INVESTMENT FIRMS RESOLUTION FUND

ANNUAL REPORT '20

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ABBREVIATIONS

SRF - Single Resolution Fund

RRCIIFA - Recovery and Resolution of Credit Institutions and Investment Firms Act

POSA - Public Offering of Securities Act

MFIA - Markets in Financial Instruments Act

FSC - Financial Supervision Commission

Conceptual Framework - Conceptual Framework for Financial Reporting

IAS - International Accounting Standard

IFRS - International Financial Reporting Standard

MB - Management Board of the Investor Compensation Fund

ICF - Investor Compensation Fund

BRF - Bank Resolution Fund

IFRF - Investment Firms Resolution Fund

IASB - International Accounting Standard Board

IFRF Activity Report for 2020

Description of the activity

The Investment Firms Resolution Fund was established in January 2017, in order to perform activities according to the Recovery and Resolution of Credit Institutions and Investment Firms Act. The main purpose of IFRF is to finance the implementation of the tools for recovery and resolution of investment intermediaries as per art. 10, para. 1 of the Markets in Financial Instruments Act, i.e. investment intermediaries with minimum required equity of 1.5 million BGN. As of 31.12.2020, the total number of participants in IFRF is 18.

The amendments in RRCIIFA in 2019 envisaged the setup of two sub-funds in IFRF, respectively a sub-fund to finance the application of the resolution tools and powers related to investment firms falling within the scope of the RRCIIFA, and a sub-fund for raising contributions under art. 69, 70 and 71 of Regulation (EU) № 806 /2014 and their transfer to the Single Resolution Fund (SRF). In 2020, there are no investment intermediaries in the Republic of Bulgaria that fall within the scope of Regulation (EU) № 806/2014, i.e. it is not necessary to setup two sub-funds.

For the purposes of resolution and recovery, IFRF collects annual contributions from its participants, whose amount is determined for every calendar year by the Financial Supervision Commission in its capacity as a resolution authority regarding the investment intermediaries. FSC notifies each investment intermediary on its due annual contribution to IFRF, which should be paid within 30 days from the notification date. The Management Board of ICF monitors the compliance with that deadline and informs the resolution authority about the payment of the annual contributions.

Besides annual contributions, source of funds for IFRF are also the revenues from investing the resources accumulated in the Fund and the interest on overdue receivables.

As of 31.12.2020, the total amount of the determined by FSC individual annual contributions is 33 249.11 BGN. As of the year end, all investment intermediaries had paid their assigned individual contributions, and only one of them paid the amount due after the legal deadline, which is why it was charged with interest on the amount overdue.*

As of 31.12.2020, the resources of IFRF amount at 143 thousand BGN, of which 51% are invested in government securities (GS), and the remaining 49% are in the Bulgarian National Bank (BNB), on a separate current account held by ICF, because IFRF is not a separate legal entity. Although the resources of IFRF are managed by the MB of ICF, they are separate and independent of the ICF's resources. The

* One intermediary had its contribution determined by FSC after 31.12.2020.

resources accumulated in IFRF may only be used after a decision of FSC in its capacity of a resolution authority, and the execution of the taken decision is assigned to the Management Board of ICF. The resources of IFRF may only be used for the purposes of resolution.

The investment of the IFRF's resources is performed according to the provisions of RRCIIFA, the approved by MB of ICF "Investment Policy of IFRF" and the decisions of MB of ICF. According to the internal procedures, MB of ICF regularly reviews the "Investment Policy of IFRF" and if necessary, makes amendments in it. In 2020, such amendments were made, related to the term of financial instruments eligible for investments by IFRF. In the investment decisions, priority is given to security, liquidity and diversification of funds.

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

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

The most essential risk faced by the economy and the financial sector during the last year was the growing, in Bulgaria and worldwide, Covid-19 pandemic, which began in China at the end of 2019. With respect to that, the MB of ICF considers and undertakes the necessary measures to maintain IFRF's activities and to mitigate the negative impact of the pandemic, to the extent possible. The achievement of these goals will also be a part of IFRF's activities in the next reporting periods. On the other hand, having in mind that the COVID - 19 situation continues to be turbulent, it is impossible at present to make a reasonable guess whether as a result of the financial impact of the pandemic, there would emerge circumstances which would force triggering of the procedure for resolution and recovery of any participant in IFRF, and consequently, whether and how this would influence the financial state of IFRF.

In 2021 also, the IFRF's activity will fully comply with the requirements of RRCIIFA and the provisions of the other legislation regulating its activity, with particular attention to the development of the COVID-19 pandemic and its influence on the financial state of IFRF and its members.

Management of IFRF

IFRF is managed by the Management Board of ICF. The costs related to the IFRF management are part of the total administrative expenses of ICF.

The Management Board of ICF is responsible for the collection and investment of the funds of IFRF, as well as for concluding contracts for borrowing funds and other forms of support and granting loans under the terms and conditions of RRCIIFA. The decisions for IFRF resource usage are taken by FSC, and their execution is assigned to the MB of ICF.

In the organization of ICF was created an unit ("IFRF Activities" Department), which supports the Management Board in the performance of its functions to manage and use IFRF's resources. This unit is separate and independent of the other units in the organization of ICF and as of 31.12.2020 there is one employee in it.

In 2020, the procedure for resolution of investment intermediaries was not applied, which is why no IFRF resources were used.

INVESTMENT FIRMS RESOLUTION FUND

FINANCIAL STATEMENT '20

REPORT OF INDEPENDENT AUDITOR

To: The Management Board of the INVESTOR COMPENSATION FUND

Report on the financial statement

Opinion

We have audited the financial statements of the INVESTMENT FIRMS RESOLUTION FUND, consisting of the statement of financial position as of 31.12.2020 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended at that date, as well as the explanatory notes to the financial statements, including the summary disclosure of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the fund as of 31.12.2020, its financial performance and cash flows for the year then ended, in accordance with International Accounting Standards, adopted by the European Union.

Grounds for expressing an opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are further described in the section of our report Auditor's Responsibilities for the Audit of the Financial Statements. We are independent of the INVESTMENT FIRMS RESOLUTION FUND in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Law, applicable to our audit of the financial statement in Republic of Bulgaria and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on other legal and regulatory requirements - Annual activity report

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

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

Based on the procedures performed, our opinion is that:

- The information included in the activity report for the financial year for which the financial statements have been prepared corresponds to the financial statements.
- The activity report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Other information different than the financial statements and the auditor's report on it

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

Our opinion on the financial statement does not cover the other information and we do not express any form of security conclusion about it, unless explicitly stated in our report and to the extent that it is stated.

In connection with our audit of the financial statements, our responsibility is to read the other information and thereby determine whether that other information is materially inconsistent with the financial statements or with our knowledge acquired during the audit or otherwise appears to contain material misstatement. In the event that, based on the work we have performed, we conclude that there is material misstatement in this other information, we are required to report this fact.

We have nothing to report in this regard.

Management's responsibilities for the financial statements

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

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Registered auditor:

Nikolay Polinchev

Date: February 25, 2021.

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ANNEX to the Independent Auditor's Report on the Financial Statements of the INVESTMENT FIRMS RESOLUTION FUND for 2020

Auditor's Responsibilities for the Audit of the Financial Statements

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

We also:

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

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

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I. Statement of financial position

for the year ended on 31 December 2020

thousand BGN

	Explanatory appendixes	31.12.2020	31.12.2019
Assets			
Non-current securities reported at amortized cost	7.1	73	74
Monetary Funds	7.2	70	36
Total assets:		**143**	**110**
Reserves			
Recovery and restructuring reserve	7.3	143	110
Total reserves:		**143**	**110**

II. Profit or loss statement and other comprehensive income

for the year ended on 31 December 2020

thousand BGN

	Explanatory appendixes	31.12.2020	31.12.2019
Financial income / expenses	7.3	0	1
Result before tax	7.3	0	1
Result for the period		**0**	**1**
Other comprehensive income			
Total other comprehensive income for the year, net of taxes		-	-
Total comprehensive income for the year		**0**	**1**

III. Statement of changes in reserves

for the year ended on 31 December 2020

thousand BGN

	Recovery and restructuring reserve	Result for the period	Total reserves
Balance as of 31 December 2018	**74**		**74**
Changes in reserves in 2019			
Annual contributions	35		35
Result for the period		1	1
Balance as of 31 December 2019	**109**	**1**	**110**
Changes in reserves in 2020			
Annual contributions	33		33
Result for the period		0	0
Balance as of 31 December 2020	**142**	**1**	**143**

IV. Cash flow statement

for the year ended on 31 December 2020

thousand BGN

	Explanatory appendixes	31.12.2020	31.12.2019
Cash flows from operating activities:			
Proceeds from annual contributions of investment intermediaries	7.3	33	35
Net flow generated by operating activities:		**33**	**35**
Cash flows from financial activities:			
Cash payments related to GS		-	-
Proceeds against government securities coupons		1	1
Cash payments on coupons related to the purchase of government securities		-	-
Net flow used in financial activities:		**1**	**1**
Net increase / (decrease) of monetary funds:	7.2	34	36
Cash at the beginning of period		36	0
Cash at the end of the period:		**70**	**36**

V. Explanatory appendixes

1. General information

The Investment Firms Resolution Fund was established in accordance to art. 135 of the Recovery and Resolution of Credit Institutions and Investment Firms Act. The Financial Supervision Commission is the resolution authority with respect to investment intermediaries. IFRF has been performing its functions since 01.01.2017. The main goal of IFRF is to finance the application of the resolution tools and powers according to that law with respect to investment intermediaries under art. 1, para. 1, item 2 of RRCIIFA.

The activity of IFRF is specified in the RRCIIFA. The resources of IFRF are the accumulated via annual and extraordinary contributions, the income earned from investment of the funds of IFRF, the amounts received by IFRF from refunding of funds used for the purposes of resolution in accordance with the legislation, and other sources. The resources accumulated in the Fund are kept, invested and spent according to the procedures as per RRCIIFA, separately from the resources of ICF. BNB is the depository of the funds of IFRF.

The headquarters and the registered address of IFRF are: Sofia, 31 Tsar Shishman Str., floor. 2.

IFRF is managed by the management board of ICF, but ICF does not control IFRF according to the meaning and the requirements of IFRS 10 "Consolidated Financial statements". The expenses related to the management of IFRF, are part of the administrative expenses of ICF. There are no remunerations for the members of the MB of ICF for the management of IFRF.

As of 31.12.2020, the MB of ICF has the following members:

- Petya Hantova-Georgieva – Chairperson according to FSC Decision № 632-ICF dated 20.08.2020;
- Diyana Miteva - Deputy Chairperson according to FSC Decision № 209-ICF dated 23.02.2017;
- Petko Krastev – member according to FSC Decision № 632-ICF dated 20.08.2020;
- Radoslava Maslarska – member according to FSC Decision № 209-ICF dated 23.02.2017;
- Irina Petkova Kazanjieva-Yordanova – member according to FSC Decision № 838-ICF dated 02.07.2019.

2. Basis for preparation

The main elements of the accounting policy, applied in the preparation of the financial statement, are presented below. That policy has been consistently applied for all represented periods, unless specified otherwise. The adoption of the new standards and the changes in existing accounting standards have not led to changes in the accounting policy of IFRF.

The Fund has adopted all new and revised standards and interpretations which are relevant to its activity.

The financial statement was prepared on the historical price basis.

The financial statement is presented in BGN, with the values rounded to nearest thousand Bulgarian leva (thousand BGN), unless otherwise specified.

3. Responsibilities of the management

The MB of ICF confirms that for the accounting period it has applied consistently adequate accounting policies in the preparation of the Annual Financial Statement and has used reasonable and conservative judgements, hypotheses and estimations.

The actions of the MB of ICF, which manages IFRF, and of "IFRF Activities" Department are in the direction of adoption of the principles of good management, improvement of trust of the participants in the scheme for resolution of investment intermediaries.

4. Declaration of conformity

The Financial statement of IFRF was prepared in conformity with the approved by the European Commission: IFRS, IAS, interpretations of the IFRS committee and of the Permanent committee for clarifications, adopted by the European Union ("IFRS adopted by the EU").

For the preparation of the financial statements of IFRF were made estimations, calculations and educated guesses, which affect the reported values of assets and liabilities, of income and expenses, and the declaration of conditional receivables and payables as of the report date. These estimations, calculations and educated guesses are based on the information, which was available as of the financial report date, which is why the actual future results could be different from them. The items, which presume higher level of subjectivity and complexity or where the guesses and estimations are essential for the financial statement, are clearly specified.

5. Principles

5.1. Fair presentation

According to that principle, the financial statements of IFRF fairly present the financial state, financial results of activities and the cash flows. Also, fairly were presented the effects of transactions, the other events or conditions in accordance with the definitions and criteria for recognition of assets, liabilities, income and expenses set out in the conceptual framework for financial reporting.

5.2. Principle of the going concern

The financial statements of IFRF were prepared on the principle of going concern.

The assessment of the MB of ICF, which manages IFRF, regarding the applicability of the principle of the going concern covers 12 months from the report date taking into account the forecast for the continuous effects of the Covid pandemic on business. The MB of ICF has reached the conclusion that there is not present essential uncertainty which could raise considerable doubt about the capacity of IFRF to continue functioning as going concern, and that respectively it is feasible to prepare the financial statement on the presumption of going concern. The intentions of MB regarding the future existence of IFRF are that it will continue to perform all its activities.

There are no changes in the legislative framework regarding the activities of IFRF which would lead to essential limitation on the scope of activities and/or to transformations in any foreseeable future in a period of minimum one year.

5.3. Principle of accrual

IFRF prepares its financial statements, except for the cash flow statement, on the basis of the principle of accrual, so that assets, liabilities, reserves, income and expenses are recognized whenever they correspond to the definitions and criteria for recognition set out in the Conceptual framework.

5.4. Consistency of presentation

The presentation and classification of items in the financial statements of the Fund are retained in subsequent reporting periods. In 2020, it was not found any other relevant presentation, and no changes in accounting standards required changes in presentation.

5.5. Materiality and generalization

The Financial statement of IFRF contains material information, and the estimation of materiality was made depending on the nature and/or scope of information, which was presented. Each material class of similar items is presented separately in the financial statements. Items with non-similar character or functions are presented separately, unless immaterial.

5.6. Comparative information

IFRF presents comparative information for the current and the previous period on all amounts presented in the financial statements, because in the current reporting period, no standard or clarification allows or requires anything else. The comparative information is included as text or illustrations, wherever it is feasible and necessary for the good understanding of the financial statement. In the cases when IFRS require otherwise, the information on previous periods is presented according to the specific standard.

6. Summary of the material accounting policies

6.1. Changes in the accounting policies and reporting

6.1.1. New and amended standards and clarifications

For the first time in 2020 some amendments and clarifications are applied, but they do not influence the financial statement of IFRF. IFRF has not adopted standards, clarifications or amendments which are published, but have not entered in force yet.

Amendments in IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policy, changes in accounting estimations and errors": Definition of materiality

The amendments are in force for annual periods beginning on or after January 1st, 2020, where their earlier application is allowed. The amendments clarify the definition of materiality and how to apply it, as they give practical guidance, which until now were included in other IFRS. The amendments also clarify that materiality depends on the nature and significance of information.The adoption of the amendments did not influence the financial state or the results from the activity of IFRF.

Amendments in IFRS 3 "Business combinations": Definition of business

The amendments are in force for annual periods beginning on or after 1st of January, 2020. The amendments clarify the minimal requirements for business and restrict the definition of business. The amendments also eliminated the assessment whether the market participants are capable to change missing elements, and give guidance helping the companies in their assessments whether the adopted process is essential, and they also introduce non-mandatory test for the concentration of fair value. The definition of the term "business, economic activity" is amended to focus on goods and services rendered to customers generating income and excludes profitability due to lower expenses and other economic benefits. The adoption of the amendments did not influence the financial state or the results of the activity of IFRF.

Reformation of the reference indicators of interest rates – amendments in IFRS 9 "Financial instruments", IAS 39 "Financial instruments: Recognition and Measurement" and IFRS 7 "Financial instruments: Disclosures"

The amendments are in force for annual periods beginning on or after 1st of January 2020 and have to be applied retroactively. The published amendments address problems arising in the course of the replacement of the existing interest indicators with alternative ones. The focus is on the effects on specific cases of reporting of hedging as per IFRS 9 "Financial instruments" and IAS 39 "Financial instruments: recognition and measurement", which require future oriented analysis. The amendments envisage temporary exceptions applicable to the requirements towards hedging in the cases when the compliance to those requirements is directly influenced by the reformation of the reference indicators. The amendments allow the reporting of hedging to continue in the period of uncertainty until the replacement of the existing reference indicators with alternative risk-free interest indicators. There are also amendments in IFRS 7 "Financial instruments: Disclosures", which require the submission of additional information on the uncertainty in hedging, as a result of the aforementioned reform. The adoption of the amendments did not influence the financial state or the results of the activity of IFRF.

Conceptual Framework for Financial Reporting

The amended Conceptual Framework for Financial Reporting is in force for annual periods beginning on or after 1st of January 2020. The Conceptual framework presents the concepts for financial reporting, development of standards, guidance for preparation of consistent accounting policies and guidance for the understanding and interpretation of the standards. The main changes introduced in the revised Conceptual Framework for Financial Reporting are related to the concept of evaluation, including the factors, which have to be taken into account in the selection of evaluation basis, as well as the concept for presentation and reporting, including also which income and expenses have to be classified in other comprehensive income. The Conceptual framework also presents updated definitions for assets and liabilities, and criteria for their recognition in the financial statements.

The amendments include subsequent amendments of the affected standards, so that they comply to the new framework. However, not all amendments update the standards with the new concepts. Some amendments only indicate which version of the framework is referred to in the specific standard (the framework of IASC adopted by IASB in 2001, the framework of IASB of 2010 or the new revised framework of 2018) or specify that the definitions in the standard are not updated with the new ones developed in the revised Conceptual Framework.

The adoption of the amendments did not influence the financial state or the results of the activity of IFRF.

6.1.2. Published new standards, amendments and clarifications to existing standards, which have not come in force or have not been adopted by EU

As of the date of this financial statement, new standards, amendments and clarifications to existing standards are published, which are not in force or are not adopted in EU for the fiscal year beginning on 1st of January 2020, and they had not been applied earlier by IFRF. It is not expected that they would have significant effect on the financial statements of the Fund. The MB will take the necessary steps the accounting policy of IFRF to comply with all standards and amendments.

The amendments regard the following standards:

IFRS 17 "Insurance contracts" – in force from 1 January 2021

IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associated enterprises and joint ventures"

Investments in associated enterprises and joint ventures. The date of entry in force of the amendments is pending. Earlier application of the amendments is allowed.

IAS 1 "Presentation of financial statements"

The amendments are in force for annual periods beginning on or after 1st January 2023, and earlier application is allowed.

I IFRS 3 "Business combinations"

The amendments are in force for business combinations, for which the acquisition date is on or after yearly periods beginning on or after 1st January 2022.

IAS 16 "Propertyt, plant and equipment"

The amendments are in force for annual periods beginning on or after 1st January 2022, and earlier application is allowed.

IAS 37 "Provisions, Provisions, contingent liabilities and contingent assets"

The amendments are in force for annual periods beginning on or after 1st January 2022, and earlier application is allowed.

Annual improvements of IFRS, 2018 – 2020 cycle

In the cycle 2018 – 2020 of the project for annual improvements of IFRS, the IAS Board published amendments, which will enter in force for annual periods beginning on or after 1st January 2022.

6.2.Changes in the accounting policy

The adopted accounting policy is consistent with the one applied in the previous year.

6.3.Conversion into foreign currency

The financial statement is presented in BGN, which is the official currency and the presentation currency of IFRF. The transactions in foreign currency are reported in the official currency using the exchange rate as of the transaction date. The monetary assets and liabilities in foreign currency are recalculated in the official currency as of the date of the financial statement using the relevant exchange rate of BNB on the last business day of the relevant month. All exchange rate differences are recognized in the statement of the comprehensive income. The non-monetary assets and liabilities, which are evaluated at historical acquisition price in foreign currency, are recalculated in official currency at the exchange rate as of the date of the acquisition transaction.

6.4. Recognition of income

IFRF evaluates the financial revenues at fair value of the received or receivable payment. IFRF recognizes as "Financial income" the income from investments of the "Reserve for recovery and resolution".

The interest income is accounted using the method of effective interest rate, which is the rate of discounting the expected future cash flows for the expected term of the financial instrument or for a shorter period, as relevant, and this leads to the book value of the financial asset. The interest income is included in the financial income in the income statement.

Interest income on financial assets, accounted by amortized value, and financial assets, accounted by fair value in other comprehensive income, calculated by the method of effective interest rate, are recognized in the income statement.

Interest income is calculated applying the effective interest rate on the gross book value of the financial assets, except for the financial assets which were subsequently devalued. For them interest rate on the net book value of the financial asset (after deduction of the compensation for losses) is applied.

6.5. Financial instruments – initial recognition and subsequent measurement

6.5.1. Initial recognition

A financial asset is recognized when IFRF becomes a party of the contract for the purchase of the asset. Initially, financial assets are recognized at the date of settlement, i.e. the date when the asset ownership is transferred, at purchase value plus transaction expenses.

The classification of the financial assets of IFRF depends on the business model for management of the financial assets and the characteristics of the contractual cash flows. Investments in debt instruments held by IFRF within a business model aimed at collection of contractual cash flows, are categorized as financial assets accounted at amortized value.

6.5.2. Subsequent measurement of financial assets

Financial assets accounted at amortized value

The accounting at amortized value requires application of the effective interest rate method. For IFRF, the amortized value of a financial asset is the value at which the financial asset was initially accounted decreased by principal repayments plus or minus amortization using the effective interest rate method for each difference between the initial value and the maturity value decreased by impairment.

Impairment of financial assets

IFRF recognizes impairment for expected credit losses on all debt instruments, which are not accounted at fair value in profit or loss. The expected credit losses are based on the difference between the contractual cash flows and all cash flows, which IFRF expects to receive discounted on annual basis with the initial effective interest rate.

The amount of the expected credit losses recognized as impairment correction depends on the credit risk of the financial asset at its initial recognition and on the change in credit risk in the subsequent reporting periods. There have been defined three stages of credit risk deterioration, and for each stage are envisaged specific reporting requirements. The main characteristics of the stages are as follows:

- **Stage 1 (regular exposures)** - the financial assets without indications for credit risk deterioration versus the initial evaluation are categorized here. For financial instruments, on which there had not been significant increase of credit risk versus the initial recognition, correction for expected credit losses, which originate from potential default in the next 12 months, is applied.

- **Stage 2 (exposures with irregular servicing)** - the financial assets with significant increase of credit risk versus the initial evaluation, but without objective proofs for impairment, are categorized here. For those credit exposures, on which there had been significant increase of credit risk versus the initial recognition, a recognition of correction for the expected credit losses for the remaining life of the exposure is required. Interest is accounted on the basis of the gross book value of the exposure.

- **Stage 3 (exposures with credit impairment)** - the financial assets with significant increase of credit risk and for which are present objective proofs for impairment are categorized here. For those exposures, which are unserviced, recognition of credit devaluation for the remaining life of the exposure, irrespective of the duration of default, is required. Interest is accounted on the basis of the amortized value of the asset.

At every reporting date, the MB of ICF decides about the financial instruments of IFRF to which stage they belong, in order to be applied the respective requirements.

The impact of the COVID-19 pandemic on the owned financial assets and the reception of coupon payments on those assets, has been analyzed. The methodologies and assumptions used in the basic calculations of the expected credit losses (ECL) remain unchanged versus those applied in the previous fiscal year. There are included estimations, assumptions and assessments specific for the impact of the pandemic, with taking into account the factors relevant to the issuer of the debt securities in which the resources of IFRF are invested. The probability of default and the losses due to default by the issuer of the securities held by IFRF was taken into account in the assessment.

6.5.3. Impairment of receivables

IFRF applies the simplified approach of IFRS 9 "Financial instruments" to measure the expected credit losses, on which impairment for expected losses over the life span of all receivables is accounted.

To measure the expected credit losses, receivables are grouped based on the shared characteristics of credit risk and the days overdue.

IFRF recognizes in the profit or loss – as profit or loss from impairment the amount of the expected credit losses (or their recovery).

6.5.4. Derecognition of financial assets

A financial asset is derecognized when the contractual rights on the cash flows from that asset expire or when IFRF had transferred those rights via a transaction after which all essential risks and benefits derived from the ownership of the asset are transferred to the buyer. Any participation in already transferred asset, retained or created by the Fund, is accounted as a separate asset or liability.

In the cases when IFRF has kept all or most of the risks and benefits related to the assets, those assets are not derecognized from the statement of financial position.

After transactions when IFRF neither retains, nor transfers risks and benefits related to a financial asset, that asset is derecognized from the statement of financial position then and only when IFRF loses control over it. The rights and obligations which IFRF retains in those cases are accounted as separate assets or liabilities. After transactions when IFRF retains control over the asset, its accounting in the statement of financial position continues, but only to the amount determined by the extent to which IFRF kept its share in the asset and bears the risk from changes in its value.

6.5.5. Subsequent valuation of financial liabilities

Liabilities accounted at amortized value

All liabilities are accounted at amortized value using the effective interest rate method.

The elements categorized as trade or other payables usually are not evaluated again, because the liabilities are known with high certainty and the settlement is short-term.

Derecognition of financial liabilities

The Fund derecognizes a financial liability when the contractual obligations on it are paid, expire or are revoked.

The difference between the book value of the derecognized financial liability and the paid prestation is recognized in the profit or loss.

Compensation on financial assets and financial liabilities

The financial assets and financial liabilities are compensated, and in the statement of financial position the net value is presented, when:

- there is right of offsetting regarding those amounts;
- and there is intent the offset to be settled on net basis or simultaneously to realize one asset and to settle one liability.

The compensation of a recognized financial asset and a recognized financial liability and the presentation of the net value are different from the derecognition of a financial asset or a financial liability.

6.6.Management of financial risks

The activity of the IFRF is mostly subject to credit, liquidity and market risks. The various risks faced by the Fund are described below. The MB of the Fund on ongoing basis monitors the changes in prices, yields and maturity structure of the Fund's portfolio.

During the reporting period, there were no concluded contracts with repurchase arrangements (repo transactions) and there are no terminated contracts of the same type. The Fund has not purchased and sold financial instruments on repo transactions. As of the end of the period, IFRF has no active contracts for repo transactions.

IFRF does not hold derivatives and during the year it did not make any transactions with derivatives.

Types of risks

- **Credit risk**

Credit risk originates from the possibility that the IFRF could not collect within the expected term the contributions from the participants in the scheme for recovery and resolution of investment intermediaries. With respect of the financial instruments, credit risk would materialize, if the issuer does not succeed to pay the relevant amounts due.

The procedures regarding the collection of resources by the IFRF are detailed in RRCIIFA u and the Regulation on the Organization and Operation of the ICF.

The MB of ICF took a decision to adopt "Policy for recognition of expected credit losses of ICF and IFRF". In accordance to art. 136, para. 3, item 3 of RRCIIFA, part of the IFRF's resources are invested in debt instruments in EUR issued by a foreign government with one of the top three credit ratings assigned by two credit rating agencies. In case the credit rating of an issuer changes, the Fund has to sell the relevant financial instruments. The credit rating on the securities held by IFRF is AAA and is assigned by 2 credit rating agencies, DBRS and Fitch.

Considering that the IFRF's resources are invested in assets with highest credit ratings, it can be assumed in the short run that the losses due to default would be zero, which leads to zero value of the expected credit losses for the IFRF portfolio. According to the policy for recognition of expected credit losses, the MB of ICF makes credit risk assessment once per year. For 2020, MB of ICF determined that the expected credit losses for the IFRF portfolio are 0 BGN.

The total exposure bearing credit risk is 73 thousand BGN (2019: 74 thousand BGN).

IFRF does not account risk on monetary funds, because they are deposited on current account at the BNB.

- **Liquidity risk**

Liquidity risk would arise in case the IFRF has to finance the measures for resolution according to RRCIIFA with respect to investment intermediaries as per art. 1, para. 1, item 2 of RRCIIFA.

According to legislation, the resolution authority /FSC/ takes the decision for utilization of the IFRF's resources up to the amount necessary to ensure the efficient application of measures for recovery and resolution. Considering the procedure for recovery and resolution, the Fund would not be exposed to risk of sudden and quick volume of payments. In RRCIIFA it is stipulated that in case that additional funds are needed, the IFRF can collect extraordinary contributions and receive amounts from recovered resources used for the purposes of resolution.

- **Market risk**

Market risk for IFRF could emerge from changes in the market prices of the financial instruments, in which the IFRF's resources had been invested. Since the securities held by IFRF have fixed coupons, there is no observable market risk regarding the coupon payments. The market risk comprises currency risk, price risk and interest rate risk.

- **Currency risk**

IFRF is not exposed tocurrency risk, because it does not have investments in currencies other than EUR or BGN. On its investments in EUR, the IFRF is not exposed to currency risk, because after the introduction of EUR, the BGN is fixed to it at a rate:

1 EUR = 1,95583 BGN

- **Price risk**

The securities of IFRF are evaluated at amortized value. Price risk would materialize in case that a decision is taken that the IFRF's resources will be used for measures according to RRCIIFA or in case that the credit rating of the securities, in which the IFRF's resources had been invested, changes and in both cases this would lead to sales of the securities at market prices.

- **Interest rate risk**

The interest rate risk originates from the possibility that the changes in interest rate would lead to changes in the future cash flows or to changes in the fair value of the held securities.

The Fund's portfolio comprises mainly investments in securities, which provide interest income. Because the interest income on securities is fixed on the purchase date, the interest rate risk on the cash flows is limited. The amortization of the premium on securities is included in the amount of interest rate income as a correction of the interest income. The amortization of the premium on securities participates in the interest income as a risk free component. The Fund has no securities which had any change in the contracted interest rates. The share of interest income in the total income is 100%. The proceeds from contributions are accounted as reserve, not as income, because of their nature and purpose detailed in RRCIIFA.

In 2020, IFRF did not use borrowed funds bearing interest.

In 2020, from the Fund's resources on current account at BNB negative interest on the account balance was withheld. The expenses were borne and restored by ICF.

6.7. Other receivables

Those amounts usually originate from due contributions related to the ordinary activities of the IFRF. Interest on the other receivables can be accounted on the basis of the market rates, when the term for repayment exceeds six months.

6.8. Equity

Equity is formed from the accrued reserves in IFRF. FSC as Resolution Authority determined the individual contributions for 2020 for each of the investment intermediaries as per art. 1, para. 1, item 2 of RRCIIFA, via Decisions No. 455 to No. 471 dated 25.06.2020. In order to exert control by the MB of ICF on meeting the deadline as per art. 139, para. 4 of LRRCIIF, ICF was notified about the aforementioned decisions via letter from FSC dated 26.06.2020.

6.9. Cash and cash equivalents

The monetary funds and the short-term deposits in the balance sheet include money on bank accounts, cash and short-term deposits with original maturity of three months or less.

For the purposes of the cash flow statement, the cash and cash equivalents include the monetary funds and the cash equivalents as defined above.

6.10. Government grants

IFRF would account government grants as other income.

IFRF did not receive government grants in 2020, including regarding COVID – 19.

6.11. Current income tax

From 01.01.2018, based on art. 77m, para. 3 of POSA, ICF is exempted from corporate income tax on the activities for investor compensation and for recovery and resolution of investment intermediaries.

7. Explanations to the financial statements

7.1. Debt instruments accounted at amortized value

thousand BGN

Investments held to maturity –accounted at amortized value – non-current	31.12.2020	31.12.2019
Bonds of non-related parties	73	74
Impairment of investments held to maturity	-	-
Total	**73**	**74**

The amount of recognized amortizations in 2020 is 167.80 BGN, (2019: - 165.54 BGN).

7.2. Monetary funds and short-term deposits

thousand BGN

Monetary funds	31.12.2020	31.12.2019
Current accounts	**70**	**36**
incl. in BGN	70	36

The monetary funds on bank accounts bear floating interest rates based on the daily interest rates on bank deposits. As of 31.12.2020, the fair value of monetary funds is 70 thousand BGN (as of 31.12.2019, it was 36 thousand BGN).

7.3. Equity

The changes in equity are presented below:

thousand BGN

Description	Reserves
As of 1 January 2019	**74**
Changes in reserves in 2019	
Annual contributions	35
Result for the period	1
As of 31 December 2019	**110**
Changes in reserves in 2020	
Annual contributions	33
Result for the period	0
As of 31 December 2020	**143**

The amount of financial income/expenses in 2020 was 375.23 BGN, (2019: 375 BGN).

In 2020, one investment intermediary received permission to perform investment services as per art. 6, para. 2, item 3 u 6 of MFIA, which is why the number of participants increased by 1 in 2020.

8. Events after the reporting period

There are no events to have occurred after the end of the reporting period.

9. Date of approval of the financial statement

This financial statement was approved via Resolution of the MB of the ICF on 23.02.2021.

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