s back came from the media on June 16–20. On June 16, the Varna correspondents of *dariknews.bg* and other local websites reported that there was a queue in front of one of the KTB branches. They suspected that people wanted to withdraw their savings from the compromised bank. In general, national media refrained from reporting the news. *Monitor* was an exception, and in its June 17 issue reported: “A queue of nervous clients stretched down in front of the KTB head office in Varna,” citing *Petel.bg*. “From early morning there were at least 25 people in front of the building at any time. But people preferred not to explain why they were waiting. Some of them were visibly tense. Many were informing people they know of the situation at the KTB office,” the newspaper wrote.

The bank published a press release that the line in Varna was caused by flooded premises which had put business on hold for several hours. On June 17, the BNB issued a special opinion stating that the bank was stable, had sufficient liquidity and operated as usual. The Association of Banks also followed with an opinion, calling on media not to speculate on misleading information. However, on June 18, the confidence in the BNB was depleted when the media learned that BNB Deputy Governor and Head of Banking Supervision Tsvetan Gunev was accused of not exercising control over bad loans granted by KTB. The following day, KTB released an open letter claiming to be a stable financial institution.

On June 20, photos of clients queuing in front of the KTB head office at Garibaldi Square in Sofia were in all the media. That same day the bank requested that the BNB place them under conservatorship.

The media headlines varied:

“KTB Offices Were Closed Down, Lines Formed,” *24 Hours*;

“It’s Getting Hot in Front of Tsvetan Vassilev’s Bank! Queue at the KTB Head Office!” *PIK*;

“The Line at the KTB Head Office Is Growing,” *PIK*;

“KTB Placed under Conservatorship,” *Dnevnik*;

“The BNB Took Command of KTB and Blocked the Money of Companies and Citizens,” *Sega*;

“The BNB Sent Supervisors to KTB,” *Standart*;

The rest is history.

THE KTB ASSETS: RE-DISTRIBUTION

A year before KTB was closed, the bank had declared assets of BGN 6.74 billion. At the moment its license was withdrawn, in November 2014, the valuation of its assets dropped to BGN 1.8 billion. At the end of August 2016, they were already at BGN 1.38 billion. If the drop in value between the closure and the declaration of bankruptcy (five months between the two events) had an explanation – a revaluation and write-offs due to the inability to control or due to bad loans – the continuing drop in 2016 had a completely different origin. During those more than two years of alleged efforts to return the money to KTB, in fact, a redistribution of assets was taking place behind the back of the state and of the competent people and authorities who were supposed to supervise the process and defend the public interest. The picture can be fleshed out by another factor³⁰⁸: the work of two tandems of trustees (the latter having been at the bank for a year) led to a cash increase from BGN 440 million at the end of 2014 to only BGN 578 million in August 2016, a minor change as opposed to the efforts that had been expected. To top it all, after a statement³⁰⁹ by Finance Minister Vladislav Goranov in November 2016, only 10% of the money was expected to return to the bank. Possibly.

The most appealing assets of the former KTB were already far from the bank, and the chance to get them back had been squandered. They already have new owners,³¹⁰ and the connection with the financial institution has been completely broken off. BTC (considered the pearl among the KTB assets), Technomarket, Dunarit and many other companies that are still generating revenue and profits are among such examples.

³⁰⁸ Nickolay Stoyanov, “Did You Forget About This Bank?” *Capital*, November 11, 2016.

³⁰⁹ Vladislav Goranov, “We Shall Possibly Get 10% of KTB’s Assets,” *Capital*, November 11, 2016.

³¹⁰ <http://www.ktbfiles.com/wp-content/uploads/2016/01/Aktivite-na-KTB-prerazpredelenie-2014.pdf>

Over the past two years, we have been witnessing various schemes to redistribute assets acquired with money from the bank. The cases can easily be categorized into two groups. The first type includes wars between various big sharks wanting to “chop” some piece off the bankrupt bank by taking control over and ownership of key large assets. The best example is BTC, which is already owned by businessman Spas Roussev in partnership with the two brothers Georgi and Milen Velchev, with the financial backing of Russian VTB.

The second group of cases included attempts to clear assets from any burdens and to move them as far as possible from the original borrowers, so that the trustees in bankruptcy would not be able to claim them. This happened both to large companies such as glass manufacturer Rubin, which fell into the hands of Prime Minister Borisov’s close associate Alexander Staliyski, as well as to many smaller assets (mostly real estate), which had been snatched from the bank due to weak collateral or through other leverage techniques to exclude the bank giving the loan. One of the active players in these scenarios was Biser Lazov, the prosecution’s protected witness who moved to Delyan Peevski’s camp.

A great deal of redistribution took place through cessions and entering into debt. An avalanche of applications for these were filed between June 20 and November 2014, when the bank’s license was revoked.

Delyan Peevski, the DPS MP and former partner of banker Tsvetan Vassilev, was noticed playing an active role in most of these processes. He moved many companies bought with money from the bank under his direct or indirect control: the consumer electronic retail chain Technomarket, the Yuri Gagarin plant, Bulgartabac Holding and a number of others. Trails lead to him despite his attempts to hide behind companies abroad, attorneys or offshore registrations.

KTB WITHOUT BTC

Surely the most painful loss for the former owner of the closed-down KTB, Tsvetan Vassilev, was that of one of his most valuable assets: BTC. After numerous moves, renegotiations and an attempt

to block deals, since the beginning of September the company has new owners: the investment unit of the Russian bank VTB Capital, which is represented in Bulgaria by Milen and Georgi Velchev. The other partner in the company is businessman Spas Roussev. The deal had been in the works ever since the end of 2015, and a great deal of the information about it has come to light since then. In the fall of 2016, the sale was finalized. The change of ownership, however, has an underlying story.

In November 2015, VTB auctioned InterV Investments in London. The latter is the Luxembourg owner of Viva Telecom Bulgaria, which owns all shares of BTC. When Tsvetan Vassilev acquired the telecom company previously in 2012, Viva Telecom Bulgaria was pledged to VTB as collateral for a bridge loan amounting to EUR 150 million. After the collapse of KTB, that loan was not serviced, and VTB decided to foreclose the collateral. However, even before the swiftly organized auction there were expectations that it had a clear winner: Spas Roussev.

The bridge loan had to be paid back by May 2015. According to Tsvetan Vassilev, in July 2014 he initiated the process of refinancing the loan through the market and of extending the payback period. Apparently, VTB Capital did not accept that option. At the beginning of 2015, BTC's supervisory board voted for changing the company's management, which removed Vassilev's representatives and in doing so, cancelled the refinancing. The only option left was selling the collateral for the bridge loan, i.e. BTC.

In the meantime, the other shareholder, Dmitry Kosarev, who had bought Tsvetan Vassilev's share through his Emprevo Ventures, tried to stop the sale of the company by filing several lawsuits. He claimed he was the owner of a 44% stake from the banker and another 33%, which was to be transferred by a total return swap agreement³¹¹ from the nominal owner, Crusher Investment, to a company in Vassilev's constellation.

As Kosarev's control came at the end of the long chain of ownership at BTC, and VTB was selling the company in the middle, his legal battles, in fact, could not stop the sale. In protest, he stated to *Capital* that his debt restructuring offer remained unconsidered, nor was he invited to take part in the auction.

³¹¹ A derivative contract for the exchange of future payments.

The final structure³¹² of the deal looked as follows: Spas Roussev entered the company with a 46% share, 20% minus one vote went to VTB, 19% went to Delta Capital Investments (controlled by VTB executives in Bulgaria, brothers Milen and Georgi Velchev, and Krasimir Katev), and the remaining 15% plus one vote went to the former creditors. In this way, although Spas Roussev was the “face” of the deal, the Russian bank itself turned into the second largest shareholder. The bank, together with the people directly involved with it, received a 39% stake. Moreover, a huge part of the financing was provided by VTB.

The price was EUR 330 million. In addition, the company being bought had EUR 400 million in securities, and further along the chain – debt to KTB for EUR 125 million. The bulk of the acquisition money, EUR 240 million, was provided by VTB as credit. At the same time, VTB got paid back the amount for the bridge loan which had grown to nearly EUR 170 million in the meanwhile. That was how the net amount paid by the bank decreased considerably and was under EUR 100 million.

As a matter of fact, the deal would have been impossible without the blessing of the Bulgarian state. Besides KTB’s trustees in bankruptcy, the Commission for Withdrawal of Illegally Acquired Property (CONPI) also showed an interest in the assets along the BTC chain and filed some cases. On one hand, the trustees’ job was to fill in the bank’s insolvency estate, and on the other, CONPI should have wanted to confiscate the assets for the benefit of the state. If both institutions remained inactive or did not receive what was due to them, then the suspicion of political cover-up would be well-grounded.

In his interview with KTBfiles, Vassilev said straightforwardly that he had information on how Prime Minister Borisov and DPS MP Delyan Peevski had been promised bonuses if the deal took place. Why Peevski? Because, according to Vassilev, nothing in the country happens without his blessing. In the meantime, a few Russian media outlets released, as if instructed, the information that the Bulgarian prime minister had received a bribe of USD 50 million for the deal to go through the way it was.

³¹² “Ownership of BTC,” https://www.capital.bg/shimg/oo_2945289.jpg [01.08.2017].

KTBfiles sent a formal invitation to both Borisov and Peevski to respond to these and other accusations, but the inquiry received no response.

THE BATTLE FOR DUNARIT

A similar fight for asset distribution unfolded at the Dunarit munitions factory in Ruse. The story developed in several stages.

In the first stage, the main participant was the Italian entrepreneur with a Bulgarian passport Edoardo Miroglio, who had a total of about BGN 90 million with KTB at the time of its closure. By off-setting and debt intervention he took over the debt obligations of two of KTB's key assets – the Technomarket chain and the military factory Dunarit. In this way, the businessman saved about BGN 85 million of his deposits.

On the date KTB shut down, Dunarit had BGN 92 million in loans at the bank. Miroglio took over BGN 48 million in debt obligations and became the largest lender to the plant, which was owned by Kemira and Nickcommerce-01, both controlled by Tsvetan Vasilev. Miroglio received the entire plant as collateral for taking over the debt.

Then, however, his problems began. KTB's trustees bestirred themselves and attacked his cessions. A bit later the news came that the Italian entrepreneur had reached an agreement with Delyan Peevski to sell his stake in the consumer electronics retailer to the latter. Around that time, the DPS MP bought Miroglio's 5% stake in Bulgartabac and got his receivables in Dunarit. This is how Peevski entered the redistribution game for the munitions factory.

In the second stage, an increase in the capital of Dunarit's majority shareholder, Kemira (owning 92% of the shares of Dunarit), was used to change the control over the company and, hence, over the plant. The proposal for a capital increase came from TMN, which is unknown in the industry, but is believed to be linked to Vassilev. The increase entered into effect after an entry with the Commercial Register, but it is most important that in this way, they got around the seizures imposed at the behest of NRA on Kemira's shares of the plant. On top of all this, the stake of the owner of Kemira, Hedge

Investment Bulgaria,³¹³ which was indebted to KTB, had also been seized.

A new player who wanted to acquire Dunarit appeared in the next stage. It was its direct competitor, the military equipment manufacturer Emko, who filed an application with the CPC in February 2016. Emko specializes in manufacturing a wide range of ammunition, its production site is mainly in Tryavna, and public data show that it has been developing recently. For 2014, the company's revenue was BGN 86.4 million, and the profit was BGN 15 million. In comparison, Dunarit's revenue for 2014 was BGN 103 million, while its profit was BGN 14 million.

With that deal Hedge Investment Bulgaria intended to pay back its loans to KTB, said the CEO of the borrowing company Asen Babanski in an interview for *Capital*.³¹⁴ At the same time, the CPC refused to allow the acquisition because there were disputes about the ownership initiated by EFV International Financial Ventures (EVF), an offshore company from the British Virgin Islands, which had a 90% stake in Hedge Investment Bulgaria. Before KTB's bankruptcy, EVF was under the control of Tsvetan Vassilev, but it is believed³¹⁵ to have moved to Peevski in 2016 through the former right-hand man of Tsvetan Vassilev, Biser Lazov. EVF tried to attack the already listed capital increase in Kemira in court, and in doing so also to prevent the sale to Emko. The CPC,³¹⁶ contrary to all its practice so far and with vague arguments, refused to consider the actual request for the transaction, and instead took an interest in the ownership claims. In this way, the commission played the role of a court and took the side of one party in the dispute – Peevski's.

³¹³ <http://www.ktbfiles.com/ktb-top100/hedzh-investmnt-blgariya-ad>

³¹⁴ "The Dunarit Deal Has Been Frozen Again by Request from a Peevski Company," August 25, 2016.

³¹⁵ Rosen Bosev and Nickolay Stoyanov, "Peevski's Camp Blocked Key Companies of Tsvetan Vassilev," *Capital*, June 17, 2014, http://www.capital.bg/biznes/kompanii/2014/06/17/2325456_lagerut_na_Peevski_blokira_kljuchovi_drujestva_na [01.08.2017].

³¹⁶ Nickolay Stoyanov, "The CPC Pretended to Be a Court and Took Side in the Fight for Dunarit," *Capital*, April 4, 2016, http://www.capital.bg/biznes/kompanii/2016/04/04/2736259_kzk_se_napravi_na_sud_i_zae_strana_v_bitkata_za_dunarit/ [01.08.2017].

Later, the SAC overturned the CPC's decision, which unblocked the deal. But that lasted only briefly. Next, a new lender appeared and tried to stop the change of ownership. Through Viafot Investment Bulgaria owned by the offshore Viafot Limited from the British Virgin Islands, Delyan Peevski could be traced again behind the company. This was the company that acquired the receivables from Miroglio and tried to become enlisted as a pledged creditor. Half a year after the initial request for a decision to allow the transaction, the CPC gave it. In October 2016, however, the deal was again reaching an impasse: Vassilev's camp made another attempt to record the Emko capital increase, and Peevski's camp was trying to get a hold of the valuable asset.

Here is what Vassilev told KTBfiles about the deal: "Peevski has no interest in being an industrialist at Dunarit. Peter Mandzhukov is the one with the interest, and Peevski is playing the broker trying to provide Dunarit at the low price offered by Mandzhukov. There is some talk about EUR 20 or 25 million, of which only an insignificant part would go to KTB and the rest to Peevski."

SNAPPING UP REAL ESTATE

The next asset redistribution line was developed at a lower level, and it was meant to get hold of various properties and to sever their connections with the bank. One of the main players in this process, by far not the only one, was Biser Lazov.

A significant example is the Sofia Press building, which over the past two or three years changed its ownership several times until it was finally taken away from the bank and acquired by a company close to Delyan Peevski.

A check with the Commercial Register shows that Eurobuild 2003³¹⁷ bought the building and the land on 113 Tsarigradsko Shose Blvd. from Association Sofia Press Agency in July 2013. At that time, the company was still under the control of KTB and its majority shareholder Tsvetan Vassilev. According to the record with the register, the transaction was for BGN 4.9 million.

³¹⁷ <http://www.ktbfiles.com/ktb-top100/evrobild-2003-ood>

In March 2015, the company became the owner of Innovation Trade EAD, represented by Biser Lazov. At that moment, KTB was already shut down, its license withdrawn, the war between Vasilev and Peevski had been going on openly for a year, and Lazov, the former right-hand of the banker, had moved to the DPS MP's camp.

Approximately at that time, Lazov began selling properties that were previously part of Eurobuild 2003's assets. This happened both to the Sofia Press building, as well as to the land under it.

The building became the property of Aston Optimum for BGN 5.7 million, a check with the register shows. The buyer is a company from Delyan Peevski's circle. Ivailo Nikolov was the sole owner of Aston Optimum. In the fall of 2014, he bought³¹⁸ Patno Stroitelstvo-Holding through his sole-owned Stroy Invest. The seller was "Vodstroi 98," a company linked to Peevski.

Shortly after that sale, the Sofia Press building was mortgaged with First Investment Bank, Aston Optimum being the mortgagor. The mortgage was for a loan of BGN 5.3 million granted to Aston Optimum. It secured the bank's receivables related to guarantees the bank had granted to two consortia with Vodstroi 98's participation. The guarantees were issued for the good execution of contracts between companies of Delyan Peevski and the State Reserve³¹⁹ for the construction and repair of oil and grain bases.

The land under the building, however, went another direction. First, it was sold to Balkan Erma, and then to Beti-09 OOD. Partners in the latter are Elizabeta Mitkova Krumova and Rosen Georgiev Rusimov, who are considered close to Biser Lazov. Rusimov is also known as Rosen the Millionaire, as years ago he won more than two million lev from the state lottery.

Eurobuild 2003, as the name implies, was founded in 2003. The company acquired a great part of its assets in 2012–2013. These were often real estate that the company bought at auctions by certified bailiffs who were selling property used as collateral with KTB.

³¹⁸ Radostina Markova, "Vodstroi 98 Sells a Construction Company with Debt to KTB," *Capital*, October 5, 2014, http://www.capital.bg/biznes/kompanii/2014/10/05/2393955_vodstroi_98_prodava_stroitelna_firma_s_dulgove_kum_ktb [01.08.2017].

³¹⁹ See „Government Reserve for Private Use“, p. 87.

In other words, a company controlled by KTB was buying back property of debtors in default. KTB's headquarters at Garibaldi Square in Sofia was one such property; the bank transferred the building at a higher price with the clear goal of generating artificial profit and capital.

After the company fell under Lazov's control in 2015, he sold much of the property, such as Sofia Press. Unlike the building on Tsarigradsko Shose, however, in other cases Lazov sold real estate – property on the sea coast, apartments in different cities around the country – to companies that were personally connected to him.

At the beginning of 2016, Lazov even created a real estate website, where he started selling or renting out a great part of the assets he had recently acquired. This was imoti-lux.com. Checking the registration of the website shows that it was created by a company with the same name, Imoti Lux EOOD. The company is owned by Biser Lazov.

THE CESSION SESSIONS

The redistribution of KTB's assets went, mainly but not only, through cession agreements, setoffs and entering into financial obligations. The scheme allowed many of the bank's depositors to save their savings which were more than the insured amount of EUR 100,000. In general, an individual or an entity with a loan from the bank could find another bank client who had a deposit there. The former negotiated to give the latter a certain amount of money. Thus, the former no longer owed money to the bank, and the latter no longer had to be reimbursed by the bank.

There were a series of cession agreements between lenders and debtors of the bank since KTB's shutdown on June 20, 2014, until November that year when its license was withdrawn.

Such transactions are not considered illegal – the two parties sign agreements and then notify the bank. According to the law, the Bulgarian Deposit Insurance Fund, BDIF, is the state institution responsible for collecting the bank's claims. However, cessions and setoffs let individuals and private companies to claim their money, regardless of their position in the list of lenders.

Moreover, such transfers reduce the value of the insolvency estate. On the one hand, assets bought with loans from the bank fall into the hands of new owners, which makes them unlikely to be added to the value of the insolvency estate. On the other hand, the bank is able to collect only a portion of its loans, which also hampers the value of the insolvency and thus hurts the interests of lenders such as the state, the NRA or the Bulgarian Deposit Insurance Fund (i.e. taxpayers), because the value of the insolvency estate shrinks.

From KTB's closure through the end of October 2014, the bank's assets had shrunk by about 800 million lev, to BGN 1.83 billion due to a number of cessions signed since 20 June. This happened despite the changes to the law³²⁰ which allowed the challenging of cessions that took place after June 20 in court. The lack of immediate response by the trustees, who were expected to attack cessions and setoffs, rendered those legal amendments useless.

As of mid-2016, the bank's trustees had challenged setoffs worth BGN 418 million, or slightly more than half of the setoff transactions, according to a response from the bank's trustees to a question by the MPs Petar Slavov and Martin Dimitrov. The "KTB-files" team has obtained the complete list of cessions and set-offs. The numbers tell interesting stories about asset redistribution and new partnerships forged at the expense of KTB.

PEEVSKI'S CESSIONS

One of the most interesting cessions involved First Investment Bank and several companies associated with Delyan Peevski. Prior the attack on KTB, Peevski's companies withdrew their deposits from the bank. On October 24, 2014, First Investment Bank acquired the deposit of the insolvent Air Property Development for BGN 97.5 million. Just a few days later, the company quickly sold it in pieces to several companies, which were deemed to be linked with Peevski and the DPS. The largest amount of BGN 34.4 million was ceded to Tabac Market (Lafka), which set off a loan from KTB for the same amount. Another BGN 17 million went to Sibole Services Incorpo-

³²⁰ http://www.bnb.bg/bnbweb/groups/public/documents/bnb_law/laws_bank_bankrupt_bg.pdf

rated Bulgaria,³²¹ the company that privatized Technoexportstroy with KTB funding. Sibole also actively participated in the attack against KTB and requested the appointment of a provisional liquidator of TC-IME, one of Tsvetan Vassilev's key companies.

Another BGN 16.8 million went to Droslian Bulgaria³²² to pay off some of its debt to KTB. The company was a subsidiary of Droslian Ltd, registered in Belize, and the majority shareholder of Yuri Gagarin, where Peevski recently was revealed as an official investor. First Investment Bank also ceded BGN 7 million to Promishleno Stroitelstvo (Industrial Construction) Holding, then a subsidiary of Vodstroi 98, a company whose control over years had been associated with Peevski.

Considering that First Investment Bank, which in 2014 received liquidity support from the state, bought the deposit literally days before KTB's license was revoked, it seems that the deal with Peevski-related companies had been arranged beforehand. KTB's trustees appealed those transfers in court. On first instance, the Sofia City Court cancelled Sibole's cession. The other appeals are still pending.

STALIYSKI'S CESSIONS

Alexander Staliyski, who was said to have close ties with Prime Minister Borisov, was another active participants in cession agreements. Along with his girlfriend Violeta Sechkova he managed to gain control over the glass factory Rubin. The two tried to withdraw their money just days before KTB's shutdown, but the transfers were marked as pending and did not go through. However, at the end of October 2014 they ceded their deposits of BGN 20 million and BGN 10 million, respectively, to Capital Investment, a company which had been registered just a few days earlier. In turn, a few days later the company transferred its receivable to Rubin Invest, which declared a set-off before KTB's receivers and thus no longer owed money to the bank. It seemed like the cession payout had

³²¹ <http://www.ktbfiles.com/ktb-top100/sibole-srvisis-inkorporejtjd-blgariya-eood>

³²² <http://www.ktbfiles.com/ktb-top100/droslian-blgariya-eood>

been deferred and its assets had been pledged in favor of Capital Investment. Then – whether- deliberately or not –after it was paid in early 2015, the ownership of the plant was transferred to another subsidiary of Capital Investment, Rubin Property, which had also been established recently.

Staliyski and Sechkova had no connection with the company, which was managed and owned by fronts. After December 23, 2015, the plant was about to change hands again for BGN 42.2 million, as Capital Investment ceded its receivables from Rubin Property and Rubin Trading along with the pledges of another newly-founded company – Glass Distribution. Just days before the deal on December 18, 2015, upon the request of a small lender, a certified bailiff had offered Rubin Property for sale at a starting price of BGN 15.55 million. The buyer was Glass Distribution, the same company that had demanded the sale, and sources³²³ told *Capital* that Staliyski was behind that company, as well. These transfers aimed to “launder” the assets of the plant and distance them from the bank without actually changing hands in reality.

The trustees attacked those cessions in court and even won the case before the court of first instance, which voided the Capital Investment transaction. In the meantime, the latter company along with the next-in-line owner of plant Rubin Property had gone into liquidation, which made recovering the assets of the glass factory close to impossible.

CESSION BROKERS

In the months following KTB’s closure, most Sofia-based lawyers had been busy looking for partners for their clients who were KTB’s depositors or borrowers. Thus, a sort of a market for cessions and setoffs emerged relatively quickly. Depending on one’s connections and what chunk of the deposit one was ready to forgo, one might get back between 50 and 100% of their deposit. That was not necessarily a bad deal, given that KTB clients with deposits higher than

³²³ Igljika Philipova, “Glass Factory Rubin Has an Old New Owner,” *Capital*, March 31, 2016.

EUR 100,000 were unlikely to get more than 20% after realization of KTB's assets, and the procedure might take years.

Besides the big deals we described so far, several brokers preferred to cater to individual clients. Perhaps one of the leading brokers was Grisha Ganchev, who controlled some of KTB's largest borrowers within the Petrol Group – Naftex Petrol and Elite Petrol – along with Litex Motors, the manufacturer of Great Wall cars. These three companies alone concluded more than 180 cessions in total, most of which with entities outside the holding.

Using these companies as a vehicle, Ganchev managed to save the deposits of many public figures, including the wife and daughter of the former Prime Minister Ivan Kostov, the personal and business deposits of the former Finance Minister Stoyan Aleksandrov, the then director of Bulgarian Development Bank Angel Gekov and his predecessor Hristo Karamfilov, the gymnast Yordan Yovchev, the rower Romyana Neikova and others.

Chimimport Holding was another broker, even though it was performing cessions on a much smaller scale. Former BNB's Deputy Governor of Banking Supervision Emilia Milanova and Deloitte's country managing partner Silvia Peneva managed to save their money through deals with the holding itself or through companies associated with it like Bulgarian Airways Group and Velgraf Asset Management. A number of state-owned companies such as Bulgarian Export Insurance Agency, Bulgarian Stock Exchange, State Consolidation Company and the Central Depository also signed cession agreements with the holding. Deals involving larger amounts of money, however, went through companies associated with the holding.

Under such a scheme, Arkus, an arms manufacturer, bought receivables from public figures, including Momchil Andreev, the former director of Raiffeisenbank. Bogomil Manchev's Risk Engineering-D assisted then Minister of Culture Vezhdi Rashidov in saving his deposit. To some extent, Tsvetan Vassilev also came to the rescue of some of his recent clients, using companies he still controlled after KTB's shutdown. One of them was Dunarit.

Companies linked to Peevski also played a similar role for some public figures. For instance, Promishleno Stroitelstvo Holding acquired a deposit of the wife of Kiril Domuschiev, the head of KRIB.³²⁴

³²⁴ Confederation of Employers and Industrialists in Bulgaria.

SABOTAGE FROM THE INSIDE

Momchil Mondeshki, a Veliko Turnovo-based lawyer, also played a role in the redistribution of KTB's assets. An investigation conducted by *Capital*³²⁵ revealed that he took part in the scheme, using his personal contacts with KTB's trustees Kristi Marinova and Angel Donovan. In October 2015 both were added to the list of nominations for possible trustees, following a decision by BNB Deputy Governor Dimitar Kostov. A month later the Deposit Insurance Fund appointed them as KTB's trustees.

Previously, Marinova was an accountant at the companies of Mondeshki's brother, while Donovan worked with Mondeshki for Nikolai and Evgenia Banevi.

Mondeshki himself was involved in a scandal, after leaked recordings came to light of alleged conversations with former judges Vladimira Yaneva and Rumyana Chenalova, with whom he discussed at length influence-trading at the highest level of power. They also talked about Peevski and Borisov. Mondeshki had close ties with the previous management of the Sofia City Court. In 2016, he directly influenced key KTB appointments. For example, Marinova and Donovan hired former Sofia City Court employees dismissed by the newly-appointed chairman of the court, Kaloyan Topalov, who took over in 2015. These appointments included: Katya Garneva, who used to share an office with Momchil Mondeshki; Vesselina Vlaeva, Rumyana Chenalova's former court secretary and an expert in the Administration, Coordination and Records Department; and Mariana Ivanova, responsible for internships at the court, and now an expert at KTB's Monitoring of Receivables Department. The former head of the SCC's IT Department Tashko Tashev, who had access to the software for random distribution of trials as well as judges' computers, also took a job at KTB. The Former Information Security Officer at SCC (who processed requests for using special surveillance means) Valeri Danov was hired as a chief security expert at KTB.

Meanwhile, Momchil Mondeshki introduced himself as an ally of DPS MP Delyan Peevski, three independent sources from legal

³²⁵ Rosen Bosev, "Peevski's Trojan Horse," *Capital*, November 3, 2016.

circles told *Capital*. This connection might explain why a large portion of KTB's assets fell into Peevski's hands.

POOR RESULTS

Until the end of 2016, KTB's trustees performed quite poorly when it came to recovery of the bank's assets. As of the beginning of November of the same year, they managed to recover BGN 200 million, most of which were used to cover insolvency costs. The cash recovery funds grew by around BGN 60 million, reaching BGN 580 million, which was less than 8% of KTB's assets upon its closure. At the same time, using cheap and opaque schemes, Delyan Peevski managed to acquire most of the assets previously registered under the name of the banker Tsvetan Vassilev.

The Deposit Insurance Fund denied any wrongdoing when it came to asset redistribution. Here is an excerpt from a statement³²⁶ they sent us: "The claims that the assets of the bank following its insolvency have been redistributed to (pillaged by) certain people is false and unsubstantiated. This is just an ungrounded allegation. The very decision of the court to declare the bank insolvent in accordance with Art. 13 of the *Bank Insolvency Act* imposed an overall seizure of the bank's assets and property.

"Thus, the court has blocked the bank's assets, including all transactions, besides covering the costs of the insolvency. The bank's assets are subject to realization in accordance with the BIA, following a plan approved by the Fund. The Fund approved the program at the end of 2016, and procedures for opening and closing auctions as well as public tenders have already begun. All these procedures are types of competitive public sales. Asset sales through direct negotiation are not permitted.

"In this sense there is no evidence that there has been a concentration of the bank's assets in the hands of certain individuals. In addition, the piece fails to mention that those "assets" have never belonged to the bank – BTC, Dunarit, Avionams, Bulgartabac, the building of Sofia Press and so on. The piece mentions "many exam-

³²⁶ http://www.ktbfiles.com/wp-content/uploads/2017/05/560_Stanovishhena-fonda-za-garantirane_T_Fond-za-garantirane.pdf

ples of second round of pillaging the failed KTB” but gives only one example with the following explanation: “Peevski’s printing house, for which he owed KTB BGN 100 million, is being sold at BGN 2 million and later raised its price to BGN 4 million lev.” What kind of pillaging are we talking about here, since the printing house, mortgaged in favor of KTB, has been sold by a certified bailiff under the Civil Procedure Code as part of a public sale? If the property was so valuable, why weren’t there other bidders participating in the sale? Where are all the other “many examples’?”

HOW MUCH THE KTB BANKRUPTCY COST US

The bankruptcy of a large bank cannot remain painless for the economy of a country. In the case of KTB, which was the fourth-largest bank in Bulgaria with assets for BGN 7.3 billion, it obviously involves a cost for the whole society. At first glance, the closure of the bank looks simple – more than BGN 3.6 billion have been paid to cover insured deposits. Only BGN 1.6 billion came directly from the [state] budget as a loan to the Deposit Insurance Fund.

It will be repaid, and the final amount is likely to be less, although it is hard to make an accurate calculation for taxpayers, and we shall probably have to wait for a few more years to see what the result from collecting the assets under the bank's bankruptcy will be. At the same time, however, the non-market rise of KTB involved additional damages which are harder to measure and have been imperceptibly transferred to multiple individuals, who have never had any relations with KTB.

THE DIRECT COST

If we only take into account the money put in directly, the cost for taxpayers can be considered a relatively small amount. As of December 2014, when deposits of up to BGN 196,000 had to be paid back, the Deposit Insurance Fund had about BGN 2.1 billion, some of which were invested in government bonds. This forced the state to grant about BGN 1.5 billion.

The state can obviously rely on getting its full contribution back with time. On one hand, the fund would receive a portion of the BGN 3.6 billion that it lent to the bank when KTB's insolvency estate gets sold. With that asset quality, for the moment there are hopes of recovering approximately 20%, i.e. the Fund will be able to get back about BGN 700 million, though after some years.

In addition, every year banks make installments into the Fund to fill it. The amount for 2016 was BGN 150 million. In this way, even as of now there are assets worth about BGN 450 million (government bonds and deposit with the BNB) for the fund's total debt to the Ministry of Finance of about BGN 1.7 million, which can be used for debt repayment. All of the above means that, though gradually and over years, the direct loan from taxpayers will be paid back, especially if there is no need to use it again.

THE BANK QUASI-TAX

Stopping at this point, however, would be a simplification. In fact, BGN 2.1 billion lev that had been accumulated in the fund from contributions for almost 15 years was spent on KTB. If we interpret this literally, that turns the fund into a kind of insurance institution for the banks themselves, so it is their own expense. It is clear, however, that during that whole period, through their interest rates, banks actually transferred that cost to their clients: depositors or borrowers.

During all these years, the banks' contribution was 0.5% of the deposits they held, which in fact means that, in order to cover that quasi-tax, they had to increase the so-called net interest spread – the difference between interest rates on loans and those on deposits. In other words, if that BGN 2.1 billion had not been accumulated, it would have been possible for 15 years to make borrowing cheaper by 0.5 percentage or for deposits to bring that much more earnings to savers, or an average between the two.

In addition, by the amount accumulated before KTB's bankruptcy the Fund covered nearly 5% of all insured deposits in the banking system. This made it one of the best-capitalized in the EU, and it could have been safe to consider reducing the contributions. Now, as the fund's debt to the state is yet to be paid back and a new buffer needs to get accumulated, there is no such option.

If pessimistic expectations come true and only 10% of the bank's assets are actually collected, that would be estimated at about BGN 700–800 million (according to the bank's reports, there were about BGN 500 million in remaining funds at the time of the shutdown, government bonds after maturity date and repaid loans). According to the law in force at the time KTB was declared insolvent, the

Deposit Insurance Fund has the same status as other lenders, so it could get back approximately two-thirds of this amount, or about BGN 500 million. This means that the difference in what the Fund paid to insured depositors, about BGN 3.1 billion, will be covered by clients of all other banks. Of that, BGN 2.1 billion has already been paid through the banks' contributions to the fund. The remaining BGN 1 billion will be raised through future bank contributions.

THE SIN OF HIGH INTEREST RATES

The economy started suffering from indirect damage well before KTB closed down. As a matter of fact, one can argue that the major damage was actually caused then by the high non-market interest rates on the deposits offered by the bank.

In the years before closing, it grew turbulently by attracting client with interest rates several percentage points higher than the average market levels. In this way, KTB (along with a few more local players financed at high cost, albeit to a lesser extent) acted as a magnet for the rest of the market, who could not afford to lower interest rates, so as not to lose market share. In the two months following KTB's shutdown, the BNB statistics showed indicatively a sharp drop in interest rates on deposits by more than 1 percentage point in all segments and currencies.

In that way, the relatively expensive deposits attracted by banks naturally translated into relatively expensive loans. On top of being an extra cost to borrowers, this can be also measured in frozen projects which would not have been profitable or seemed too risky at those interest-rates levels. This effect is difficult to quantify, but KTB's expansion policy surely contributed to keep interest rates on loans significantly higher across the entire banking system, which in effect could also be measured as loss in percentage of GDP growth.

The effects of "capturing" state institutions, driving competitors out and deteriorating the business environment as a whole, which happened gradually during KTB's flourishing period, are even harder to measure. Although the former Vassilev-Peevski tandem is not the only reason for that, the money from KTB was certainly a key factor in subjugating media, politicians and regu-

lators. The situation discouraged many investors from doing business in Bulgaria. The loss in profits due to unexecuted investment decisions and arranged privatization deals could be calculated only indirectly and too conditionally.

This is actually the most deep-rooted effect that will have a negative impact on all taxpayers for many years, even after KTB disappears.

LIFE AFTER DEATH

TWO YEARS AFTER THE KTB SHUTDOWN THE STATE-CAPTURE MODEL IS VERY MUCH ALIVE

These two years have concluded with an open ending, an opportunity to reflect, learn some lessons, and initiate changes. It was an excellent chance to pull the curtain back from the model #WHO, which KTB's circle was a part of. The collapse of the bank marked the beginning of the period that gradually brought to light and unraveled complex links, endemic graft and a strong alignment of interests between the state and the oligarchy.

More than two years later, however, we seemed to have missed a chance to reveal, expose, and bring to justice those responsible for the events described in the book. Instead, we witnessed the state choosing to deliberately look away and trying to sweep all the traces under the carpet. Events in the past two years have invited a variety of interpretations. First, at the institutional level, no one took responsibility for what had happened – not even so much for the actual bankruptcy, but to acknowledge the tangled knot of political dependencies (supported by a trove of evidence).

Following KTB's shutdown, the Central Bank, which was directly responsible for banking supervision, was trying to shift the blame to politicians. In turn, politicians tried to pass the buck by conducting a pseudo-report, which revealed some facts to the public but failed to dig deeper. It did not shed light on the big picture – for years KTB had been used as a platform facilitating corrupt ties between watchdogs, media, politicians, and institutions. In the meantime, changes in the management of the Deposit Insurance Fund, which should ensure the repayment of covered deposits and manage the insolvency proceedings, aimed to preserve the political *status quo* instead of improving the collection rate.

The KTB investigation, which started two years ago, has not been completed yet. The prosecutors have been investigating the

factual reasons for the bank's failure but have stayed away from the roots of the problem: allegations regarding the corrupt entanglement of regulators, media, politicians, and institutions. In fact, the prosecution actively aided the bank-run plot in the last weeks prior to its collapse.

Top politicians in the country have tried to neglect and underplay the importance of the case, even when key players in the opaque scheme spoke up about KTB's involvement in corrupt dealings. In an interview for KTBfiles from Belgrade, Tsvetan Vassilev accused Prime Minister Boyko Borisov of [alleged] corruption and ties with oligarchs. While Borisov did not comment on Vassilev's allegations,³²⁷ the prosecution did not see any grounds³²⁸ to investigate Vassilev's claims, even though he was believed to know the inner workings of the model.

Against this background, we must note one important fact: the more time that passes, the more unlikely it is for the bank to be able to recover valuable assets acquired over the years. Instead, assets are falling into the hands of certain circles: Delyan Peevski's circle has gotten hold of Technomarket and Bulgartabac, Alexander Staliyski (who was said to be representing the interests of Boyko Borisov) got Rubin, and individual businessmen interested in specific companies, whose acquisition depended on a deal with Peevski (for example, BTC) have also benefitted.

Several factors aided the smooth redistribution of assets. First, the assets had been financed by KTB, but acquired by so-called "special purpose vehicles," which were easy to misappropriate, even more so, thanks to the trustees' sluggish approach. Second, Delyan Peevski and his circle has dominated the redistribution of assets. Today, we are witnessing a second round of pillaging KTB. For example, a certified bailiff announced the sale of Peevski's printing house, for which he owed KTB BGN 100 million, for BGN 2 million and later raised its price to BGN 4 million.

³²⁷ Nadezhda Chipeva, "Why Borisov Didn't Respond to Tsvetan Vassilev?" *Capital*, September 16, 2016, http://www.capital.bg/politika_i_ikonomika/bulgaria/2016/09/16/2828539_zashto_borisov_ne_otgovaria_na_cvetan_Vassilev [01.08.2017].

³²⁸ "Prosecutors Won't Investigate Tsvetan Vassilev's Claims," *Dnevnik*, September 19, 2016.

CONTROVERSIAL RESHUFFLE AT THE DEPOSIT INSURANCE FUND

Following KTB's failure, the Deposit Insurance Fund played a major role in the bankruptcy procedure. It was responsible for the entire insolvency proceedings of the lender, for paying out the guaranteed deposits, the selection of trustees, etc. Suddenly in mid-November 2014, days before the fund was about to start paying out compensation, the ruling party GERB replaced the chairperson of the fund Rosen Nikolov with Radoslav Milenkov, the then-executive director of the Municipal Bank.

Some bank experts described the management reshuffle as a surprise, saying that the incumbent director had been forced to resign. Just a few days earlier, Nikolov had given a lengthy interview, detailing the framework for paying out guaranteed deposits and its implementation plan. The interview did not hint in any way that only a few days later he would step down from his post.

On Wednesday morning, November 19, 2016, representatives of the banks selected by the Fund's Board of Directors to repay the guaranteed KTB deposits got together to sign the contracts with the head of the Fund. Half an hour prior to the meeting, they were told that the signing had to be postponed because the name of the signatory on behalf of the Fund needed to be amended.

Shortly thereafter, the government officially announced Nikolov's resignation. Bankers who came for the meeting were told that the contract signing was rescheduled for later in the afternoon. Later they received an update that the meeting would take place on Thursday or Friday.

Several interesting developments preceded the Fund's management revamp. In the summer, Oresharski's government was working on a KTB-related bill, aiming to limit the Fund's role in the insolvency proceedings and to increase the powers of the finance ministry or the NRA. Once it was clear that those legal changes would not pass, the Fund's director was dismissed.

Nikolov declined our request for an interview.

There was one more worrisome aspect of this controversial appointment: Finance Minister Vladislav Goranov,³²⁹ who was thought to have close ties with the DPS MP, nominated Milenkov for the post.

INSTALLING LOYAL TRUSTEES

The selection of the trustees was also shrouded in secrecy. Usually trustees are picked from a list compiled by the Central Bank. However, the criteria for those nominations remained unclear. For a long time, the BNB refused to disclose information about the experts on that list. The scarce information we had was that the list was last updated in the summer of 2014, just after KTB's closure and in full awareness that it would determine the selection of trustees of the bankrupt bank. The two provisional trustees – now with extended powers – were appointed half a year after the bank's license was revoked and nine months after the former fourth biggest lender's shutdown.

According to last-minute amendments to the *Bank Insolvency Act*, receivers now could request the court to cancel cessation deals, enter collateral information, and recover property “originating from the bank.” Then the provisional trustees became permanent administrators of the insolvency, while the list was updated once again. The Fund's picks for trustees – Kristi Marinova and Angel Donovan – were among the latest batch of nominations added to the list. They both had links with the lawyer Momchil Mondeshki – Marinova worked as an accountant at his brother's companies, while Donovan worked with him for Nikolai and Evgenia Banevi.

One of the main tasks of the trustees is to maximize the value of bank's insolvency estate, including appealing cessions and setoffs, a scheme which allowed clients with non-guaranteed deposits to transfer them to debtors of the bank and thus save their money. As a result of hundreds of such transactions, by the end of October 2014 the value of KTB's assets dropped by about BGN 800 million, reaching BGN 1.83 billion due to cessions which took place after June 20, 2014. Those cessions occurred despite the legal changes which made void cessions after June 20, 2016. However, the lack

³²⁹ See „Political Corruption – Part 2“, p. 341.

of prompt actions on behalf of the trustees, who were supposed to challenge those cession and setoff transactions in court, rendered the changes to the law useless.

The Fund denied any wrongdoing on its and the trustees' behalf. The Fund's Management Board said in a statement³³⁰ to KTB-files: "The very announcement of the bank's insolvency shows that a large part of its assets cannot be recovered, as the total amount of liabilities exceeds the total amount of assets (negative capital). This applies mostly to the most significant assets in size and share – loans. Because those loans were granted with insufficient or no collateral and debtors are unable to repay them, thanks to Vassilev's "innovative" management style, they are practically money that is lost and gone forever.

"As of the date KTB was declared bankrupt, its assets were valued at a total of BGN 1.378 billion, including BGN 436 million in cash at the BNB and in the trustee's account, and BGN 591 million in loans and claims against other financial institutions, with a number of loans with nil loan value. The Fund and the trustees' performance to maximize the value of the insolvency estate – by collecting debts, realizations of assets and cancellations of setoffs – should be compared to those values, not the nominal values of the loans granted by the bank, as the KTBfiles misleadingly suggests. According to the valuation prepared in a professional manner and by a consultancy company, writing-off of the majority of its assets is inevitable. The piece³³¹ reiterates the notion of ineffective insolvency management, the sluggishness of the trustees, etc. As a reference, we provide you the following information about the actions taken by the trustees so far:

³³⁰ http://www.ktbfiles.com/wp-content/uploads/2017/05/560_Stanovishhena-fonda-za-garantirane_T_Fond-za-garantirane.pdf

³³¹ KTBfiles. – Ed.

TYPE OF PROCEEDINGS	MATERIAL INTEREST (in thousands lev)
Enforcement Proceedings in accordance with the Special Pledges Act	345 126
Insolvency proceedings	3 919 873
Order of payment in accordance of Article 417	2 544 824
Issued Recovery Orders and Enforcement Orders	2 504 681
Pending Enforcements Proceedings	2 420 009
Proceedings against debtors of the bank and/or jointly-liable debtors	437 002
Claims (court claims against debtors/jointly-liable debtors, claims in accordance with Article 422 of the Civil Procedure Code, counterclaims against actions and transactions of debtors of the bank and other proceedings)	1 568 541
Claims against former bank administrators	36 226
Claims in accordance of Article 60a of the Bank Insolvency Act on the recovery of property originating from the bank	481 494
Contested setoffs	448 164

“When analyzing the information in the table concerning the material interest of the actions taken by the trustees, related to the collection and securing of the claims, we should take into consideration the fact that the trustees are using all the steps permitted by the law to collect and secure the claims. That is why in some cases, one and the same claim is the subject of different litigations – for example, an order for payment and an issued recovery order – and simultaneously being collected under a general enforcement and/or in accordance of the *Special Pledges Act*. One and the same claim could be collected from different debtors under different procedural rules in order to ensure a higher rate of debt collection.”

THE CENTRAL BANK FEELS NO GUILT

The other institution which did not feel responsible for the shut-down of the fourth-largest bank in Bulgaria, was the BNB. While prosecutors and some politicians pointed a finger at BNB, its management did not show any signs of remorse. On the contrary, BNB's Governor Ivan Iskrov finally resigned a year after KTB collapsed. Throughout this time he denied any wrongdoing and kept saying he had not been aware of what was going at the bank, a statement that sounds preposterous.

Although BNB's Deputy Governors Tsvetan Gunev and Rumén Simeonov were the ones directly responsible for banking supervision, they both had been nominated by Ivan Iskrov. First, he ought to bear the moral responsibility for their appointment.

Second, it is hard to believe that the Central Bank's governor missed all the reports, media coverage (*Capital*³³² had been reporting on the concentration of state funds at KTB and its practice of granting loans to linked shell companies since 2009) and red flags about the problems plaguing the bank, such as lending to interrelated parties or increasing the bank's capital through loans granted by itself. In 2013 media publications prompted BNB to launch an internal probe which proved suspicions about related entities and law violations to be true, sources from the BNB told KTBfiles.

In other words, the BNB Governor, on one hand, could be held responsible for the flawed supervision and looking away from the troubled KTB for years. This negligence started sometime in 2009, when Iskrov kept his post as a governor, after the Oresharski government allowed him to continue serving as a governor in violation of the law, and the new GERB cabinet reappointed him for a second term. That is when KTB started booming along with all businesses funded and supported by the bank.

The BNB also failed to offer a proper response at the time when KTB was shut down on June 20, 2014. First, during those dire times, the Central Bank did not take any adequate measures as a banking regulator and let the prosecution, DANS and Peevski's media outlets execute their campaign, sending dozens of KTB clients to the

³³² Nickolay Stoyanov, "The KTB State," *Capital*, March 29, 2013, http://www.capital.bg/politika_i_ikonomika/bulgaria/2013/03/29/2032173_durjavata_ktb [01.08.2017].

bank's offices. Second, on the day the bank was placed under conservatorship, Iskrov, stammering and speaking in clichés, repeatedly said what later became a signature line of his: "I repeat! KTB has not gone bankrupt." Third, over the course of five months from the bank's closure until it was declared bankrupt, the BNB failed to take immediate actions as the state body in charge of banking supervision. Instead, politicians and lobbyists shaped the decisions determining the bank's fate. The Central Bank also worked behind closed doors and did not publicize its actions. For example, we still know nothing about the decision process behind the appointment of KTB's trustees in bankruptcy who later took over the management of KTB.

At the same time, the lack of immediate response in the five months – from the bank's closure through its bankruptcy – hampered the value of the insolvency estate. First of all, borrowers transferred their collateral, so that they could not be claimed later, thus limiting the ability of KTB's trustees to recover a large part of the allocated loans by imposed selling of assets. Shortly after the bank's closure, companies that took loans from KTB transferred their collateral to shell companies, official records show.

On the other hand, the bank had been deprived of its right to set-off, as cessions of receivables had been concluded between the bank's customers along with setoffs of liabilities to the bank with receivables, acquired under cession agreements.

Had the BNB been willing to do its job and disclose all the irregularities earlier, it could have revoked KTB's license much earlier. The fact that the bank had negative capital (of BGN -3.75 billion, according to an audit report, which led to negative capital adequacy of -180%) could allow the BNB to withdraw the bank's license.

Towards the end, when KTB's license was being revoked, the central bank was somewhat forced to indirectly admit its failure, as demonstrated in a BNB report³³³ sent to MPs which described the state of the failed bank and gave recommendations for subsequent

³³³ "EVENTS AND ACTIONS UNDERTAKEN IN RELATION TO CORPORATE COMMERCIAL BANK AD AND COMMERCIAL BANK VICTORIA EAD," A Report, Prepared by the Bulgarian National Bank for Information of the Members of the 43rd National Assembly of the Republic of Bulgaria, October 27, 2014, http://www.bnb.bg/bnbweb/groups/public/documents/bnb_pressrelease/pr_20141027_a1_en.pdf [01.08.2017].

actions. For example, the BNB had to cancel a decision issued on March 28, 2014, authorizing KTB to increase its Tier 2 capital by issuing a subordinate debt. The BNB described in detail the scheme in which a total EUR 35 million had been allocated to Technology Center – Institute of Microelectronics AD (TC-IME), provided entirely by loans from the bank itself, which had been transferred through several linked companies along the way. The latest capital increase through an issue of shares on the stock exchange had been initiated almost entirely by companies funded by the bank itself and all capital raised since 2011 had been paid with funds borrowed by the bank itself, according to the BNB report. Thus, the Central Bank illustrated that KTB had had negative capital adequacy long before its shutdown, and its entire growth in recent years had been built on shifting sands. However, it also showed that BNB had failed to fulfill its main duty – to monitor the origin of capital in the banking system.

The Central Bank had also played a role in the country's bid to join the ERM II and the Eurozone, a topic that triggered a major conflict between Ivan Iskrov and the former Finance Minister Simeon Dyankov. Under the leadership of Iskrov and Deputy Governor Kalin Hristov, the BNB announced that the country did not need to rush its Eurozone membership and that the banking system in Bulgaria was more stable than the one in the EU.

The Eurozone member states are part of the Banking Union and the ECB's *single supervisory* mechanism. This would mean having European supervision of Bulgarian financial institutions, including banks such as KTB and Fibank, a limitation that the BNB and politicians apparently did not want to allow for a long time. Broadly speaking, Bulgaria's failure to adopt the euro could have hurt the economy's potential growth. The economic development of the Baltic countries offered a good example of the possible losses Bulgaria might have suffered. Back in 2008–2009 the Baltic countries found themselves in a similar starting position to Bulgaria, but today they are further ahead in their development, compared to Bulgaria. One of the reasons for their rapid growth could be, but might not be limited, to their Eurozone membership.

THE CRIMINAL INVESTIGATION: A DOG AND PONY SHOW

In February 2017, the Prosecutor's Office announced that the investigation into KTB had been completed and that the case was about to be submitted to court by filing the indictment. The documents from the investigation would be handed the accused before that. This would take even longer, given the huge amount of information included in that mega-investigation.

A total of 18 names made up the list of people accused of draining KTB. According to the prosecutors, all of them were part of an organized criminal group headed by Tsvetan Vassilev.

The prosecutors' official announcement³³⁴ said that they had investigated only three areas:

- Malfeasance by BNB officials – Banking Supervision Department
- Embezzlement by employees of KTB AD following up on the alert of July 9, 2014, about the shortage of BGN 206 million
- Crimes under Chapter Six of the *Criminal Code*, "Crimes Against the Economy," committed by employees of KTB AD regarding the findings of the audit report received on July 11, 2014.

Three of the four executive directors, Iliyan Zafirov, Georgi Hristov and Alexander Pantaleev, were among the accused. The leading prosecutor Ivan Geshev announced that insufficient evidence had been gathered about the fourth one, Orlin Rusev. Sources told KTB-files he had agreed to testify in the course of the investigation which earned him the withdrawal of charges.

Employees of the bank at various management and expert levels were also among the accused. These were chief cashier Margarita Petrova, the chief accountant Maria Dimova and her deputy, the head of loans Georgi Zyapkov and experts from his department: Elka Stoykova, Elena Indzheva, Svetlana Georgieva, and Rangel Genchev.

The next group of names on the prosecutors' list was that of the KPMG auditors – Margarita Goleva and Krasimir Hadzhidinev – who had certified the KTB annual reports, as well as Snezhanka

³³⁴ "The Prosecution Brought Charges against More Defendants for KTB AD," Prosecutor's Office of Republic of Bulgaria, August 12, 2014, <http://www.prb.bg/bg/news/aktualno/prokuraturata-privleche-oshche-obviniaemi-lit-4708/> [01.08.2017].

Veleva-Stefanova, the bank's internal auditor. Three BNB representatives were also on the list: former deputy governors in charge of banking supervision Rumen Simeonov (2007–2013) and Tsvetan Gunev (2013–2014), as well as Slaviyana Danailova-Veleva, who led the team of inspectors supervising KTB.

At no point did the investigation mention anything about the liability of politicians or other state officials for corruption, connections, or misuse of power. Despite the obvious facts accumulating for years about Tsvetan Vassilev and Delyan Peevski forming the tandem around KTB, the prosecution did not consider any liability for Peevski in any of the courses of investigation. The focus was entirely on the former majority shareholder at KTB, who, of course, is to blame, but is far from being the only player. Moreover, the words “political corruption” seemed to have been a taboo for the investigators.

In the middle of June 2016, the investigation was transferred from the SCP to the Specialized Prosecution headed by Ivan Geshev. According to investigators,³³⁵ the criminal group was active from January 1, 2009, to June 2014, and was “created in self-interest and for the purpose of embezzlement as a whole.”

POLITICAL IRRESPONSIBILITY

During the months after the bank's shutdown, politicians repeatedly publically promised to disclose the whole truth about KTB. But that largely meant key political figures would have to discredit themselves by disclosing facts about their own connections with the bank. This is why no one has assumed political responsibility so far.

Instead, they only simulate actions.

After the bank's license was revoked, a special parliamentary committee was set up to investigate the KTB bankruptcy. GERB MP Desislava Atanasova was heading the committee which included

³³⁵Galina Gerginova, “Two years after the beginning of the KTB investigation the prosecution found information about an organized criminal group,” *Judicial Reports*, June 9, 2016, <http://judicialreports.bg/2016/06/две-години-след-старта-на-разследване> [01.08.2017].

representatives of all parties in parliament. After half a year of hearings, gathering documents and investigations, in July 2015 the committee presented the results of its work, a report in which the facts were disclosed halfway.³³⁶ The document³³⁷ mentions banker Tsvetan Vassilev as the only directly liable party and institutionalizes the guilt of the BNB and DANS. There is not a single word on Delyan Peevski as part of the scheme that led to the rise and fall of the bank. There is no mention of responsibility by the prosecutors who had assisted the collapse of KTB with their actions.

Politicians believed they had done their job with the report. The subject has been pushed aside in public attention, and comments on it gradually faded away. Enveloping the story of KTB in silence was the way to sweep it under the rug, even after Tsvetan Vassilev's interview with KTBfiles, when he revealed (for the first time with names, data and facts) how he saw political corruption in Bulgaria in recent years. In his revelation, he named directly politicians Boyko Borisov and Ahmed Dogan. The topic was disregarded with contempt and silence. The official invitations to a conversation, which KTBfiles sent to Boyko Borisov, Ahmed Dogan, Delyan Peevski, and Ivan Iskrov were also ignored. Stanishev was the only one willing to give an interview.

SEARCHING FOR GUILT

Following KTB's shutdown, a sufficient number of reports and documents were published showing what had been done at the bank for years. They highlighted some of the reasons why the bank had ended up in the state we all witnessed. Unpublished reports³³⁸ by auditors from Deloitte, EY³³⁹ and AFA indicate that over two-thirds of KTB's assets should be deleted, resulting in a capital hole of nearly BGN 4 billion. This information was reported by the BNB in fall 2014 when they announced the revocation of the bank's license. Assets

³³⁶ Nickolay Stoyanov, "The Selective Truth about KTB," *Capital*, July 12, 2015.

³³⁷ http://www.ktbfiles.com/wp-content/uploads/2016/01/553-67-1_Doklad_Vremenna_anketna_komisia_za_KTB_s_prilojenia_i_PR_za_priemane-I-chast-Doklad-i-PR.pdf

³³⁸ <http://www.ktbfiles.com/dokumenti>

³³⁹ Former Ernst & Young.

amounting to BGN 5.925 billion were written off, and that included loans, an investment portfolio of shares and bonds, securities held for trading, bank guarantees and letters of credit, real estate, and the investment in the subsidiary Victoria Commercial Bank, which was also under conservatorship at the time. The BGN 5.335 billion corporate loan portfolio at KTB required a BGN 4.057 billion write-off.

The lack of oversight, research and due diligence in lending, as well as insufficient collateral were the reasons for all these write-offs. One of the reports read that “corrupt business practices unusual for the banking system could be observed in the bank’s activities, and these were carried out through complex operations aiming at covering up the nature of agreements and transactions.” Such example was the indirect lending through “special purpose vehicles,” holdings and the like, which in fact financed the acquisition of assets.

In other words, loans with a minimal probability of getting paid back to the bank formed the hole in its loan portfolio. The way events unfolded later proved it. In mid-2015, more than 99% of the loans given by KTB were declared as having irregularities.

The problem with the loans had several implications. First, loans were given to companies, called “shell companies” by some and “special purpose vehicles” by others, to acquire assets linked either to the bank’s majority shareholder Tsvetan Vassilev, or to his former partner Delyan Peevski. That means the depositors’ money was financing personal enterprises. There are two problems about it: legal and moral. The legal problem is that the statutory limit for lending not more than 25% of the bank’s capital to one or several related parties was exceeded. In this case, the percentage was exceeded many times over. The moral problem lies within the conflict of interest. If the bank granted a loan to a “regular” client who did not repay on time, the bank would be interested in applying measures to get the borrowed funds back or would collect the collateral. If the same party is behind a lender and a borrower, that interest cannot be protected.

Another problem is that some of the loans were granted to a company that transferred them to a second company, which then transferred it to a third one, and in the end the money went to cover another loan. This accumulation of interlinked funding lends credence to labels such as “pyramid” and “bubble.” The loans by KTB to all these *special projects* were not properly secured, which is the

main reason why now the bank has no control over real assets and has to fight back by claiming the insolvency of shell companies. For the same reason, important assets such as Bulgartabac, Techno-market, Dunarit, Avionams, etc. are already in the hands of other owners, different than the bank. The liability for all these practices lies with the direct management of the financial institution.

“Our analysis of KTB’s business since 2009 shows the widespread use of loans to borrowers as a channel for funds to be wrongfully and/or unlawfully extracted from the bank. It seems that in most cases these funds have been used for the benefit of the real majority shareholder in the bank, Mr. Vassilev, his accomplices and related parties.” That was also the main conclusion reached by the international company AlixPartners whom the Deposit Insurance Fund hired to trace KTB’s money. In their report,³⁴⁰ which became public in May 2016, the experts of the investigative company argue that “the bank is also engaged and/or involved in a number of investment decisions and business activities that have not been in favor of the bank’s own financial interest, but are intended to assist Mr. Vassilev, his collaborators and related parties.” Based on their calculations, “these activities have resulted [several times] in a significant amount of funds flowing out of KTB which we have studied in the context of the recovery process.” Their negative forecast is that only BGN 600–650 million can be returned to KTB, in addition to another about BGN 150 million from loans to small companies and others.

THE DEFENSE

Tsvetan Vassilev, who is considered the main culprit for the bank’s bankruptcy, does not accept the conclusions of all these reports. He has repeatedly explained his view³⁴¹ on KTB’s sustainable model, including in the interview he gave to KTBfiles:

³⁴⁰ AlixPartners, “Corporate Commercial Bank AD (in bankruptcy): Final Report Prepared for the Bank’s Trustees in Bankruptcy,” September 23, 2015, <http://corpbank.bg/content/Final%20Report%20to%20the%20Receivers%20of%20KTB%20BG.pdf> [01.08.2017].

³⁴¹ Tsvetan Vassilev, “Hampartzumian’s Incompetence Is Striking,” *Glasove*, April 20, 2015, <http://glasove.com/categories/interviuta/news/cvetan-Vassilev-nekompetnostta-na-hamparcumqn-efrapirashta> [01.08.2017].

“At that time, a lot of market opportunities were created, both due to the crisis and to the withdrawal of foreign banks. Our philosophy has always been to do *merchant and investment financing*, i.e. to look for project financing—to look for challenges as it were—and a crisis naturally presents many. This is how we acquired some companies at the time, which wouldn’t have survived otherwise. I’m talking here about Rubin in Pleven, the factory in Parachin, and the shipyard in Ruse. Petrol also survived thanks to us. We’ve also had some targeted acquisitions such as Vivacom [BTC]. I thought it was a good deal that would eventually generate a profit. The media that belong to Peevski wrote, however, that Vassilev took part in Bulgartabac’s privatization with the sole objective of profiteering. What a shame, huh! But isn’t it shameful to participate secretly, not to be able to show yourself like Peevski and the rest of the beneficiaries! Of course, I did it to make money. My aim was to return to the bank the profit made by the so-called shell companies created by Peevski’s lackey, Biser Lazov. No wonder we saw such rapid expansion.

Q: You have repeatedly said that the goal was, through SPVs created for the purpose, to invest in businesses that would then be sold. From a legal point of view, however, the problem is that the limit for interconnected loans gets exceeded. In your opinion, why did the regulator, the BNB, not take this up over the years?

A: They have not *de jure* been connected.

Q: What about *de facto*?

A: In reality, the only connection was the overall control by the bank. I’m not sure whether banks around the world will have to face that more often. In Bulgaria this is a practice. I have no doubt that almost all of the loans by certain banks are somehow connected back to them. I am talking mainly about the Bulgarian banks. But again, it is this market that should define the banking model in times of crisis. Under no circumstances should some rules which somebody developed under the conditions of other times be decisive. We are witnessing very inadequate solutions around the world in this regard.

Risk management is quite a complicated process, and linked lending does not necessarily mean that your risk is higher. We did not finance companies from one industry or my companies. We

credited companies which we assessed could be restructured and could then find another solution for themselves. Unlike all other Bulgarian banks, we had real assets for which all are now fighting.

The big question that has always been present is whether we are breaking the law at some point. The real question for me now is whether the bank should have been destroyed and not whether we have committed any violations. Moreover, these violations are not being investigated by the prosecution. If the BNB thought something threatened the bank, they should have reacted. The prosecution's investigation was aiming at only one thing: to bring the bank to bankruptcy. And here is the big difference between banking policy in civilized countries and that in Bulgaria. As examples from Europe, take Germany, France, Italy."

From a legal point of view, however, there is a serious problem with the so-called SPVs, which makes the statement of the former majority shareholder unsubstantiated. "Such instruments in principle mean private equity investments, i.e. risky investments. A commercial bank cannot become a venture capitalist, and the depositors' money cannot become venture capital without a serious breach of the banking legislation requirements. Until Regulation 575/2013 entered into force, the *Credit Institutions Act* explicitly limited commercial bank private equity investments in the non-financial sector to half of its own capital (see Article 47, already repealed). As the bank's own capital is provided mainly by its shareholders, the rule of that provision means a categorical ban on investing depositors' money in private equity outside the financial sector. Now Articles 89–90 of the Regulation also contain such restrictive provisions and stipulate qualifying holdings outside the financial sector. A provision is made for extremely high risk weight – 1250% for holdings that exceed the limits set in the regulation," reads the Deposit Insurance Fund's opinion.

THE MODEL LIVES ON EVEN AFTER KTB

After the tandem split, which actually happened when the bank closed down in 2014, some specifics of their former cooperation became clear. It was visible who was actually stronger within the state and whose connections, contacts and mechanisms have proven to be resilient.

In the dynamic weeks before and after KTB's shutdown, an obvious regrouping of interests and camps took place. Delyan Peevski won over those key players who would play an important role in further asset allocation. Biser Lazov, the former right-hand man of Vassilev and the one who had been operationally involved in building the pyramid of companies and projects, is one example.

At that point, Peevski used the entire "toolbox" of the model he had personally created, and took aim at his partner. The model involves the monstrous use of state institutions, regulators, media and political lobbies to impose one private interest on another: in this case, Peevski's interest over that of Vassilev. The fall of KTB did not break the pattern, it did not destroy it; it only brought it to light. Then, it took on new shapes, and the vacated positions were filled with new players. Political characters were replaced, one prime minister succeeded another. The financing institutions that provided capital to the model were also replaced, and instead of KTB now BDB and Fibank have Peevski's back. The names of the media serving the *status quo* also changed, but the principle of controlling and imposing topics and editorial content from above has been continued from the previous years.

At the time around the bank's shutdown and afterwards, it also became apparent that for years Vassilev had been standing on a tower of sand. Politicians, structures and businesses who had been funded by him for a long time suddenly turned against their former benefactor. Vassilev held top-level meetings in search of support for the shaken bank, but he did not get it. The fact that the prosecution's investigation was directed entirely against him and his circle and the name of his former partner Peevski was not mentioned in any of the reports investigating KTB proves two things: first, that Vassilev's power over the years had been imaginary and unsustainable, and, second, that the model of the captured state is actually alive and has just changed shape. Last but not least, the government under which the model showed its greatest power is running the state again and for the moment shows no political will to investigate what happened in recent years. Obviously because they will have to investigate themselves. From this perspective, there is no hope on the horizon that the vicious oligarchic model, which became known as #WHO, will be eradicated.

ANNEX



BANKER TSVETAN VASSILEV: SINCE 2009, THE MAFIA HAS BEEN IN POWER IN BULGARIA, TRYING TO MAKE A PROFIT ON EVERYTHING

For the purposes of the project, we publish an interview with Tsvetan Vassilev, banker and majority owner of the bankrupt Corporate Commercial Bank ("KTB"). He gave this interview from Belgrade exclusively for us. Vassilev puts forward his take on the events that took place during the various stages of the bank's development. All persons mentioned are welcome to express their opinions on the topics covered in this interview.

09.09.2016

Thank you for agreeing to do this interview. How's your life in Belgrade? What is your day like?

Finally, I've decided that silence is not golden. Though I can't say that I have been silent for the last two years. My daily life differs from that in Sofia. But in any case, I have not alienated myself from society; I maintain my business contacts, including the ones abroad. I work on my defence case and the numerous lawsuits that I have brought against the people who participated in the plot against KTB. I can't complain that my life is dull. In addition, I have much more time for reading and philosophy, in particular.

What is the state of play regarding those lawsuits?

It's hard to even list them all. As regards the set of criminal proceedings, I suppose you are aware that after two years of hard and painful efforts, they came up with the idea that an organised crime group under my leadership had been draining KTB for five years. They did this in order to postpone bringing the case to court by means of a simple trick. For this purpose, they forwarded the case

to the Specialised Prosecutor's Office and sent over that same great team from the City Prosecutor's Office and the Investigation Service so that they could continue and gain more time. Apparently, this is the lawsuit of their lives. It's not that this isn't the case of my life. One tends to think that the lawsuit will be brought to the specialised court that suits them best. I do agree that there is an organised crime group, but it is not my group; this is the group of people who organised the plot against KTB. I'll sue them all once some political changes have taken place.

I'll go back to the big picture in a while. Before that, I would like to ask you something concerning current events. Recently, the results of the stress tests of Bulgarian banks were published. What can you say about those?

It's an open secret that in reality, almost none of the banks has passed the stress tests. Moreover, these stress tests were completely different from the test that KTB was subjected to two years ago. KTB's assets were assessed based on the most conservative methodology — AQR — which had never been applied in Bulgaria and which was definitely not designed to be applied to a bank that had survived a bank run.

I am not against banks, although a considerable part of my colleagues have done their best to help the organisers of the putsch against KTB. I am convinced that it's impossible to have a healthy bank system in an unhealthy economy.

Both the old and the new leadership of the Bulgarian National Bank ("BNB") belong to the criminal group involved in the KTB closure. BNB's position during the attack on the bank was absolutely disgraceful. Iskrov made a statement, willy-nilly, when it was leaked out, in an organised manner, that charges had been brought against Deputy Governor Gunev. Then they played a key role in the final stages of KTB's destruction as they adopted an inadequate policy during the questorship and, of course, when they made the major decision that had been imposed on them by the plot organisers: to liquidate the bank by revoking its licence on the basis of the AQR assessments that no one has seen yet. Regarding this, they came up with the idea that shareholders had no legitimate interest in challenging the licence revocation; they wanted to prevent the disclosure of the "assessments" in question to the general public so

that they could not be commented on. This, by the way, contravenes drastically the case-law of the ECHR in Strasbourg.

Now, of course, they are playing a different part, which involves covering up tracks and proving the assumption that KTB was a one-of-a-kind bank, the only exception in the system, because, you see, there was Vassilev the thief who was supposedly stealing for five years.

With the exception of very few banks whose names I'm not going to mention lest I am accused of destabilising the system, almost all banks have a capital shortfall. The main reason for this is the lack of a functioning economic environment. The other reason, in my view, lies in the ridiculously high criteria for capital adequacy. To please Trichet and the ECB, Iskrov imposed a 12% capital adequacy on the banks while everybody else was struggling at 6–7%. Now, since 2014, an additional capital buffer of another 1.5 % has been in place, thus creating a prerequisite for auditors and the Central Bank to shut their eyes when reviewing banks' assets.

After nearly a year, the deal for Vivacom has been declared finalized. This was one of the most important assets financed by KTB. What are your comments about this?

This should be seen as an example of the ultimate disgrace. To allow the sale of a leading telecom for a price slightly exceeding four times *EBITDA* [“earnings before interest, taxes, depreciation and amortization”, or profits on an operating basis] — this is merely a crime.

When Vivacom was acquired by Bromak and VTB in 2012, the company's value was much higher than now despite its great indebtedness. It had three types of creditors who could not reach an agreement amongst themselves; there was a claim by the state amounting to over EUR 120 million; the government possessed a golden share, thus keeping the company's owners in check. My team found a solution for all these issues and Vivacom became Bulgaria's number one telecom, offering a full range of services.

What we see happening now is a classic example of a robbery, with the involvement of a Russian state-owned bank tolerated by the Bulgarian state. Apparently, they have promised to safeguard well the interests of those in charge. In order to hamper the transfer of ownership of Vivacom, the state included the company in the

claims made by the Commission for Illegal Assets Forfeiture (“CON-PI”). There was only one purpose for this: the person who wants to acquire Vivacom must bend the knee before those in power so that the blockades could be lifted. Now, let’s consider the position of the state and the head of the CONPI Commission who is Borisov’s subordinate. If this semi-literate, stooping public official claims EUR 490 million from my family for my “illegal” acquisition of Vivacom, will he dare challenge the thieves patronized by the Russian state-owned bank? By the way, the deal was validated by the European Commission’s DG Competition back then. So now it’s sufficient to block the deal on the Bulgarian side and demand that the new owners give the funds claimed from my family so that the shares could be released. Let’s hope so, but I doubt it. Because the promised loot is huge.

In what form?

Well, there’s only one form: money. Lots of money.

In other words, you’re saying that those in charge will get a commission from the future deal?

Absolutely.

Who are those people?

Well, there are two clans: the first one is Peevski, who is omnipresent, and the other one belongs to the Prime Minister.

More specifically?

I’ve heard many things but what difference does it make? I am saying now — and I’ve always been open about it — that the value of this 77% package financed by KTB certainly amounted to EUR 500 million at the time of the attack. I don’t include NURTS in this figure.

But still, who gets what in order for the deal to be “released,” as you say?

I’ve heard both about specific amounts and specific ownership arrangements. The distribution is as follows: the made-up company of the always-ready-to-act Spas Rusev must acquire Vivacom, then *put options* are to be given to several groups of buyers who

are to cut the pie up: the difference between EUR 700 million and the company's actual *enterprise value* of over EUR 1 billion. Yes, a telecom with an annual *EBITDA* of EUR 170 million has been sold in practice for EUR 700 million: this price comprises the auction price of EUR 330 million and the remainder of a Vivacom bond emission amounting to a little over EUR 370 million. It's about the reallocation of at least EUR 300 million in the following ratio: 20% for VTB, about 20% goes to the omnipresent fraudsters the Velchevi brothers and Krasimir Katev for their grovelling to VTB, and 43—46 % for the dummy figure Spas Rusev. However, it is likely that the dummy will have to share with the people in power a large part of his so-called profit, or about EUR 135 million in absolute terms. Share with those who are still draining the company and have turned it into the biggest fan and sponsor of the "Bulgarian people's team."

That is, with Borisov and Peevski?

Well, that's the rumour. As for me, Peevski wanted 10% of the company in May 2014 when he notoriously racketeered me. You see, the reason was because supposedly they had helped me. How did they help me when I was doing the deal back then with VTB's investment arm — VTB Capital, and the Royal Bank of Scotland? But this is how they see things in Bulgaria. They think you can't be in big business if you're not accountable to somebody. That's why I say that since 2009, there has been more than just corruption in Bulgaria: the mafia has been in power and has been trying to control everything and make a profit on everything.

Speaking about deals, how did the Bulgartabac deal go and how did Peevski end up as the company's owner?

Peevski is the owner not just in the eyes of Bulgarian society. Had someone wanted to investigate, the truth would have been revealed. I am in possession of some documents which show that the owner is not Peevski but Irena Krasteva. Her name is also mentioned in the files of the Walch&Schurti law firm. It was agreed that Irena Krasteva should be one of the nominal owners of the foundations which owned LIVERO Establishments. This was the company which had this particular contract with VTB Capital concerning BT Invest as the acquirer of the 80% share of Bulgartabac's capital. There's

no big secret here. Peevski or his family are the owners of BT Invest, especially after the purchase of LIVERO's debts to EFV and Ventracor — there's no doubt about that. [EFV and Ventracor are the two companies which provided the funding for Bulgartabac's privatisation in 2011. Currently, EFV is under Vassilev's control and is financed via KTB. As for Ventracor, it serves the covert interests of Vinprom Peshtera AD.]

Then the initial foundations that owned LIVERO were ousted and their place was taken by other foundations. And then, even I don't know exactly what the distribution was. But it all comes down to BT Invest playing dirty and some transfers made in exchange for debts. In fact, the credit of one of the companies that were creditors was purchased by Dubai-based company TGI Middle East, which is part of the chain for smuggling cigarettes to Turkey via Kurdistan [a company linked to Peevski]. So I can figure out where the money to refinance all this comes from.

So for me, the question is not whether Peevski or his mother are the owners. The question is: what are the ownership arrangements and the distribution? I can't rule out the possibility that Peevski might have ceded part of Bulgartabac in exchange for his debts to the main Middle East dealer, Salam [Salam Kader Faraj]. It's only those who keep the register of BT Invest, and the foundations' files, respectively, who know the truth.

In other words, you suspect that Salam has an ownership interest in Bulgartabac?

I can't rule this out, if Peevski wanted to save his own skin. In late 2013, when he started his crusade to gain command of Bulgartabac, he lied to Salam. Salam had transferred a considerable amount in advance so that Peevski could settle the debts first with EFV and then with Ventracor. Similarly, Bulgartabac's debts to KTB were probably refinanced in April or May 2014 by means of transfers via a large foreign bank.

How much did Salam transfer, do you know?

Over USD 150 million. This amount, as far as I know, has not been repaid by Peevski to this day. And judging by Bulgartabac's financial situation, his options now are even more limited.

The Bulgartabac sale was, by the way, one of the good endeavours of Borisov's first government. If the company had not been privatised then, it would have been right in the centre of the smuggling scandal of 2014—2015. It would have been, in fact, a state-owned company. I am convinced that it was this scandal that made Peevski *persona non grata* in Turkey. Anyway, before its privatisation, the business of Bulgartabac depended, more or less, on this channel and the major distributor, Salam. Now, how far did Peevski go? That's something that is certainly known by many people, both the respective [intelligence] services and his own marionette, Ventsislav Cholakov, who represented all his money-laundering facilities along the chain. These are all the companies registered in Dubai and used for transfers of money deriving from the smuggling activities of Peevski's companies. Before the privatisation deal, the role of the go-between was played by the Kaledon company, and after the privatisation, Peevski registered and transferred everything to his companies in Dubai. It's all about the enormous unregulated earnings of the Peevski family and those who had a vested interest in Bulgartabac.

Who has a vested interest in Bulgartabac?

These names have become public so many times that there's no point repeating them.

They have never been announced officially. Can you confirm these names?

I do confirm them, of course. At least, these were the arrangements made back then. For information on what has been registered in the Liechtenstein-based companies, and how, you can ask Alexander Angelov.

To wrap up this topic, what was the initial arrangement for the ownership interests in Bulgartabac?

According to Peevski, Borisov, Dogan and Staliyski were supposed to get bonuses [ownership of 10% of the privatised share under a scheme published in Miroslav Ivanov's blog] for having OK'd the deal. Very few people are aware of the initial idea that my group and I should take part in the privatisation of Bulgartabac, in consortium with Korean Tobacco. It was suggested to me, in an unambiguous

manner, that such a deal wouldn't be accepted, although I had concluded contracts for consultancy with Rothschild in Paris. So I paid for the consultancy contracts and abandoned the idea, as the Padisah desired a different deal.

You do realise, don't you, what you've just said: that the Prime Minister of a European country has a covert ownership interest in Bulgartabac?

Well, this is what he was promised. Personally, I haven't talked to him about this. This was the situation back then. On the other hand, the diagrams that were published on some websites were sketched by Peevski's lawyer Alexander Angelov. I have some authentic evidence about this. Whether this is still valid, I couldn't say. If someone wants to find out, so be it. There are a couple of Liechtenstein-based firms that keep all the secrets.

Peevski is a huge topic. How did you establish contacts with him in the first place? What was his role in the bank? Why did you need him at all?

I've been asked this question many times. We met by chance, as usual. Gradually, he started to make his way into my business life. At some point, he was useful. Sometimes, he helped me ...

He was useful in what way?

He's been useful in many ways. He's quite energetic and active. Back in 2003—2004, he kind of eloped with Dogan; to some degree, he was the broker between me and the Movement for Rights and Freedom ("DPS"). This gave me a sense of comfort in my relationship with DPS because the Turkish party's role as a corporation is, after all, well known.

I experienced many hardships as the bank developed. In 2004, the Chair of the Management Board at the time and holder of over 20% of the shares tried to blackmail me. I'm talking about Yanko Ivanov who was backed by the energy lobby surrounding Bogomil Manchev. I didn't give in to that. At that time, Peevski helped me in my relationship with DPS to get their support for me so that a more serious attack on the bank could be prevented. The bank was very small then.

How did DPS help back then?

They didn't do anything specific, but business relationships and politicians' interventions don't always involve specific things. I suppose someone just said at that moment, "OK, don't mess with them because DPS might have an interest there." I don't know how the whole thing went. The bank has often been described as DPS's bank but it has never been linked to DPS, neither at the time of purchase, nor afterwards. However, I have been dependent on DPS inasmuch as big business in Bulgaria depends on some more aggressive political figures to some extent. If they put in a good word, it could always come handy.

Similarly, in 2008 there was a lot of tension around Alexey Petrov's attempts to take over the bank at the time when Sergey Stanishev was prime minister. At least this is what I learned from Peevski. Looking back, I am not quite sure whether it was true. I don't know whether Alexey Petrov had a genuine interest in the bank or not, but in those days the State Agency for National Security (DANS) and the Prosecution Service treated Alexey Petrov as they are treating Peevski now. At the time, the head of the DANS was Petko Sertov, and Roman Vassilev so-called *flying squad* had free reign.

Didn't you have a good relationship with Roman Vassilev?

I have met Roman Vassilev, but so have many others. There is this notorious photograph taken at a cocktail party organized by the bank. *Capital Weekly* kept publishing it to imply that I had close relations with Roman Vassilev. This is an exaggeration. If a relationship must be concealed, it will be concealed. If I were in any way dependent on Roman Vassilev, I wouldn't have had my photograph taken with him at that cocktail party.

Let's continue about Peevski...

So, little by little, he got under my skin. I let him come too close. This is one of my worst mistakes, as I keep saying. In practice, Peevski acted as my representative wherever he went. He presented his wishes as if they were mine. All of this eventually led to my isolation and my nomination as Number One Oligarch. Of course, the circle around Prokopiev played a key role, too. I remember the statements by US Ambassador Warlick in 2011. He kept talking about

some KTB capital of unclear origin because supposedly there was some unknown equity interest. After I had given an interview for Dikov in 2016, Prokopiev's impudence was so great that he went to him and told him this didn't necessarily mean that the covert equity interest in KTB was that of Oman. In any case, this doesn't explain why the Oman Fund and the State of Oman have initiated proceedings against Bulgaria in the International Centre for Settlement of Investment Disputes headquartered in Washington D.C.

So, little by little, Peevski moved into my circle on a permanent basis. And he stayed there until 2014.

Besides providing political protection, did Peevski contribute in any other way?

He was proactive. When the US Ambassador made this biased statement, Peevski did a lot to reduce the tension surrounding the bank... At the time, Prokopiev's clique had instigated a check of my activities, an investigation by the European Commission. It received broad media attention in Bulgaria. It's interesting to point out, by the way, that when the check was over and it was established that there were no irregularities, the circle around *Capital* newspaper forgot all about it and naturally, failed to write about the outcome.

I've always been worried that something might cause a chain reaction of panic among the bank's clients. Apparently, this was well exploited by people like Peevski who were aware of my fears related to the bank. In order to protect KTB, I've been more yielding than I should have been when it comes to all sorts of ridiculous intentions on their part. My aim was to secure a sufficient level of comfort, both in terms of the media and politics. One such folly was, of course, the purchase of the *Weekend* newspaper, followed by the purchase of many other periodicals.

Did you have direct contacts with Dogan?

I know Ahmed Dogan but for the last 14 years, I've met with him only two or three times.

Why did you meet with him?

In general, it was just small talk. He saw himself as and behaved like an expert in the field of energy. Once or twice, we talked

about Bulgaria's economy and the problems faced by the energy sector.

What did DPS gain from the bank in exchange for providing protection?

Nothing else except financing for various ideas that came from Peevski. But I don't know how Peevski reported to his superiors.

What were your relationships with the other political parties at the various stages of the bank's evolution? For instance, what was Rosen Karadimov's role at the time of the Three-Party Coalition?

The entire moronic plan for Bulgaria's digitalisation was conceived by the Peevski-Karadimov tandem together with Veselin Bozhkov [Chair of the Communications Regulation Commission — "CRC"]. Hence, the problems with digitalisation. In Austria, there's one multiplex with 12 channels. In Bulgaria, it was decided that there should be four multiplexes with 52 channels, supposedly, to create a free market. But there aren't even that many television channels! Anyway. Stating that big business in Bulgaria stands apart from politicians is ridiculous. Big business here has always been connected to the people in power because they are the ones who determine the rules. Especially after 2009. Until then, the market was actually growing and there was enough business generated by the market itself. Afterwards, business became exceedingly dependent on the state. Naturally, this whetted the appetite of those who represented, and still represent, the state.

Which people in power did you have contacts with before 2009?

I know them all, but in practice, I did not have any particular contacts with the state, except for the work I did in a couple of economic sectors. We worked with the energy sector and this necessitated contacts with government ministers and prime ministers since energy is a strategic sector. Likewise, we had contacts with the Ministry of Defence or the interdepartmental committees because of the military/industrial complex. However, this was related to business logistics.

What did politicians want from you to allow you to develop your business at that time?

If someone claims that he's been doing big business in Bulgaria without being forced to report somehow to someone, then I suggest he should sit for a lie detector test and confess. The Bulgarian political elite bulldozes businesspeople into making it corrupt because otherwise, it will mobilize the forces of the state machinery.

After Borisov came into power in 2009, the bank went through the period of its fastest growth and greatest strength. What was your relationship with Borisov like?

The timing of Borisov's first government coincided with the timing of the crisis that affected markets. We followed a different strategy: instead of limiting our activity, we expanded it, following the ancient Chinese saying, „When a storm comes, you should build windmills, not walls.“ This was the main reason for KTB's growth, not the widely spread supposition that Borisov's government supposedly pumped some state money into the bank. This is a downright lie. Simeon Dyankov is a bald-faced liar who claims that he did not want to take the money out of the bank because KTB would have gone bankrupt. This is not true at all. The bank worked with the current accounts of several companies from the energy sector and a couple of transport companies who had deposits. There wasn't a lot of money in this and it didn't exceed around 10% of the total leveraged amounts. This lie was proved wrong but, alas, after KTB's closure.

Well, it's not a secret that I was on good terms with Borisov, although they were quite conflicting. I've seen some understanding but a great lack of understanding as well, mainly on the part of his government ministers.

At that time, a lot of market opportunities were created, both due to the crisis and the withdrawal of foreign banks. Our philosophy has always been to do *merchant and investment financing*, i.e. to look for project financing, to look for challenges, and there are many challenges during a crisis. This is how we acquired some companies during the crisis which wouldn't have survived otherwise. I'm talking here about Rubin in Pleven, the factory in Parachin, and the shipyard in Rousse. Petrol AD owe their survival to us. We've also had some targeted acquisitions such as Vivacom. I thought it was a good deal that would reap a profit. The media that belong to Peevski wrote, however, that Vassilev took part in Bulgartabac's

privatisation to make money. Wow, what a shame! Isn't it shameful to participate secretly, not to be able to show yourself like him and the rest of the beneficiaries! This is exactly why I did this – to make money. Of course, my practice was to bring back to the bank the profits from the so-called “fuses”³⁴² created by Peevski's servant, Biser Lazov. That was my goal.

No wonder we grew so much.

How often you were in contact with Borisov and what did you talk about?

About women ... We saw each other quite often. Especially now, he is vulnerable, although he may deny it. I have talked to him about different things, including problems in the energy sector, defense, the multiplexes, as the first Borisov government had completely inadequate policies in these areas. I have arranged meetings for him with investors from China, Oman and Austria. I cannot say I have had a bad relationship with Borisov. I was annoyed by the behavior of some of his ministers – inadequate and downright hostile. I was also annoyed by his narcissism, as I am a narcissist myself. He literally lied that in 2012 he provided the wages for the Vazov Machine Factory, while, in fact, that was Dunarit money and he knew this very well. Then I lost my temper and we quarreled on the phone.

Just as the prime minister has an interest in Bulgartabac, does he have interest in other companies connected to you?

These people are not interested in the companies, but rather in the money. They are brokers – two groups of brokers. They are interested in passing them on cheaply to someone who is interested and willing to pay. This is the case with Dunarit. Peevski doesn't have an interest in being an industrialist in Dunarit. Peter Mandzhukov has an interest there and Peevski plays the role of a broker, ensuring he can provide Dunarit at the low price Mandzhukov has offered. It is said to be about EUR 20 or 25 million, of which a negligible part went to KTB and the rest to Peevski. Gebrev [the other candidate to buy Dunarit is Emko, owned by Emilian Gebrev, interviewer's note] offered EUR 30 million as repayment for the obligations to KTB. On

³⁴² In Bulgarian slang, a fuse is someone who “blows up” to protect the other participants in a criminal scheme.

the one hand, Peevski is now attacking Dunarit through Miroglio's takings via an offshore company, and on the other hand, KTB is attacking the cession.

And it all happens under the gaze of Vladislav Goranov [Minister of Finance] and of Borisov. In fact, I wonder whether Borisov rules the state, or if it is Peevski. Or both of them. But Borisov has not in any way demonstrated that he has distanced himself. On the contrary, he demonstrates that he is still hooked, still dependent.

Dependent on what? Be specific.

Apparently dependencies exist, I don't know. Or they like each other very much, despite the fact that he [Peevski] called him "Pumpkin" [Borisov's nickname during the years he ran a bodyguard company] in the 2008–2009 campaign. I only remember how in 2013, when they suddenly started investigating the firms Avio Squad 28 and Hello, Vanyo, but then everything faded away just as suddenly.

What was the reason for that?

A deal. Between Borisov and Peevski. And I hardly doubt that the deal was to hand over my head on a platter. This was a classic raid attack. Peevski is the chief organizer and main beneficiary of the attack against me.

Can someone please tell me how the firm that acquired Sofia Press has now guaranteed credits for Peevski's Vodstroi at First Investment Bank? How much money did this firm pay to acquire Sofia Press? I don't even want to start talking about Technomarket. It's a public secret that the KTB insolvency mass is being drained through contracts for legal services and 75% are going back into Peevski's pocket and to his company. It's also a public secret that Alexander Angelov works on a shameful contract for Parachin here.

What is holding Peevski up are his main targets – Vivacom, Dunarit and Petrol. These are the most appetizing pieces of the JTB pie and he has always had an interest in them.

In the period 2012–2014 you were still a team with Peevski. Then a large portion of public procurement deals went to firms close to him. How did this happen?

Well, ask Borisov. How come every one of his mayors has signed contracts with Vodstroi? What is Vodstroi? All they had were two broken-down dump trucks. It is a postbox for theft.

How does it operate?

In a simple way. You eliminate the competition, sign a contract with Vodstroi, which signs with sub-contractors and takes its 10–15% share while the rest is thrown to the other firms. It doesn't give them even that, because they are indebted to half of Bulgaria, but if someone asks for his money, they threaten him. Also check what kind of contracts Ivaylo Moskovski signed for the railway infrastructure with Vodstroi – framework contracts, which is a crime. Look at the contracts with the State Reserve – how the renovation of the oil storage facilities by Vodstroi and IPS was made.

What kind of contracts are those?

A minimum of BGN 100 million was stolen from there during the term of Stanishev's government and the first Borisov government. The price of the renovations of the State Reserve's storage facilities for oil and grain is excessively inflated. I do not name specific numbers so that no one can blame me for inaccuracy. From the times of Emel Etem until today, Peevski has always controlled the State Reserve [during the term of the Three-Party Coalition in 2005 – 2009, Emel Etem was Deputy PM and Minister of Emergency Situations]. Another grand theft – the exchange of oil products.

What does Borisov get from this?

I don't know what he gets, but he definitely knows. And also, he is not one of those who does not ask for anything.

How does he asks?

How does he ask... In the last couple of years, the exchange of oil in the State Reserve has happened with the active participation of Lukoil. Lukoil is one of the outside keepers of fuel for the reserve. So the fuel doesn't even move. But it is mandatory that it is sold at a low price from the State Reserve and is then bought again at a high price. As a rule the prices go up on the international markets when the state reserve has to buy new fuel.

What part of it goes for commissions?

I can't say. But for sure Peevski is involved. To this day the chief secretary of the State Reserve is Emil Kolev – a man assigned by Peevski from Emel Etem's time.

You said that the two clans are Borisov and Peevski. Is there any distribution of areas if interest?

I'll say it again, check the distribution of the public procurements and you will see that they are one and the same [companies] – Glavbolgarstroy, Trace, Agromach, PST. And a couple of satellites around Peevski like Technoexportstroy. We financed its privatization and the damage to the bank was around BGN 30 million.

In our initial conversation you said that in 2014, after the bank closed, Borisov promised you that he would save it and then he backed down. Why?

I suspect two things. One, if KTB had been saved, they would have had no chance to get the cash while I would have gotten rehabilitation. The rest is a smear story that was invented in 2014 and which I was informed of. As a result, I was accused by the Bulgarian authorities in front of foreign authorities for criminal activities I allegedly took part in, while in fact it was Peevski who participated.

What information do you have?

For now I will keep it for myself, because heads will roll as a result. But these are false claims given by the Bulgarian authorities to their partnering offices for my role in processes, which I did not participated in. This is something that in 2015–2016 became known to the authorities in question. This is how the information reached me.

What processes?

Everything Peevski has ever done.

What has he done?

The things for which he has been declared “persona non grata” in Turkey.

Other than smuggling?

Including working with ISIS and so on and so forth. How to do you think the smuggled cigarettes reach regions controlled by the Islamic state?

You mean this was attributed to you?

Yes.

What is the connection to Borisov? What is Borisov's role in that?

I suppose that Borisov could have been informed about my participation in all that, which made him reluctant [to help me]. I don't blame him. He just made a mistake, which would cost him a lot. I have information that at the time he said he would choose the lesser evil, meaning Peevski. Since he chose the lesser evil, it's his job to take care of it now.

You mean he was deceived or he was part of the scenario?

I would like to believe he was deceived.

You said that one scenario [as to why they let KTB fail] has to do with your being framed and the other is that they wouldn't get the cash...

Again, I say that this whole process is managed by Peevski. It is an open secret that the [insolvency] trustees report to Alexander Angelov. They even don't go to Peevski. He is above it all. Everything is coordinated with Angelov. They don't even hide. They didn't hide in the past either. They would go there in person, they would wait in the basement of the Berlin [Hotel Berlin is owned by Peevski, interviewer's note], until the boss invited them. Including ministers.

Which ministers?

Well, whom have I not seen?

Whom have you seen?

Well... Peter Chobanov [Minister of Finance], Dragomir Stoynev [Minister of Economy] during Oresharski's time.

And from the current government?

I believe that in the current government Peevski has more ministers than Borisov.

For example?

For example, for example, the one who is ready to do anything to protect Peevski's interests is Goranov [Minister of Finance], Ivaylo Moskovski [Minister of Transport and Telecommunications], the hopeless Lukarski [Minister of Economy]. They are absolutely subservient. Peevski should not be underestimated

Who is Alexander Staliyski?

Who is he now, I do not know. It has been said that he has ruined his relationship with Borisov. He was his most trusted man and was dealing with everything connected with Borisov, including as a collector of amounts owed together with his friends – the trio from Pernik.

Where do they collect them from?

From those who have to give back.

Did they collect from you?

They did not pass me over.

In what form did they collect?

It varied. Including through the acquisition of shares – overt and hidden, in companies for which they didn't pay a single dime.

Where could Staliyski's interest be seen?

Other than his bank accounts, part of which were in KTB and which he cashed in literally after racketeering; and later he acquired and stole Rubin Pleven. Other than that I suppose that in his or Sechkova's accounts or the accounts of firms like KM Trade, KC Trade, etc., a lot of money can be found.

Was everything left for him or was it distributed?

Only Borisov knows what kind of relationship he had with Staliyski, but one of the reasons why I was with him on June 6, 2014, was to show him what Staliyski and his group took as a result of one thing or another.

What did you show him?

He knows. When the time comes I will show it as well.

Until 2013 you worked together with Peevski. When did the break-up start?

It started when Oresharski appeared. I already said that in my mind the deal between Borisov and Peevski was meant to bring me down. This was around the end of summer – September 2013.

It appeared that Peevski succeeded in replacing Borisov's decurios and centurions and alone managed to swallow up what other couldn't take as a group. He was everywhere. This was the time of Vodstroi's boom Vodstroix with procurements, which were awarded, using my name as a front: this is for Vassilev, and that is for Vassilev. Sergey and Monika Stanishevi admitted that during my meeting with them in May – June. But Peevski was not alone in the procurements.

He had a place of honor during the first Borisov government. As you can see, he has his place in the second one as well. All of a sudden Borisov stopped procurements for him for BGN 1 billion. How did he win procurements for so much money? This never stopped. Even now if you look at Turkey's interconnector, it is being built by Vodstroi and Glavbulgarstroy.

He had his hand on almost everything. He placed his men in the judiciary, in DANS, in the prosecution. I was terrified to learn I had "placed" all those prosecutors and judges even though I don't know a single one of them. I haven't seen either Sarafov or Tzatzarov, yet it appeared that I placed them. Obviously he did his job well and I obviously slept through this moment.

After September – October 2013 I understood I had to find a way to break off my relationship with this person. This is why I agreed to remove myself from Bulgartabac without any claims so that I would not have any quarrels with him. I wanted to find a solution. Unfortunately I didn't estimate correctly the extent of the conspiracy and the participation of the government institutions in it on Peevski's side.

Did the initiative come from you?

In general yes, but he had already started taking action. The steps he had taken were mainly dirty games. With Alexander Angelov he had internal information and they started an investigation on me through DANS so that they could hit me after that. He prepared everything well. He managed to create intrigues between me and key

political factors. To Dogan he explained what money I took from the bank. He told them about EUR 500 million to 1 billion that I have taken out of CCB. Of course, for constantly greedy people like Dogan, this could have been a serious reason to set himself against me. I suppose he created the intrigue between me and Borisov in the same way. In a word – he was taping me and did everything in his power to isolate me.

At a certain point in April – May 2014 I started receiving signals from all political leaders that they had given up on me because I supposedly was going to become a prime-minister and I wanted to overthrow Oresharski.

Up until this moment how much money did Peevski have in the bank?

Directly probably around EUR 150 – 200 million, together with the limit of guarantees issued to the benefit of the companies controlled by him. These are Bulgartabac, Lafka, Technoexportstroy, Industrial Construction Holding, Vodstroi – and let's not forget his printing house, where he owed BGN 80 million. We financed this printing house so that he could repay some part of his debts and the condition was that the Yuriy Gagarin factory would add to the debt for the lease contract with the printing house. This is something he didn't do. Apart from that, he refused to take a share in the financing of TV7, where he was supposed to pay 50% of the expenses. In those years, BGN 300 million were spent and he used it as his private TV station.

You showed a list with assets Peevski requested from you. Is there a prequel to this list?

Yes, there is. We started negotiating how to separate. At a certain moment Alexander Angelov showed up. He showed a list and said: "This is it." I said there is no way this will happen and we have to meet with Peevski. He said that Peevski did not want to meet with me because he was offended. He turned down my proposal to divide our business and even to absolve his obligations at TV7. Then, you know what happened. Immediately in a criminal manner pre-trial proceedings were initiated and the steps for the whole plot were planned.

If this is true, why did they have to liquidate the bank?

I keep thinking that there was another plan and probably they didn't imagine things turning out this way. A plot similar to the one that happened to Slavcho Hristov and CBank. If I were to be arrested in connection with the laughable proceedings for the so-called plot to kill Peevski, I might have had to transfer Bromak and a couple of other companies.

I still can't understand why you became "inconvenient" and had to be removed?

Apparently I became inconvenient because of my growing influence, as a result of Barekov, which clearly was in large part thanks to me. [Nikolay Barekov and his "Bulgaria without Censorship" Party was the political project that Vassilev created and supported in 2014; Barekov was elected Member of the European Parliament in May 2014].

OK, but what was the point of having Barekov?

Barekov seemed to be a necessary evil. I was disappointed by Borisov, then by the Socialist Party and by the Movement for Rights and Freedoms and thought that it would be better to have something to support business in the country. I was tired of the constant racketeering by politicians. In this final stage – the end of 2013–2014 – I made my biggest mistakes. Including Barekov. And not so much in that I financed him, but because of my involvement with him.

Why exactly Barekov?

At that time I hired an American consulting company that had worked for Clinton. They did special research and couldn't identify anyone better than Barekov.

Obviously they make mistakes, too. But I say again, at that moment I was not prepared for this war.

Somewhere in your interviews you say: "Peevski is just a tool, a coordinator in a larger scenario." What is this scenario and who stands behind it?

This is the big question. Who stands behind Peevski?

Two years later you should have found an answer.

For me the answer is still not clear, but apparently the root and source [of power] is somewhere in the "reformed" state security services.

And more precisely?

Those who for a long time represented “Monterey” [the name of a restaurant, which also came to be used for an informal group of former high-rank state security officers, since they had regular informal meetings there], as well as those who were named their heirs. Apparently Peevski is the youngest “son of the regiment.” Apparently they liked him and they shaped him in their classic “janissary” style. To what extent he is emancipated from them, I don’t know. If someone answers that question, we will understand everything else. None of those who came to power has not gone through the vetting of this center.

What are the tools this center uses?

Apparently these are the shameful secrets from the transition era, the shameful secrets of every person. Everyone has his weaknesses – women, alcohol, drugs, corruption. Everyone ...

How does this center get this type of information?

First, from the period of the reign of Aleksey Petrov in DANS. Do you think that all databases and files remained hidden from him? And not to mention Peevski after him. He is much more inventive. I even wonder about those who say he was allowed just for a day to access the DANS database. Pisanchev [SANS chairman who succeeded Peevski] was like his courier. Not to mention the people who are active now – Yulian Kolev, the so-called “Bobby the Ass” and so on.

Who are the people in this center?

I don’t know them. If this is uncovered, it will lead to that long-dreamed-about lustration which we so often talk about.

Aren’t the members of Monterey quite old now?

Yes, I suppose that most of them need diapers now. But there are younger colleagues. I do not want this to sound like “hearsay,” but this is the conclusion that I have reached.

Did this center have personal contact with you?

I suppose that Peevski was acting as a broker and making commitments without my knowledge. In fact, Peevski was the political bro-

ker for those who took advantage of what I can do best. I can be an entrepreneur, to give meaning and life to an investment project.

Do they control Dogan?

I suppose.

Do they control Borisov?

I do not exclude this possibility. They control through discrediting.

Do they control the prosecutor general?

I suppose they have his number as well, so that he will be obedient. It is not just a matter of money. Things did not happen without money, but this is not the leading thing.

Was KTB money directed to the Office of the Prosecution?

If someone gave money to the prosecution, it was not me, for sure. The person who was in charge there has always been Peevski.

Who will be Peevski's heir?

There are probably many candidates but such an accomplished heir will be hard to find. There will always be someone to sate the constant hunger for money at DPS. But finding a person who will be able to juggle so many control panels of the country's government will be hard.

I want to talk about media for a while. What part of it was directly owned by him and financed through the bank, and where was there indirect control?

He officially recognized the media from Blaskov's group as his own. You can see it by the style. The moment a newspaper turns to the piggish style of *Monitor* and *Telegraph* you can tell who owns it.

Good, let's go to the specifics. 24 Hours and Trud?

I do not know how they are split up now, but the actual ownership belongs to Peevski and the Peshtera Winery. For his share Peevski took money from the bank and the Peshtera people paid their part. We're talking about the deal after the newspapers were acquired from Donev and Pavlov.

Is there anyone else who has an interest there?

I suppose that after the strike against me they might have given some interest to Gocheva and Blaskov. The fact that Blaskov refinanced them through FIB [First Investment Bank] means that the owners of the bank also may have some interest. But that interest will be connected with the policy of the publications, not with the business. These newspapers lose money and someone has to finance them.

Who is behind *Standart*?

Peevski, who else.

Who used to be behind *Presa*?

It was the same way – the Peshtera people and Peevski. Tosho Toshchev was the face of the project together with Daniel Rutz from the group of “noble investors” who were first brought here by Ognyan Donev and Lyubomir Pavlov.

***Weekend*?**

Peevski, Staliyski and Martin Radoslavov.

Staliyski?

He has to keep the control over *Weekend* so that it will not deviate from the party line. Nothing bad for Peevski, nothing bad for the “Sun.”

Is Domuschiev present in any media?

There are rumors that after my elimination he got involved. Mostly in *Blitz* and *Standart*. He is an ambitious person and it is normal that he would want to be represented somewhere. He may have been asked to help.

After everything you said about everyone else, where are you to blame in what happened with the bank?

My main fault is that I couldn't protect the bank. I do not say that I didn't make mistakes or that my employees didn't make mistakes. But we are not criminals. I say this again – the organized criminal group are those who orchestrated the attack: the prosecution, DANS, BNB, the current and the past ministers and politicians, the

revenues agency, etc. And of course Biser Lazarov and his entourage.

Only a person who doesn't make decisions doesn't make mistakes. I clearly allowed Peevski to come far too close to me, I clearly did not oppose some of his crazy financing ideas. But under the control of KTB there has always been enough valuable assets, quality and liquidity to cover its liabilities. The collapse and the theft happened after KTB's closure. Before that not a single asset was stolen or lost.

You have said more than once that the goal was to invest in businesses that would later be sold through the specifically designed SPVs. But from a legislative standpoint, the problem remains with exceeding the limitation for related lending. In your opinion why didn't the regulator, BNB, draw attention to this over the years?

De jure they were not connected.

And in reality?

In reality the only connection was the common control on behalf of the bank. And I am not sure whether this won't start to be imposed more often on banks worldwide. In Bulgaria this is a standard practice. I have no doubt that almost all credits of certain banks have a connection to them. I speak mainly about the Bulgarian banks. But still I say that the banking model in a time of crisis has to be defined by the market. Under no circumstances should rules that were developed in a different situation be applied.

Risk management is a very difficult process and having connected lending does not necessarily mean that the risk is huge. Because we didn't finance companies from one branch or my own companies. We credited companies we thought could be restructured and another solution could be found for them. Unlike other Bulgarian banks, we had real assets that now everyone is fighting for.

This is the big question that has always been present: whether we violated the laws somehow. For me now the question is whether the bank had to be destroyed and not whether we committed any violations. Moreover, those violations are not a subject of investigation by the prosecution. If BNB thought that something was threatening the bank, they should have reacted. The investigation

of the prosecution is aimed at one thing – to bankrupt the bank. And therein lies the big difference between policies towards banks in civilized countries vs. in Bulgaria. Take examples from Europe – Germany, France, Italy.

What do you expect from now on?

On a long and protracted battle, mainly in Strasbourg [the European Court of Human Rights]. I have already filed two cases against Bulgaria -- for the violation of my human rights and the unlawful revocation of KTB's license. More will follow. All this will take patience and health. May God grant health to me and to my family.