



**INVESTOR
COMPENSATION
FUND**



ANNUAL REPORT **2020**

MISSION OF INVESTOR COMPENSATION FUND

To contribute to the stability and credibility in the capital market, by providing compensation for the receivables of investors in financial instruments in the cases determined by the law.

MANDATE

The Investor Compensation Fund is a self-sustainable legal entity, established in 2005.

Pursuant to the Public Offering of Securities Act, ICF provides compensation to the clients of investment intermediaries, determines and collects initial and annual contributions from all participants and invests collected resources in government securities, short-term bank deposits and deposits in BNB.

Under the Recovery and Resolution of Credit Institutions and Investment Firms Act since the beginning of 2017, ICF's MB also manages Investment Firms Resolution Fund. The main purpose of IFRF is to fund the implementation of the resolution tools for investment intermediaries that fall within the scope of the law.

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ABBREVIATIONS:

ABB – Association of Banks in Bulgaria

BALII – Bulgarian Association of Licensed Investment Intermediaries

BAAMC – Bulgarian Association of Asset Management Companies

GDP – Gross Domestic Product

BNB – Bulgarian National Bank

BSE – Bulgarian Stock Exchange

B-II – Banks-Investment Intermediaries

PSI –Public Social Insurance

GS – Government Securities

EC – European Commission

EU – European Union

ECB – European Central Bank

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

CITA – Corporate Income Tax Act

POSA –Public Offering of Securities Act

MFIA –Markets of financial instruments Act

II – Investment Intermediaries

FSC – Financial Supervision Commission

Conceptual Framework – Conceptual Framework for Financial Reporting

SME – Small and Medium Enterprises

IAS – International Accounting Standard

IFRS – International Financial Reporting Standards

IFRS 9 – IFRS 9 „Financial Instruments”

NHIF – National Health Insurance Fund

MF – Monetary Funds

ROOICF – Regulation on the Organization and Operation of the Investor Compensation Fund

CA – Current Account

BNAO – Bulgarian National Audit Office

AMC – Asset Management Companies

MB – Management Board of the Investor Compensation Fund

FI – Financial instruments

ICF, the Fund – Investor Compensation Fund

IFRF – Investment Firms Resolution Fund

EFDI – European Forum of Deposit Insurers

IADI – International Association of Deposit Insurers

IASB – International Accounting Standard Board

IASC – International Accounting Standard Committee

MANAGEMENT BOARD:

Chairperson of the MB:	Petya Hantova*
Deputy Chairperson:	Diyana Miteva
Members:	Radoslava Maslarska Irina Kazanjieva-Yordanova Petko Krastev**

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

Auditor: **Nikolay Polinchev**

*in office from 21st of August 2020; till 20th of August 2020 – **Teodora Yakimova-Drenska**

in office from 21st of August 2020; till 20th of August 2020 – **Toma Kavroshilov

15 YEARS INVESTOR COMPENSATION FUND

In May 2020, the Investor Compensation Fund celebrated 15 years from its establishment.

ICF was founded in 2005 via amendments in the Public Offering of Securities Act which lead to a transposition of Directive 97/9/EU of the European Parliament and the Council of March 3rd 1997 regarding the investor compensation schemes. The purpose of the Fund is to provide protection to the retail (non-professional) investors in financial instruments via envisaged payment of compensations amounting at 90% of the investor claim towards an investment intermediary, but not more than 40 000 BGN per investor in case that the investment intermediary cannot repay investor's assets due to causes directly related to its financial state.

Over the last 15 years, there has been observed a decline in the number of participants in the compensation scheme, which has been caused mainly by terminated due to the World Financial Crisis business of some investment intermediaries and by some bank mergers over the last years. At present, clients' assets of 17 commercial banks, 35 investment intermediaries and 4 asset management companies (of totally 31 AMCs in the country) are subject of compensation. As of 31.12.2020, the participants in the Fund were managing total clients' assets amounting at 51.2 billion BGN, and 3.28 billion BGN are subject of guaranteed protection by the Fund. The assets of the Fund for potential payment of compensations, formed mainly by initial and annual contributions by the participants (members) and invested in GS or available on current and deposit accounts, amount at 18.564 million BGN.

The management of the Fund is performed by its Management Board, which until 2019 comprised members nominated by the FSC, ABB and BALII. After law amendments in 2020, it also includes a representative of BAAMC. The MB discusses and decides on all matters regarding the Fund. The operational control of the Fund is performed by the Chairperson of the MB who supervises the administrative staff and organizes the activities of the Fund. Since its establishment, the Fund has had three Chairpersons. Prof. Mileti Mladenov was a founder of the Fund and had been its Chairperson for nearly 10 years. In the middle of 2015, Ms. Teodora Drenska became its Chairperson, and since August 2020, this position was taken over by Ms. Petya Hantova. As of 31.12.2020, the administrative staff of the Fund comprises five employees. (The organizational structure is shown in Appendix 1).

The amount of the annual contribution is determined every year by the MB. From the establishment of the Fund until 2016 inclusively, the contribution based on monetary funds was determined at the maximal level allowed by law: 0,5%, and after 2016, it was cut in half. The contribution based on financial instruments from 2005 to 2009 was also at the maximal level: 0,1%, and in 2010 it was cut in half, remaining unchanged ever since. Thus, in 2021 the amount of the annual contribution is kept at the level of 0.05% on the compensable financial instruments and 0.25% on the compensable monetary funds.

Over the last 15 years, the Fund has withstood various challenges, the biggest of which being the triggering in 2019 of the procedure for payment of compensations to the clients of the investment intermediary "Matador Prime" LTD (insolvent). Exactly the processing of the claims for payment of compensations by the intermediary clients is a major element of the Fund's activity, in 2020. The Fund received a total of 146 claims, with the Management Board having issued resolutions on all of them. On 16 of the received claims, the Fund has issued resolutions for payment of compensations. The compensations paid out amount at 198 thousand BGN in total.

The case of “Matador Prime” LTD (insolvent) has not been the first one causing triggering of the procedure for payment of compensations by the Fund, but it is undoubtedly the biggest one. Prior to that case, there had been three other cases, and in two of them there had been actual claims by 8 investors, with confirmed eligibility for payment of compensation only regarding the claim of one of the persons.

In the beginning of 2017 Investment Firms Resolution Fund was established, which is a part of the ICF, but its assets are independent of ICF’s ones. The main purpose of IFRF is to fund the implementation of the resolution tools for problematic investment intermediaries, and as at the end of 2020, that fund has accumulated 143 thousand BGN.

Since its establishment, ICF has maintained very good cooperation with the main institutions and organizations at the capital market in Bulgaria: FSC, ABB, BALII, BAAMC, as well as with the participants (members) of the Fund itself. The Fund has also proved itself as a recognizable and respected institution among the European compensation schemes.

As an institution contributing to the upkeep of security and credibility in the market, the Fund will continue to successfully perform its functions and to improve its activity according to the best practices regarding the capital market investor protection schemes.

I. ANNUAL REPORT OF ICF FOR 2020

1. KEY MOMENTS IN THE ACTIVITY OF THE FUND IN 2020

The Fund celebrated its 15th anniversary in 2020, which was one of the most dynamic ones in its history. The biggest challenges were the adaptation of the Fund's activity under the circumstances of the Covid pandemic crisis, as well as the taking of decisions regarding the claims for compensations from the clients of the investment intermediary "Matador Prime" LTD (insolvent), whose license was revoked on 11.10.2018. The procedure for payment of compensations was initiated after the Financial Supervision Commission Resolution No. 102-II dated 24.01.2019, which establishes that in respect of Matador Prime LTD (insolvent) the circumstances for payment of compensations from the Fund to the clients of the intermediary are present due to the impossibility of the investment intermediary to fulfil its obligations to the clients for reasons directly related to its financial state. The compensation which the Fund pays to each client of II amounts to 90% of the value of the receivable, but not more than 40 000 BGN.

By the end of 2020, the Fund received 68 claims for payment of compensations, all of which were within the statutory deadline of 1 year, which expired on 01.02.2020. Together with the 78 compensation claims received in 2019 from clients of Matador Prime LTD (insolvent), the total number of claims for 2019 and 2020 has reached 146.¹

In 2020, the Management Board of the Fund took totally 116 decisions on received claims for payment of compensations from clients of the aforementioned investment intermediary, 16 of which were eligible for payment of compensations amounting at totally 198 thousand BGN. In the beginning of 2021 one more positive resolution for payment of a compensation amounting at 40 000 BGN was taken. Consequently, 100 of the resolutions were for refusal for payment of compensations and/or for leaving the claims unconsidered due to incompleteness and irregularities that have not been eliminated by the persons within the set deadline.

It is worth to mention the fact that clients of the aforementioned investment intermediary, who had filed claims for compensations from the Fund, are foreigners, which to some extent hindered and slowed down the process of communication and collection of the necessary documentation. Considering the specific business of the investment intermediaries and of the trade with financial instruments, the procedure for payment of compensations by ICF is long and it includes the consideration of voluminous information and documents.

In 2020, the activity of the Fund was also focused at collecting the due contributions from the participants, management of the Fund's resources, gathering and analysis of the information on client assets managed by the participants in the scheme and assessment of the Fund's exposure.

At the end of the year, by a resolution of the Management Board, the annual contribution for 2021 was kept at the level of 0.05% on protected financial instruments and 0.25% on monetary funds, determined on an average monthly basis for 2020. Thus, for the 12th consecutive year, the participants in the Fund will pay half of the maximum defined by law contribution on financial instruments and for the fifth consecutive year will make a lower contribution on monetary funds.

In the course of the year, the MB submitted to the FSC a proposal for amendments to the Regulation on the Organization and Operation of the Investor Compensation Fund, whose purpose is clarification of some clauses and harmonization with the current legislation relevant

¹ In the beginning of 2021, i.e. almost one year after the expiration of the statutory deadline, the Fund received one more claim for payment of a compensation from a client of Matador Prime (insolvent). The MB of the Fund decided to leave the claim unconsidered, because there were no extraordinary unforeseen circumstances, which could have prevented the claimant to submit the claim within the deadline under art. 77f, para. 2 of POSA.

to the activity of the Fund. The MB also implemented some changes in the internal rules for the activity of the Fund.

An always present aspect of the Fund's activities in 2020 was the international cooperation. During the year, representatives of the Fund participated at several international events, mostly related to its associative membership of the European Forum of Deposit Insurers and the various work-groups within it. Considering the pandemic crisis, all international meetings were held online.

The international cooperation of the Fund was also focused on exchange of experience and information with the other investor compensation schemes from the EU. The Fund made inquiries on numerous occasions to the investor compensation schemes which are members of the EFDI, both regarding their practice for compensation payments and regarding other matters related to the legislative framework.

In 2020, the world faced the impact of the Covid pandemic crisis and the consequent challenges and uncertainty. The world had not faced such type of crisis over the last century, and the negative impact of the crisis forced the world to entirely change the way of living and to adapt to the new reality. The Fund quickly managed to organize its work in accordance with the changed environment and the faced restrictions, which allowed it to efficiently and timely perform its functions.

At present, the situation about the COVID-19 is still ongoing, which is why the Fund cannot estimate whether the financial consequences of the pandemic will lead to circumstances which will trigger the procedure for payment of compensations to clients of a participant in the Fund and respectively, if and how this will impact the Fund's financial state. On the other hand, the Fund undertakes all possible actions to maintain its activities and to mitigate the negative impact of the pandemic, to the possible extent.

2. RESOURCES

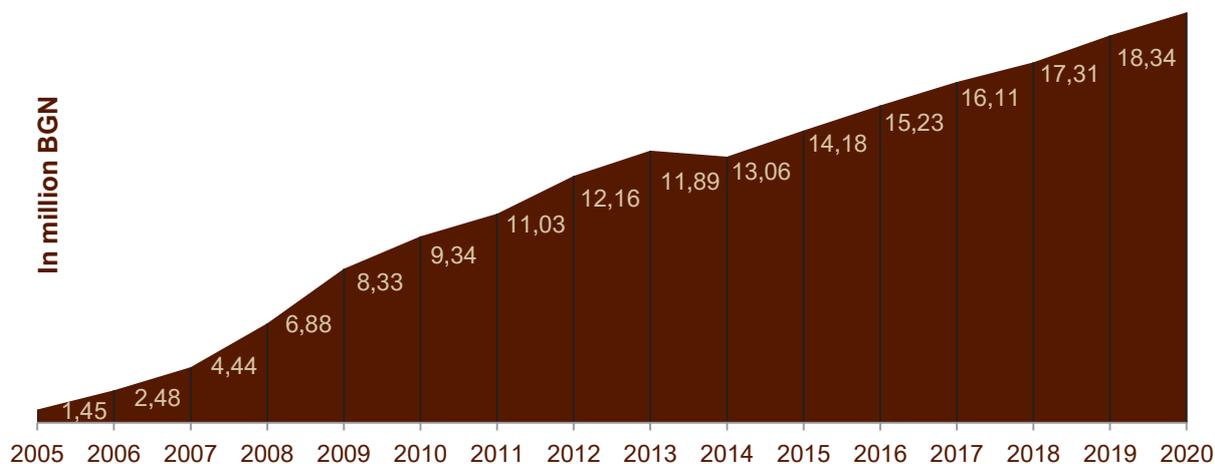
ICF was established with the purpose to collect and manage resources, which can potentially be used for payment of compensations. The resources of the Fund are formed by the initial and annual contributions received from the investment intermediaries (II), banks-investment intermediaries (B-II) and asset management companies (AMC)², as well as by the revenue from investments. The main part of the Fund's resources come from the participants' annual contributions. The collection, investment and spending of the Fund's resources is carried out in compliance with the provisions of POSA, ROOICF and ICF's internal rules, and the supervision of these activities is carried out by the Bulgarian National Audit Office and the FSC.

Figure 1 shows the investment portfolio of the Fund since its establishment to 2020, as of December 31st of the respective year. As of December 31, 2020, the investment portfolio of the Fund is 18.34 million³ BGN, as compared to a year earlier it has increased by 1.03 million BGN. The investment portfolio of the Fund has been increasing with a constant rate for almost the entire period of its existence – on average about 7.8% per annum over the last 5 years, while in the first few years from the Fund's establishment this rate was much higher, at a higher level of the contributions and a smaller amount of the available resources.

² AMC do not pay initial contribution to the Fund

³ The Fund's investment portfolio includes government securities at amortized and revalued amount (excluding accrued interest), cash on hand and current accounts. The revalued and amortized amount of government securities is as of December 31st, 2020

Fig. 1
Investment portfolio of the Fund as of December 31st of the respective year



Source: ICF

The administrative expenses of the Fund for 2020 (calculated on a cash basis) are 497.7 thousand BGN, as savings of 6% of the budgeted expenses have been realised.

2.1. CONTRIBUTIONS

All participants in the Fund which hold, administer and manage client assets eligible to compensation make annual contributions. The annual contribution is determined every year by the MB and is payable in 4 equal instalments.

The annual contribution for 2020, determined by the MB, is as follows:

- 0,25% of the average monthly amount of the protected MF for 2019 and
- 0,05% of the average monthly amount of the rest of the clients' assets, eligible to compensation in 2019.

The participants in the Fund also make an initial contribution amounting at 1% of the minimal equity required for an investment intermediary according to the permitted services and activities under art. 6, para. 2 and 3 of the Markets of Financial Instruments Act. The initial contribution is payable in one instalment by II and B-II at their admission to the scheme.⁴

The cash flow from annual and initial contributions of participants in the Fund in 2020⁵ amounted at 1.337 million BGN, of which 2 500⁶ BGN 1 came from an initial contribution. For comparison, in 2019, the income from contributions was 1.203 million BGN.

Fig. 2 presents the annual contributions of II and B-II for the period 2009–2021. It is based on the average monthly values of FI and MF, declared by the participants for the previous year. AMCs making contributions to the Fund are only 4, hence their share of the annual contributions is small, which is why they are not included in Fig. 2.

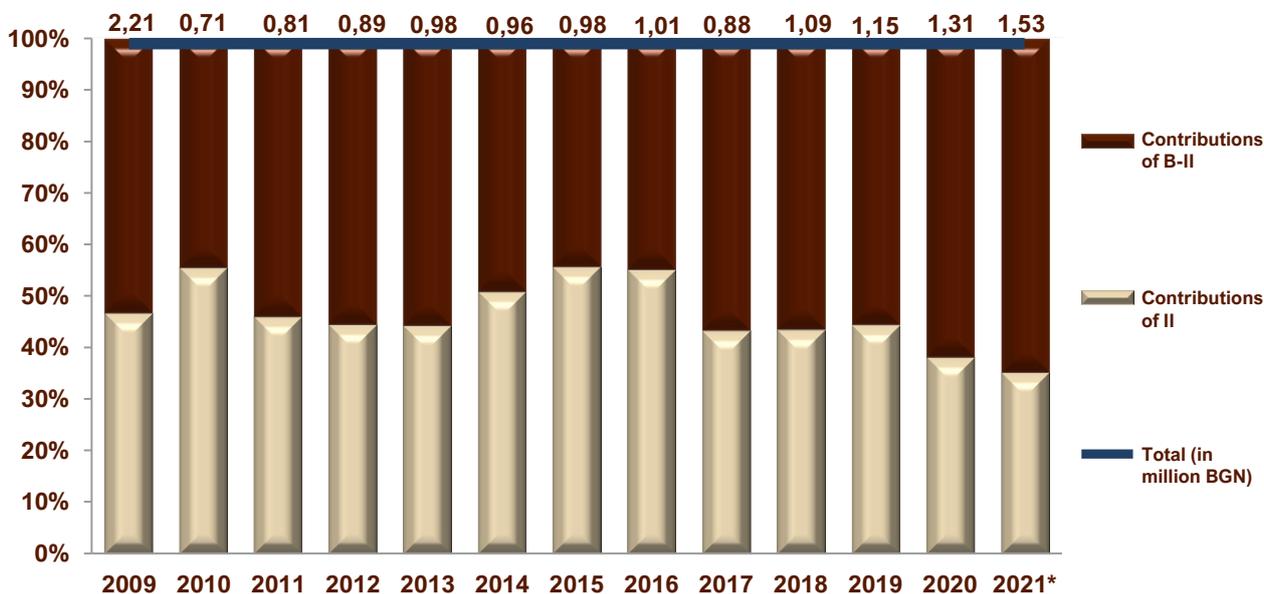
⁴ II whose license does not include holding of client money or financial instruments and which do not perform investment services and activities under art. 6, para. 2, items 3, 6, 8 and 9 of MFIA, do not participate in the Fund.

⁵ In 2020, the Fund's account received one quarter of the due annual contribution for 2019, which is made by January 30th, 2020, and three quarters of the due contribution for 2020

⁶ The initial contribution is paid by a participant in the Fund, which was allowed by the FSC in the beginning of 2020 to expand its license for services as per art. 6, para. 2, items 3 and 6 of MFIA which requires minimal equity of 1.5 million BGN.

Fig. 2

Distribution of contributions of II and B-II



*Data for 2021 is preliminary

Source: ICF

The annual contributions in 2020 of II and B-II were 1.311 million BGN⁷ versus 1.155 million BGN in 2019. The observed growth of 13.5% is due to the increase of the average monthly value of the clients` assets held by the participants and eligible for compensations. The contributions for 2020, paid by B-II, are more (around 62% of the total contributions) than the contributions of II (38%). The preliminary estimates show that the annual contribution for 2021 will be around 220 thousand BGN higher or a total of 1.53 million BGN, with the share of B-II staying the biggest and expected to increase to 65%.

In 2020, the participants in the Fund reported the highest average monthly value of client assets since the establishment of the Fund, but the amount of contributions is below the maximal value registered in 2008, because of the lower contribution rate determined by the MB.

2.2. INVESTMENTS

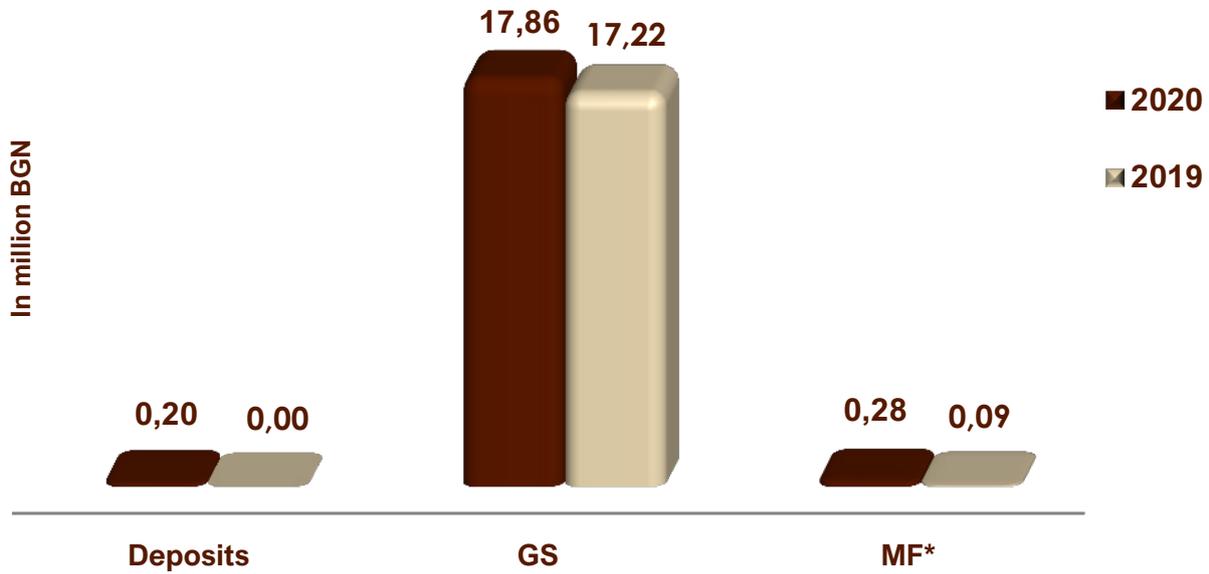
The accumulated resources in the Fund are invested in accordance with the provisions of POSA and the “Investment Policy of the ICF”, and the investment decisions are in accordance to the requirements for security and liquidity. According to legislation, the Fund’s resources can be invested in financial instruments issued or guaranteed by the state, short-term deposits in commercial banks and deposits in BNB.

Fig. 3 shows the structure of the investment portfolio⁸ of the Fund as of the end of 2019 and 2020.

⁷ The shown amount includes four quarters of the annual contribution for 2020 and differs from the actually received income from contributions, because in 2020 on the Fund’s current accounts were received one quarter of the annual contribution due for 2019, which is payable until 30.01.2020, and three quarters of the contribution due for 2020.

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

Fig. 3
Investment Portfolio Structure

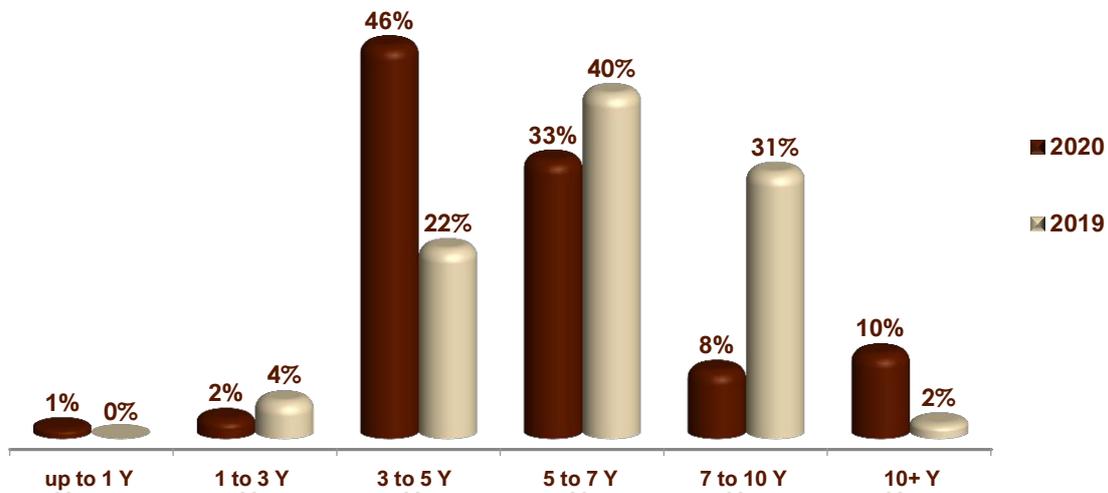


**MF – cash in hand and on current accounts*

Investments in government securities represent a major part of the Fund’s portfolio, and as of 31.12.2020 their share is 97.4% versus 99.5% at the end of 2019. Differently from the previous several years, when the Fund did not have investments in deposits, as of 31.12.2020 a part of the resources are held in short-term deposits in banks. There is an increase of the funds on current accounts (CA) and in cash – from 92 thousand BGN as of 31.12.2019 to 277 thousand BGN as of 31.12.2020.

Fig. 4 presents the maturity structure of government securities and deposits as of 31.12.2020 and as of 31.12.2019.

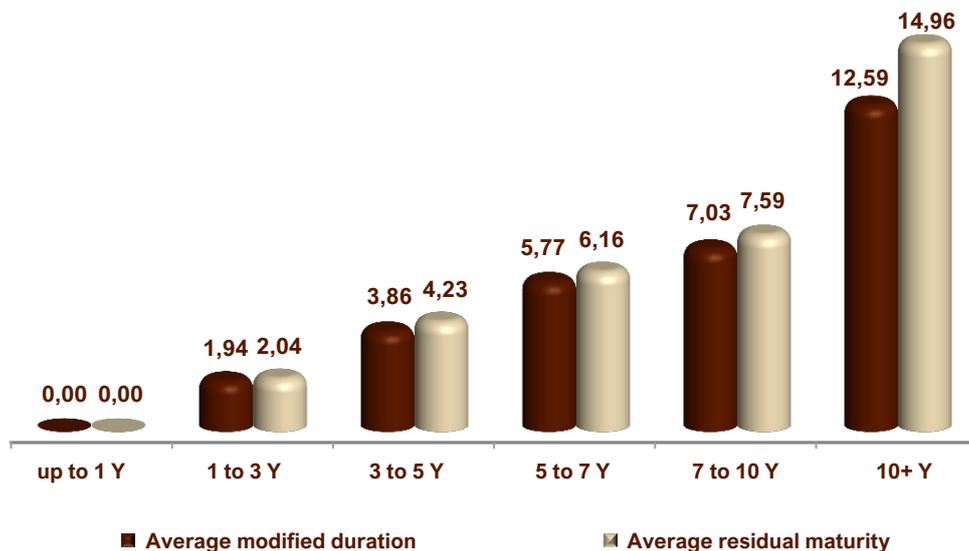
Fig. 4
Maturity structure of GS and deposits



The shifts between the intervals are due to the decrease of maturity of the held GS, whereas the increase in the 10+ maturity segment is due to newly purchased emissions during the year.

The modified duration and the average residual maturity on the investments in government securities, according to their maturity structure as of 31.12.2020, are presented in Fig. 5.

Fig. 5
Modified duration and average residual maturity of GS



The weighted average modified duration of the GS portfolio as of 31.12.2020 is 5.58 years versus 5.7 years at the end of 2019. The average remaining term of the investments in GS also decreases slightly: from 6.26 years as of 31.12.2019 to 6.16 years at the end of 2020⁹.

⁹ The weighted average maturity of the portfolio is calculated as a sum of the terms of all investments weighted by the share of each investment in the total amount of investments in GS as of 31.12.2020.

3. PARTICIPANTS

As of 31.12.2020, the active participants in the Fund are totally 56, of which 35 are investment intermediaries, 17 are banks-investment intermediaries and 4 are asset management companies (from a total of 31), which hold client assets protected by the Fund. During the last year the membership of two investment intermediaries was terminated: “Odesos 33” EAD (former names: “Leno Markets” EAD, “Lenno Global Advisory” AD, “Balkan Investment Company” AD) and “Vaha Trade” EOOD. The licenses of both investment intermediaries have been revoked by the FSC. Also, during the same year, “Expressbank” AD merged into “DSK Bank” AD, which is why the client assets held by both banks were merged. This is also the reason that as of 31.12.2020 B-II are 17 in total, versus 18 as of 31.12.2019. Regarding one investment intermediary, FSC issued a decision granting an expansion of its existing license with services and activities as per Artart. 6, para. 2, items 3 and 6 of MFIA. A list of participants in the Fund is given in Appendix 2.

In 2020, there are no new II to have joined the scheme.

4. CLIENT ASSETS MANAGED BY THE PARTICIPANTS

The participants in the Fund submit monthly information on the client assets held, administered and managed by them. The information they submit is both for the client assets protected by the Fund and for those that are not subject to compensation (unprotected ones).

Table 1 presents the protected and unprotected client assets of all participants (II, B-II and AMC) as of 31.12.2020 and as of 31.12.2019.

Table 1

Client assets managed by the participants as of December 31st of the respective year
in BGN

By groups:	Protected client assets as of 31.12.2020	Protected client assets as of 31.12.2019	Change on annual basis	Unprotected client assets as of 31.12.2020	Unprotected client assets as of 31.12.2019	Change on annual basis
	(1)	(2)	$[3=(1-2)/2]$	(4)	(5)	$[6=(4-5)/5]$
FI-B-II	2 336 216 691	1 616 969 544	44%	29 901 873 085	28 260 466 527	6%
FI-II	757 253 857	516 234 021	47%	17 791 921 731	18 844 588 851	-6%
MF-II	111 270 341	84 572 880	32%	121 858 420	97 171 331	25%
FI-AMC	63 702 733	38 592 644	65%	63 539 983	29 407 935	116%
MF-AMC	6 638 893	7 351 643	-10%	9 262 140	7 449 411	24%
TOTAL:	3 275 082 515	2 263 720 733	45%	47 888 455 362	47 239 084 055	1%

Source: ICF

As of 31.12.2020, the participants in the Fund held client assets amounting at a total of **51.2 billion BGN** versus **49.5 billion BGN** at the end of 2019. The increase is due to both the amount of protected client assets and of the unprotected assets.

The client assets subject to compensations (protected ones) increased significantly by 1 billion BGN on annual basis. All groups increased, except for MF held by AMC. Compared to 31.12.2019, in nominal terms, the biggest increase is of FI held by B-II and II, which in total is around 960 million BGN. The protected MF in the group of II increased by 32% or 27 million BGN.

The unprotected client assets also increased for all groups of participants, except for FI held by II, which decreased by 6%. The total amount of the unprotected client assets as of 31.12.2020 was **47.9 billion BGN** or an increase by 649 million BGN versus the previous year. In nominal terms, the biggest increase is marked by FI held by B-II: with 1.64 billion BGN more. The value of FI held by AMC increased by more than 2 times or by 34 million BGN.

As of 31.12.2020, B-II held FI of clients at the total amount of 32.2 billion BGN¹⁰, of which the protected by the Fund were 2.34 billion BGN, and the unprotected were 29.9 billion BGN. The share of the protected FI in the total value of FI managed by B-II increased from 5% as of 31.12.2019 to 7% as of 31.12.2020.

As of 31.12.2020, AMC held client assets at the total amount of 143 million BGN, of which the protected ones were 70.3 million BGN. The FI of the group, either protected or unprotected, increased, respectively by 25 million BGN and 34 million BGN. As regards MF, the protected ones decreased by around 10%, and the unprotected ones increased by around 24%.

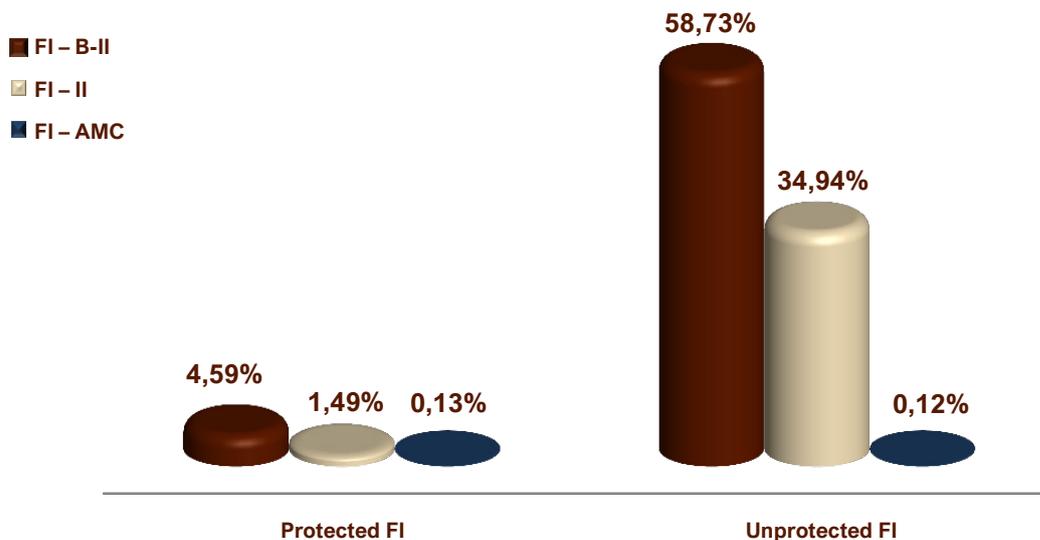
The assets of the Fund as of 31.12.2020, formed by initial and annual contributions of the II, B-II and the AMC, as well as from investments income, amount to 18.96 million BGN¹¹ and they represent 0.6% of the amount of protected client assets (3.28 billion BGN). When the accumulated funds in the Fund exceed 5% of the total amount of the client's assets at all participants, the Management Board of the Fund may decide to temporarily suspend the payment of the annual contributions. As of 31.12.2020, 5% of the protected client assets amount to nearly 163.7 million BGN (5% of 3.28 billion BGN).

Fig. 6 represents the distribution of protected and unprotected FI by groups of intermediaries. As of 31.12.2020, the total amount of all FI is 50.9 billion BGN, of which the share of the protected ones is around 6.2% versus 4.4% as of the end of 2019. The increase is due to the bigger rate of increase of the protected FI compared to the unprotected ones.

¹⁰ Banks do not report MF to the Fund, as they are considered as deposits and fall within the scope of protection from the BDIF.

¹¹ The amount comprises all assets of the Fund, including GS at amortized or revalued amount (with accrued interest), cash on hand and on current accounts, accounts receivable and other assets. The value of assets invested in GS and available on current and deposit accounts of the ICF is totally 18.564 million BGN.

Fig. 6
Distribution of FI by groups of intermediaries, as of 31.12.2020



B-II hold the greatest amount of protected FI – 4.59% of all FI (versus 3.28% as of the end of 2019), and they continue to hold the largest share of unprotected FI – 58.73%, the same one as of the end of 2019.

In 2020, the highest monthly value of protected FI was reported in December (3.16 billion BGN), and this is the highest value reported by the participants since the establishment of the Fund (see Table 2). Thus, for the first time protected FI had a higher value than the previous peak marked in 2014. The lowest value of protected FI since the establishment of the Fund was reported in February 2009: 917.68 million BGN, which is equal to only 29% of the maximal value.

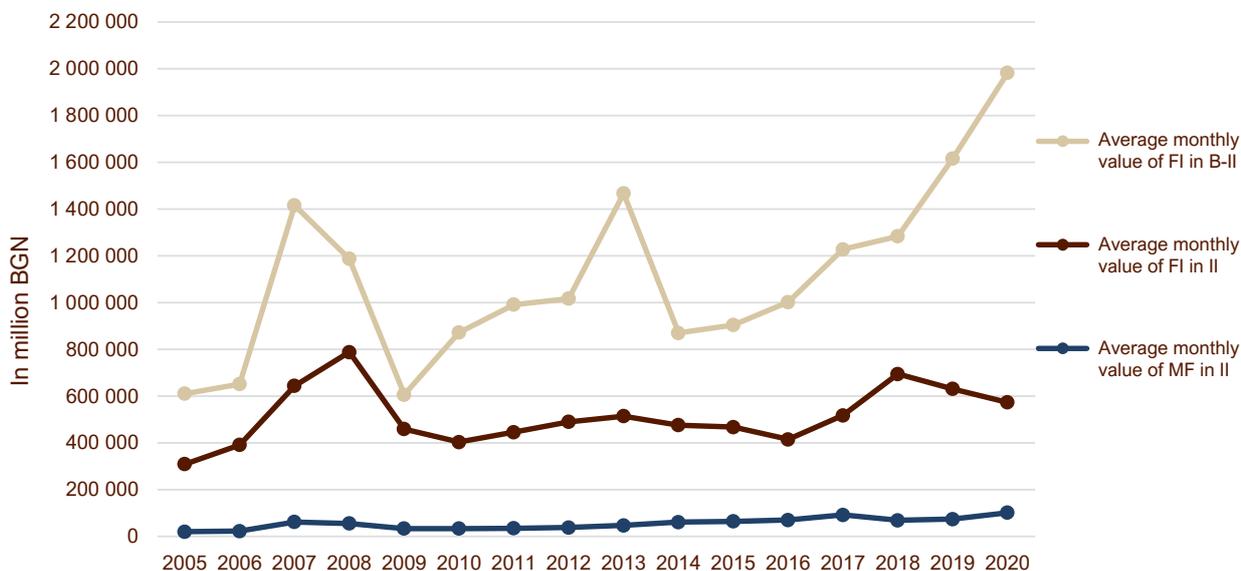
Table 2
Financial instruments subject to compensation

in BGN

FI of clients	Date	Peak value	Minimum	Peak value in 2020
	December, 2020	3,157,173,281		
	February, 2009		917,667,292	
	December, 2020			3,157,173,281
% of the peak value		100%	29%	100%

Fig. 7 presents the average monthly values of the protected client assets by years and by groups of participants. The annual contribution that the participants pay into the Fund is determined on the basis of the average monthly values of the protected client assets.

Fig. 7
Average monthly value of protected client assets in II and B-II



In 2020 the average monthly amount of protected FI in II and B-II is totally 2.55 billion BGN versus 2.25 billion BGN in 2019. This increase of nearly 300 million BGN is entirely due to the higher average monthly amount of FI in B-II. As it can be seen from the figure, after 2015, there is a steady increase in the average monthly value of protected FI in B-II, and in the last two years B-II reported values exceeding the ones before the financial crisis. Differently from B-II, with II, the average monthly values of protected FI are still below the highest values reported before the financial crisis, and in the last two years the trend shows a decrease. In 2020, on average per month, II held around 101.4 million BGN of protected MF versus 74 million BGN in 2019.

The protected client assets held by AMC are not included in Fig. 7, as they are of small value. In 2020, on average per month, AMC managed protected FI amounting to 60.68 million BGN versus 46.3 million BGN in 2019. The average monthly amount of the protected MF in AMC also increased: from 6.2 million BGN in 2019 to 9.5 million BGN in 2020.

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

Table 3**Client assets, stock exchange capitalization and GDP as of December 31st**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Protected client assets (million BGN)	1,259	1,322	1,612	2,091	2,325	1,579	1,435	1,677	1,964	2,416	2,263	3,275
Stock exchange capitalization (million BGN)	11,796	10,754	12,436	9,828	9,961	9,756	8,587	9,683	23,621	26,765	27,905	28,355
Ratio client assets/ stock exchange capitalization	11%	12%	13%	21%	23%	16%	17%	17%	8%	9%	8%	12%
GDP (million BGN)	68,322	70,474	75,265	77,323	79,454	78,722	84,236	88,939	101,043	107,925	119,772	111,009
Ratio stock exchange capitalization/GDP	17.00%	15.00%	16.52%	12.71%	12.54%	12.39%	10.19%	10.89%	23.38%	24.80%	23.30%	25.54%

Source: web page of BSE, ICF

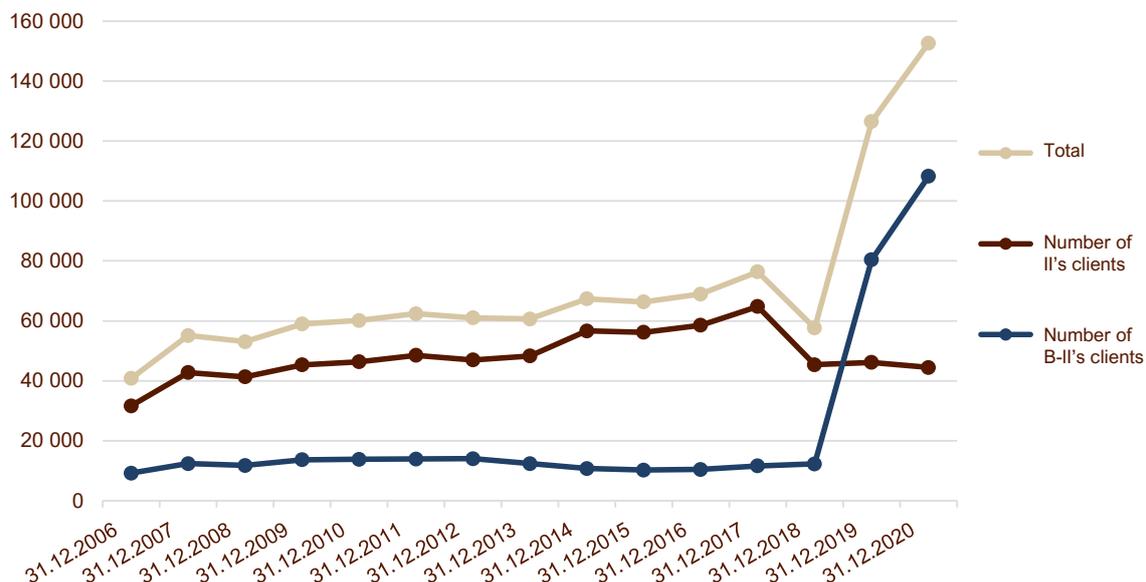
As of 31.12.2020, the stock exchange capitalization is 28,36 billion BGN or 2% higher than on 31.12.2019. The ratio of client assets subject to compensation to the stock exchange capitalization grew from 8% as of the end of 2019 to 12% as of 31.12.2020. The increase is due to the bigger growth of the amount of protected client assets. The proportion of stock exchange capitalization to GDP was 25.54% versus 23.3% as of the end of 2019.

5. EXPOSURE TO THE PARTICIPANTS

The participants in the Fund every six months submit information on the number of their clients, that posses funds subject to compensation (protected clients), distributed by groups of client assets, and at the end of each month, they submit information on the client assets they manage.

Based on this information, it is assessed the Fund's exposure to the participants and the extent to which the funds available in the Fund will be sufficient to pay compensation in the event of bankruptcy of an intermediary. Fig. 8 represents the number of protected clients by groups of intermediaries as of December 31st, for the period from 2006 to 2020, inclusive.

Fig. 8
Number of protected clients by groups of intermediaries



As of 31.12.2020, the total number of clients that are eligible to compensation for all participants in the Fund is 153 223, i.e. 26 361 clients more than at the end of 2019. The increase is entirely due to the protected clients in the group of B-II, which as of the end of 2020 are 108 256 versus 80 384 one year earlier. Differently from B-II, the clients of II having protected assets decreased from 46 117 as of 31.12.2019 to 44 431 clients as of 31.12.2020.

AMC paying contributions in the Fund are only 4, hence they report the smallest number of clients with protected assets (totally 563 clients), which is why they are not included in Fig. 8.

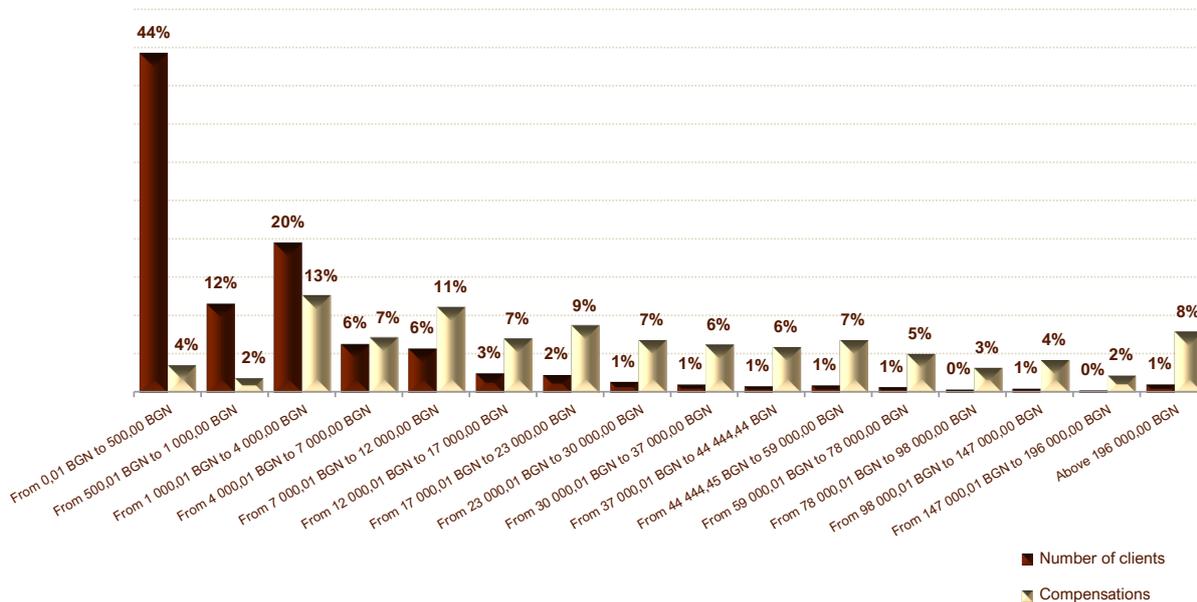
As of 31.12.2020, the Fund's exposure to its participants is **868.20 million BGN** versus **587.30 million BGN** as of 31.12.2019¹². The increase of 280.9 million BGN is due to the larger number of protected clients declared by B-II.

Due to the significant increase of clients in the B-II group, the exposure of the Fund is the highest in this group – 651.5 million BGN. The maximal potential compensation calculated for the clients of II is 207.2 million BGN, and for the clients of AMC – 9.46 million BGN.

Fig. 9 represents a distribution of the number of protected clients and the calculated maximum compensation by groups of client assets.

¹² The Fund's exposure is calculated on the basis of the potential compensation to the clients of one intermediary, which is calculated as 90% of the amount of the client's assets, but not more than BGN 40 000 per investor. The calculations are based on the information on the number of clients by intervals of client assets provided by intermediaries as of 31.12.2020. Due to the assumption that clients have assets of an amount equal to the upper limit of the interval in which they fall, the maximum compensation is inflated.

Fig. 9
Distribution of the maximum compensation and the number of clients, by groups of client assets

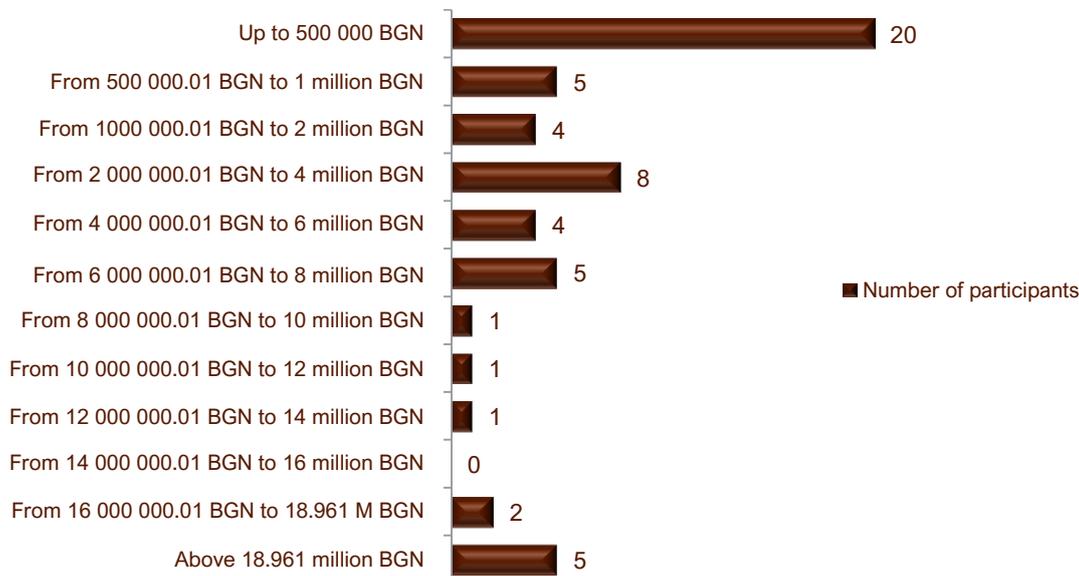


The largest number of clients is in the range of client assets up to 500 BGN, they are 44% of all clients and the compensation calculated for them is only 4% of all compensations. In absolute value, it is 30.4 million BGN. The largest compensation that the Fund would pay is for the clients who hold assets up to 4 thousand BGN, they are 20% of all clients, and the compensation for them is 13% of all compensations, which in absolute value is 107 million BGN. As of 31.12.2020, the protected clients with assets above 44 thousand BGN are 6 290 (they are 4% of all clients), and for them the calculated maximal compensation is 251.6 million BGN, which is 29% of all compensations. The compensation for investors with assets above 196 thousand BGN, representing 1% of all clients, is 67.4 million BGN or 8%.

The Fund's assets as of 31.12.2020 amount at 18,96 million BGN, and the total amount of the calculated potential compensation for all participants is 868.2 million BGN, i.e. the Fund has 2.2% coverage of the potentially payable compensations (18.96 million BGN/868.2 million BGN).

Fig. 10 presents the distribution of the participants by amount of compensation and by intervals up to the value of the Fund's assets (18.96 million BGN) as of 31.12.2020. The figure also includes 4 AMC, so that the total number of the active participants in the Fund is 56.

Fig. 10
Number of participants depending on the Fund's exposure to their clients

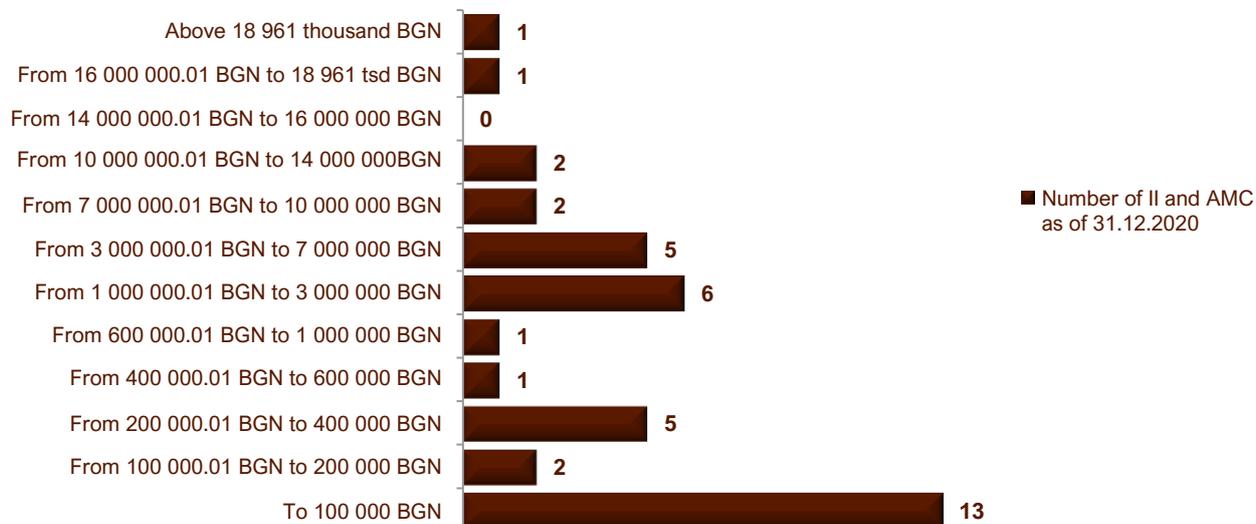


For a total of 20 intermediaries, the calculated compensation is in the range of up to 500 thousand BGN, of which 14 II, 5 B-II and 1 AMC. For five participants, the calculated compensation is above the Fund's assets, of which 2 II and 3 B-II. In case of occurrence of circumstances for payment of compensations by the Fund, to clients of any of these intermediaries, it may be necessary for the ICF to collect additional funds, according to the provisions of art. 77q of POSA. At the same time, the Fund's resources would be enough to compensate the clients of several intermediaries at the same time, where the potential compensations are for smaller amounts.

Appendix 4 shows the distribution of the number of clients eligible to compensation by groups of client assets for II and B-II.

Fig. 11 represents the distribution of II and AMC according to the amount of the protected MF held by them. The largest is the number of participants holding client MF amounting at up to 100 thousand BGN (13 in number) and up to 3 million BGN (6 in number). In the current reporting period, there is 1 participant holding MF at an amount greater than the Fund's assets.

Fig. 11
Amount of MF of II and AMC as of 31.12.2020



6. INTERNATIONAL ACTIVITY

The international activity is an important aspect in the functioning of the Fund. Thanks to the associative membership of the Fund in EFDI, in 2020, representatives of the Fund participated at several international events organized by the Forum and its various workgroups. Due to the pandemic crisis, all meetings were held online.

Every year, EFDI organizes an annual meeting and an international conference, which in 2020 had to be held in Athens. Due to the pandemic, for the first time the meeting was held online. Usually, at the annual conferences are invited presenters with significant experience in banking and capital markets, representatives of central banks and regulatory and legislative institutions in the EU, sometimes in countries outside Europe. The discussed topics are closely related to the activities of the bank deposit protection schemes and the investor compensation schemes, as well as to the legal framework relevant to those schemes. EFDI has a major contribution in the discussion and adoption of the European legislation in that sector, by actively participating in the processes for amendments of the European regulatory documents. The workgroup of the investor compensation schemes regularly meets at least two times per year, and in 2020, due to the extraordinary circumstances, there was held only one meeting during the annual conference in September. At the meeting a research made by the Dutch scheme regarding the funding of the schemes was discussed, with presentation of a detailed analysis and data for the schemes that had taken part in the research.

Within the workgroup, the Fund also makes inquiries and collects data on matters relevant to its activities. In 2020, the Fund made several inquiries regarding the legal framework on compensation activities in the other member countries and actively participated in discussions and questionnaires organized by some foreign schemes.

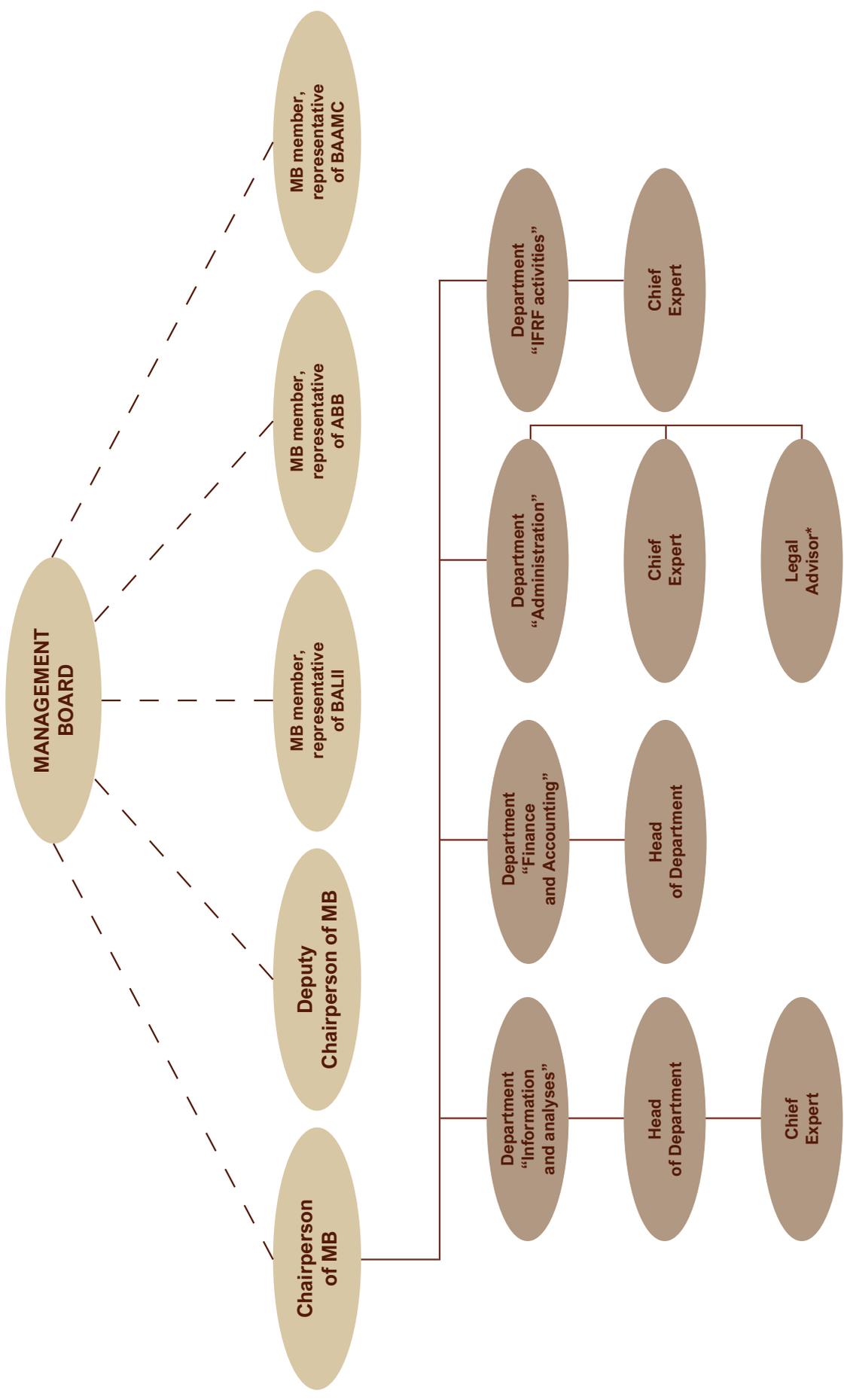
This exchange of information and the participation of representatives of the Fund at various events contribute for the improvement of the Fund's activities according to the best practices.



**INVESTOR
COMPENSATION
FUND**

APPENDICES

Appendix 1



* The legal advisor is on a civil contract.

Appendix 2

INVESTMENT INTERMEDIARIES

1	ABV-INVESTMENTS EOOD	19	II INTERCAPITAL MARKETS AD
2	AVAL IN AD	20	FAVOURITE AD
3	ABC FINANCE EAD	21	CAPMAN AD
4	ADAMANT CAPITAL PARTNERS AD	22	KAROL AD
5	ALARIC SECURITIES OOD	23	CAPITAL INVEST EAD
6	BALKAN CONSULTING COMPANY EAD	24	CAPITAL MARKETS AD
7	BENCHMARK FINANCE AD	25	MK BROKERS AD
8	BULBROKERS EAD	26	FIRST FINANCIAL BROKERAGE HOUSE EOOD
9	VARCHEV FINANCE EOOD	27	REAL FINANCE AD
10	GRAND CAPITAL EOOD	28	SOFIA INTERNATIONAL SECURITIES AD
11	DE NOVO EAD	29	TRADING 212
12	DELTASTOCK AD	30	FACTORY AD
13	DV INVEST EAD	31	FK-EVER AD
14	DEALING FINANCIAL COMPANY AD	32	FOCAL POINT INVESTMENTS AD
15	EURO-FINANCE AD	33	UPTREND OOD
16	ELANA TRADING AD	34	UG MARKET AD
17	EMIRATES WEALTH EAD	35	EUROPEAN BROKERAGE HOUSE OOD
18	ZAGORA FINACORP AD		

BANKS-INVESTMENT INTERMEDIARIES

1. ALLIANZ BANK BULGARIA AD
2. DSK BANK EAD
3. BULGARIAN-AMERICAN CREDIT BANK AD
4. BULGARIAN DEVELOPMENT BANK AD
5. INTERNATIONAL ASSET BANK AD
6. UNITED BULGARIAN BANK AD
7. MUNICIPAL BANK AD
8. FIRST INVESTMENT BANK AD
9. RAIFFEISENBANK (BULGARIA) AD
10. INVESTBANK AD
11. TEXIM BANK AD
12. TBI BANK EAD
13. TOKUDA BANK AD
14. D COMMERCIAL BANK
15. UNICREDIT BULBANK AD
16. CENTRAL COOPERATIVE BANK AD
17. EUROBANK BULGARIA AD

ASSET MANAGEMENT COMPANIES

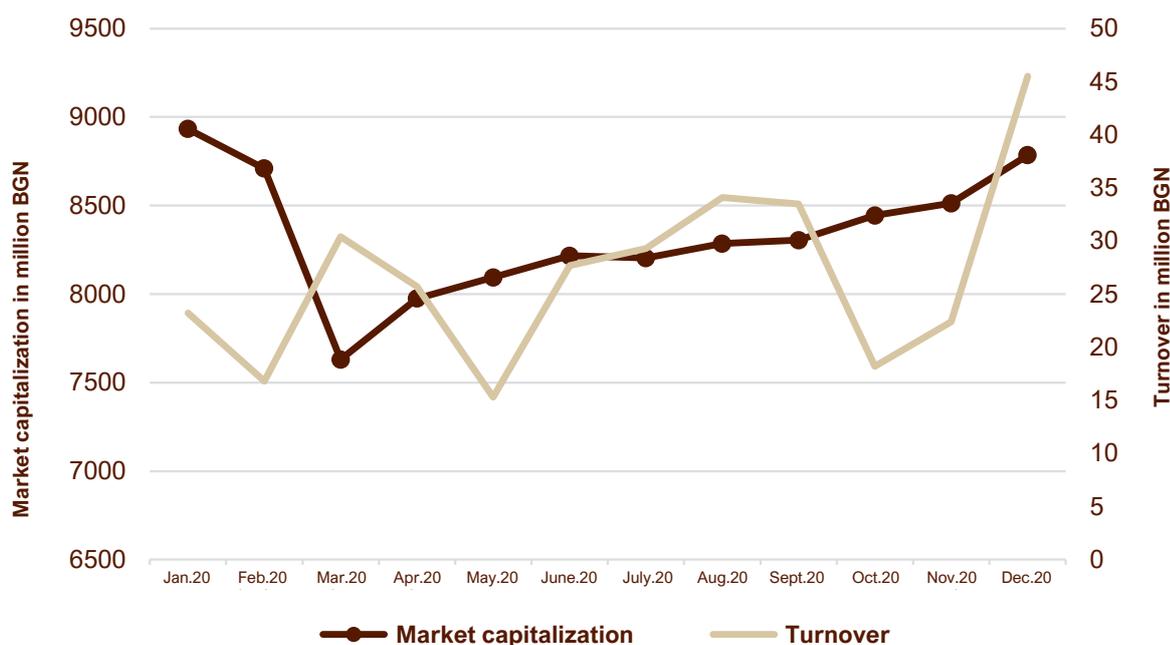
1	ACTIVA ASSET MANAGEMENT AD	17	KBC Asset Management NV, Belgium
2	ALARIC CAPITAL AD	18	COMPASS INVEST AD
3	ALFA ASSET MANAGEMENT COMPANY EAD	19	CONCORD ASSET MANAGEMENT AD
4	ARKUS ASSET MANAGEMENT AD	20	MUNICIPAL BANK ASSET MANAGEMENT EAD
5	ASTRA ASSET MANAGEMENT AD	21	FIRST FINANCIAL BROKERAGE HOUSE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

THE CAPITAL MARKET IN BULGARIA IN 2020

The pandemic crisis, which started in the beginning of 2020 and impacted the entire world, caused high volatility of the financial instrument prices, and the interest rates which even before that were already at record low levels decreased further. The crisis led to demand for funding, on one hand by companies and households, and on the other hand by governments searching ways to fund measures against the pandemic. Since the beginning of the pandemic significant corrections of the debt instrument prices and serious increase of spreads on the sovereign bonds have been observed.

The Bulgarian capital market was no exception from the world trend. The volatility in the beginning of the crisis reflected in a decrease of the capitalization of the main market by 12.4% in March 2020 and growth by 81% of the turnover(see Fig. 12).

Fig. 12
Data on trading at the main market of BSE in 2020



The pandemic led to significant decrease of GDP, which led to higher ratio of the total market capitalization to GDP: 25.54% in 2020 versus 23.30% in 2019¹³.

In 2020, all indexes at the BSE decreased, with the biggest decrease marked by the main index SOFIX (-21%). The new emissions also decreased, and in 2020 they were 30 versus 32 in 2019.

¹³Data by BSE.

At the end of 2020, one company (“Biodit” AD) applied for funds raising via the established in the end of 2018 SME growth market, which allows companies eligible to the SME criteria to raise equity through publication of a simplified in form and content prospectus. The companies, whose shares are admitted to trading at the growth market, disclose information limited in scope and periodicity.

The other markets in the region were also impacted by the pandemic, and in the beginning of March 2020, the main index of the Romanian Stock Exchange BET severely decreased: reported 25% drop versus 1.1.2020, but at the end of the year, it almost regained its value from the end of 2019¹⁴. The main index of the Serbian Stock Exchange (BELEX) also decreased severely in March 2020 and reached value of 630.12 versus around 817 a month before, and at the end of 2020 it did not recover.¹⁵

The volume of the secondary market of GS in Bulgaria decreased from 23.2 billion BGN in 2019 to 12.1 billion BGN in 2020¹⁶. The average annual yield to maturity on GS remained low, and the average monthly long-term interest rate for evaluation of convergence, determined on the basis of yield to maturity at the secondary market on long-term GS in BGN, is 0.25% in 2020 versus 0.43% in 2019, and as of December 2020 it is 0.19 %.¹⁷ The lowest yield on GS at the secondary market was registered in March, when the pandemic started in Bulgaria, and the respective values on 5-year and 10-year securities were negative, respectively (-0,06%) and (-0,12%).¹⁸ The decision to admit GS for trading at the BSE did not achieve the desired result, and in 2020 via BSE registered only one transaction, while in 2019 they were 9.

Also in 2020, the interbank deposit market was dominated by the negative interest rates. The Leonia Plus index decreased further and reached -0,70% at the end of 2020 versus -0,59% one year earlier. Negative values were observed also on some deposit rates, mostly for the non-financial enterprises in BGN.¹⁹

In 2020, there were also changes in the legislative framework relevant to the capital market in Bulgaria, as in March amendments in the POSA came in force aiming to encourage the long-term engagement of shareholders in the public companies and their identification, as well as facilitating the exercise of shareholder rights – related to the transposition of the requirements of Directive 2017/828 of the EP for the amendment of Directive 2007/36/EC.

The impact of the pandemic was palpable for Bulgarian capital market, and in the beginning of 2021 partial recovery was observed. The major challenge is still the negative yields on debt instruments and the zero or negative interest rates on bank deposits, which inevitably influence the decisions of companies and households for savings and investments.

¹⁴ See Bucharest Stock Exchange: <https://www.bvb.ro/FinancialInstruments/Indices/IndicesProfiles.aspx?i=BET>

¹⁵ See <https://www.belex.rs/eng/#>

¹⁶ See Ministry of Finance: Volume of the secondary market for the purpose of fulfillment of Item 2 of the criteria for selection of primary dealers of GS for the periods 01.01.2019 – 31.12.2019 and 01.01.2020 – 31.12.2020

¹⁷ By own calculations and data from Statistics of BNB: Yield on GS and long-term interest rate for evaluation of the convergence level.

¹⁸ Ibidem.

¹⁹ See Interest rate statistics of BNB: Interest rates and volumes on new transactions for deposits with contractual maturity and repo-transactions in the sector of non-financial enterprises.

Appendix 4
Distribution of the number of protected clients and the potential compensation by groups of client assets as of 31.12.2020

Client asset groups	Clients of II with min. equity 250 thousand BGN (in BGN)	Compensations for II with min. equity 250 thousand BGN (in BGN)	Clients of II with min. equity 1,5 M	Compensations for II with min. equity 1,5 million BGN (in BGN)	Clients of Banks II	Compensations of Banks-II (in BGN)	Total numbers of clients	Total compensation (in BGN)
From 0,01 BGN to 500,00 BGN	2 198 54%	989 100 3%	26 345 65%	11 855 250 7%	39 097 36%	17 593 650 3%	67 640 44%	30 438 000 4%
From 500,01 BGN to 1 000,00 BGN	308 8%	277 200 1%	2 953 7%	2 657 700 1%	14 506 13%	13 055 400 2%	17 767 12%	15 990 300 2%
From 1 000,01 BGN to 4 000,00 BGN	488 12%	1 756 800 6%	4 406 11%	15 861 600 9%	25 004 23%	90 014 400 14%	29 898 20%	107 632 800 13%
From 4 000,01 BGN to 7 000,00 BGN	182 4%	1 146 600 4%	1 405 3%	8 851 500 5%	8 149 8%	51 338 700 8%	9 736 6%	61 336 800 7%
From 7 000,01 BGN to 12 000,00 BGN	165 4%	1 782 000 6%	1 256 3%	13 564 800 8%	7 388 7%	79 790 400 12%	8 809 6%	95 137 200 11%
From 12 000,01 BGN to 17 000,00 BGN	85 2%	1 300 500 4%	692 2%	10 587 600 6%	3 143 3%	48 087 900 7%	3 920 3%	59 976 000 7%
From 17 000,01 BGN to 23 000,00 BGN	63 2%	1 304 100 4%	582 1%	12 047 400 7%	2 965 3%	61 375 500 9%	3 610 2%	74 727 000 9%
From 23 000,01 BGN to 30 000,00 BGN	48 1%	1 296 000 4%	440 1%	11 880 000 7%	1 673 2%	45 171 000 7%	2 161 1%	58 347 000 7%
From 30 000,01 BGN to 37 000,00 BGN	48 1%	1 598 400 5%	333 0,8%	11 088 900 6%	1 213 1%	40 392 900 6%	1 594 1%	53 080 200 6%
From 37 000,01 BGN to 44 444,44 BGN	41 1%	1 640 000 5%	244 0,6%	9 759 999 6%	977 1%	39 079 996 6%	1 262 0,8%	50 479 995 6%
From 44 444,45 BGN to 59 000,00 BGN	63 2%	2 520 000 8%	357 0,9%	14 279 999 8%	1 040 1%	41 599 996 6%	1 460 1%	58 399 994 7%
From 59 000,01 BGN to 78 000,00 BGN	59 1%	2 360 000 8%	304 0,8%	12 159 999 7%	718 1%	28 719 997 4%	1 081 0,7%	43 239 996 5%
From 78 000,01 BGN to 98 000,00 BGN	41 1%	1 640 000 5%	185 0,5%	7 399 999 4%	463 0%	18 519 998 3%	689 0,5%	27 559 997 3%
From 98 000,01 BGN to 147 000,00 BGN	54 1%	2 160 000 7%	279 0,7%	11 159 999 6%	562 1%	22 479 998 3%	895 0,6%	35 799 996 4%
From 147 000,01 BGN to 196 000,00 BGN	35 0,9%	1 400 000 5%	142 0,4%	5 679 999 3%	303 0%	12 119 999 2%	480 0,3%	19 199 998 2%
Above 196 000,01 BGN	169 4%	6 759 999 23%	461 1%	18 439 998 10%	1 055 1%	42 199 996 6%	1 685 1%	67 399 993 8%
TOTAL:	4 047 100%	29 930 698 100%	40 384 100%	177 274 742 100%	108 256 100%	651 539 830 100%	152 687 100%	858 745 270 100%



**INVESTOR
COMPENSATION
FUND**

FINANCIAL STATEMENT

2020

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REPORT OF INDEPENDENT AUDITOR

To: The Management Board of the INVESTOR COMPENSATION FUND

Report on the financial statements

Opinion

We have audited the financial statements of the INVESTOR COMPENSATION FUND (ICF), consisting of the statement of financial position as of 31.12.2020 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended this date, as well as the explanatory notes to the financial statements, including the summary disclosure of significant accounting policies.

In our opinion, the accompanying financial statements present authentically, in all material respects, the financial condition of the ICF as of 31.12.2020, its financial results from its business and cash flows for the year ended that date, in accordance with International accounting standards adopted by the European Union.

Grounds for expressing an opinion

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

Report on other legal and regulatory requirements - Annual activity report

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

reports provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria.

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

Based on the procedures performed, our opinion is that:

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

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

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 statements and our audit report on it.

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

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

We have nothing to report in this regard.

Management's responsibilities for the financial statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Registered auditor:

Nikolay Polinchev

Date:

May 26, 2021.




684 Николай
Полинчев
Регистриран одитор

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

We communicate with those 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.

I. STATEMENT OF FINANCIAL POSITION

for the year ended on December 31st, 2020

thousand BGN

	Explanatory appendices	31.12.2020	31.12.2019
ASSETS			
Non-current tangible assets	2.11, 3	7	5
Non-current intangibles assets	2.12, 4	0	2
Non-current government securities measured at fair value through other comprehensive income	2.22, 5.1	6 698	7 438
Non-current government securities valued at amortized cost	2.22, 5.2	11 164	9 781
Total non-current assets		17 869	17 226
Receivables	6	390	416
Short-term part of long-term government securities	2.22	225	207
Cash and cash equivalents	7	477	92
Total current assets		1 092	715
Total assets:		18 961	17 941
RESERVES			
Compensation reserve	9	19 230	18 070
Reserve from fair value revaluations through other comprehensive income		(416)	(264)
Reserve from short-term part of long-term GS		555	376
Uncovered loss from past years		(250)	
Result for the period		(235)	(250)
Total reserves:		18 884	17 932
LIABILITIES			
	10		
Liabilities to suppliers		0	1
Liabilities to clients of investment intermediaries for payment of compensations, and to suppliers		64	-
Liabilities to staff		10	6
Liabilities to social security funds		2	0
Tax liabilities		1	0
Other liabilities		0	2
Total liabilities		77	9
Total reserves and liabilities		18 961	17 941

II. PROFIT OR LOSS STATEMENT AND OTHER COMPREHENSIVE INCOME

for the year ended on December 31st, 2020

thousand BGN

	Explanatory appendices	31.12.2020	31.12.2019
Other income	11	91	-
Financial income/(expenses)	12	165	195
Material expenses	13	(6)	(5)
Expenses on external services	14	(118)	(100)
Depreciation expenses	4,5	(5)	(6)
Staff expenses	15	(352)	(317)
Other expenses	16	(10)	(17)
Pre-tax result		(235)	(250)
Result for the period		(235)	(250)
Other comprehensive income			
Income from a change in the fair value of financial assets carried in other comprehensive income, which will subsequently be reclassified to profit/loss		(223)	(104)
Income from change in fair value of financial assets transferred to profit/loss		71	10
Income from coupon payments, which will subsequently be reported in profit/loss		249	234
Income from coupon payments transferred to profit/loss		(70)	(35)
Total other comprehensive income for the year, net of taxes		27	105
Total comprehensive income for the year		(208)	(145)

III. STATEMENT OF CHANGES IN RESERVES

for the year ended on 31st of December 2020

thousand BGN

	Compensation reserve	Revaluation reserve	Reserve of coupon payments	Result for the period	Total reserves
Balance as of 31st of December 2018	16 988	(170)	177	(148)	16 847
Changes in reserves in 2019					
Initial and annual contributions in 2019	1 203				1 203
Overpaid and unrequired contributions by II recognized as annual contribution	7				7
Net effect of non-received contributions for 2018/2019	20				20
Transfer of accumulated profit/(loss) from previous years as a reserve for compensations	(148)			148	0
Result for the period				(250)	(250)
Total changes in reserves in 2019	18 070	(170)	177	(250)	17 827
Other comprehensive income in 2019					
Fair value revaluation reserve through other comprehensive income, which will subsequently be transferred to profit/loss		(104)			(104)
Fair value revaluation reserve transferred to profit/loss		10			10
Reserve of coupon payments, which will subsequently be transferred to the profit/loss			234		234
Reserve of coupon payments transferred to profit/loss			(35)		(35)
Total comprehensive income for 2019		(94)	199		105
Balance as of 31st of December 2019	18 070	(264)	376	(250)	17 932
Changes in reserves in 2020					
Initial and annual contributions for 2020	1 337				1 337
Booked amounts for payment of compensations to clients of an investment intermediary from the compensation reserve	(198)				(198)
Impaired unpaid contributions of investment intermediaries	(8)				(8)
Net effect of non-received/received contributions for 2019/2020	29				29
Result for the period				(235)	(235)
Total changes in reserves in 2020	1 160	-	-	(235)	925
Other comprehensive income in 2020					
Fair value revaluation reserve through other comprehensive income, which will subsequently be transferred to profit/loss		(223)			(223)
Fair value revaluation reserve transferred to profit/loss		71			71
Reserve of coupon payments, which will subsequently be transferred to the profit/loss			249		249
Reserve of coupon payments transferred to profit/loss			(70)		(70)
Total comprehensive income in 2020	-	(152)	179	-	27
Balance as of 31st of December 2020	19 230	(416)	555	(485)	18 884

IV. CASH FLOW STATEMENT

for the year ended on 31st of December 2020

thousand BGN

	Explanatory appendices	31.12.2020	31.12.2019
Cash flows from operating activities:			
Proceed from initial and annual contributions by investment intermediaries		1 337	1 203
Recovered court expenses	6	9	
Compensations paid to clients of investment intermediaries		(134)	-
Payments to suppliers		(115)	(119)
Payments to staff		(369)	(328)
Payments to the state budget		(0)	(0)
Net cash flow from operating activities:		728	756
Cash flows from investment activities:			
Payments for acquisition of fixed assets		(6)	(3)
Proceeds from sales of fixed assets		1	
Net flow used in investment activities:		(5)	(3)
Cash flows from financial activities:			
Proceeds from maturity/sale of government securities		518	1 792
Payments related to government securities		(1 510)	(3 332)
Payments for bank fees and commissions		(8)	(4)
Proceeds for coupons on government securities		533	534
Payments on coupons related to the purchase of government securities			(49)
Reclaimed amount from KTB bank		129	169
Net flow used in financial activities:		(338)	(890)
Net increase/(decrease) of cash and cash equivalents:		385	(137)
Cash and cash equivalents in the beginning of the period		92	229
Cash at the end of the period:	6;8;9	477	92

V. EXPLANATORY APPENDICES

1. GENERAL INFORMATION

The Investor Compensation Fund has an objective to contribute for the increase of the credibility in the Bulgarian capital market by providing payment of compensations to clients of investment intermediaries and their branches in the host countries in the cases when an investment intermediary is not capable of meeting its liabilities to clients due to reasons directly related to its financial state.

The activity of the Fund is determined in art. 77 of POSA. According to Art. 77m of POSA, the Fund raises funds from:

- initial contributions;
- annual contributions;
- income from investment of the accumulated funds;
- received funds from property of investment intermediaries in the cases as per art. 77f, para. 6 of POSA;
- other sources as: loans, endowments, foreign aid.

The accumulated funds can be invested in financial instruments issued or guaranteed by the state, short-term deposits in commercial banks and deposits in BNB. According to art. 77r of POSA, the Fund's resources can be used for payment of compensations, coverage of principal and interest on loans used by the Fund, and for coverage of the expenses related to the activity of ICF and IFRF.

The Fund is a self-sustained legal entity with headquarters at: Sofia 1000, 31 Tsar Shishman Str., Floor 2. The Fund has no branches. It is registered in Bulstat register under No. 131483562.

The Fund is managed by a Management Board, which comprises five members: Chairperson, Deputy Chairperson, and three members. The remunerations of the MB members are fixed and do not depend on the financial indicators of the Fund, which is why they are not a factor for risky management. The MB members are elected by the Financial Supervision Commission, as follows:

The Chairperson and Deputy Chairperson of the MB are elected according to art. 77e, para. 1 and para. 2 of POSA.

The other three members of the MB get proposed in accordance with art. 77e, para. 3 and para. 4 of POSA.

The Chairperson of the MB represents the Fund in the country and abroad, organizes and controls the ongoing activity of the Fund, summons and chairs the meetings of the MB, concludes and terminates the contracts with the administrative staff of the Fund, organizes and exerts ongoing control over the execution of the budget approved by the FSC.

The MB mandate is 5 years. The MB members continue to perform their duties after expiration of their mandate, until election in office of the new members. The MB members can be re-elected for unlimited number of mandates.

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

- **Petya Hantova-Georgieva** – Chairperson according to FSC Resolution No. 632-ICF dated 20.08.2020;

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

According to art. 135, para. 1 of RRCIIFA Investment Firms Resolution Fund was established. The IFRF is managed by the MB of ICF. The IFRF resources are kept separately from the ICF's resources, and the expenses related to the management of that fund are a part of the total administrative expenses of ICF. The MB's members do not receive separate remunerations for the management of IFRF.

According to art. 135, para. 3 of LRRCIIF, the MB of ICF prepares and publishes a separate Financial statement of IFRF. The Investor Compensation Fund does not prepare and publish a consolidated Financial statement, because the two Funds are not a parent entity and a subsidiary. IFRF is not an independent legal entity and ICF acts as a managing institution regarding IFRF, but without controlling it as per the meaning and requirements of IFRS 10 "Consolidated Financial Statements".

For the submission to the statistical and the tax authorities, the data submitted by ICF are consolidated for the two Funds.

2. MAIN ASPECTS OF THE ICF ACCOUNTING POLICY

2.1. 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 ICF.

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

The financial statement of the Fund was prepared with the historical price principle, except for the financial assets, categorized as reported at fair value in Other comprehensive income.

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

2.2. Responsibilities of the management

The MB of ICF confirms that for the accounting period were 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 are in the direction of adoption of the principles of good management, improvement of trust of the participants in the investor compensation scheme and of the persons interested in the management and the activities of ICF.

2.3. Declaration of conformity

The financial statement of ICF was prepared in conformity with IFRS, IAS, interpretations of the IFRS committee and of the Permanent committee for clarifications, adopted by the European Union.

For the preparation of the financial statements of ICF estimations were made, 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 report, are clearly specified.

2.4. Principles

2.4.1. Fair presentation

According to that principle, the financial statements of ICF 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.

2.4.2. Principle of the going concern

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

The assessment of the MB of ICF 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 ICF 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 ICF are that it will continue to perform all its activities.

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

2.4.3. Principle of accrual

ICF prepares its financial reports, 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.

2.4.4. Consistency of presentation

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

2.4.5. Materiality and generalization

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

2.5. Comparative information

ICF 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 report. In the cases when IFRS require otherwise, the information on previous periods is presented according to the specific standard.

2.6. 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 ICF. ICF 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 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 ICF.

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 ICF.

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 ICF.

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 ICF.

2.7. 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 by EU for the fiscal year beginning on 1st of January 2020, and they had not been applied earlier by ICF. 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 ICF 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” – the date of entry into 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.

IFRS 3 “Business combinations”

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

IAS 16 “Property, 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, 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

2.8. Changes in the accounting policy

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

2.9. Conversion into foreign currency

The financial statement is presented in BGN, which is the official currency and the presentation currency of ICF. 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.

The Fund is holding emissions of GS in EUR. The exchange rate of BGN to EUR is fixed and is: 1 EUR = 1.95583 BGN.

2.10. Recognition of income

ICF evaluates the financial revenues at fair value of the received or receivable payment. ICF recognizes as “*Financial income*” the income from investments of the “Reserve for compensations”.

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 impaired. For them interest rate on the net book value of the financial asset (after deduction of the compensation for losses) is applied.

2.11. Non-current fixed assets

The “*non-current fixed assets*” are presented in the financial statement at historical acquisition price, decreased by accrued amortization and impairment expenses.

In 2020, the Fund did not offer as collateral any “*Non-current fixed assets*” and there are no encumbrances on any of them.

In 2020, the Fund had “*Non-current fixed assets*” in the following groups:

- “Furniture and equipment”;
- “Computers and peripheral devices”.

According to the adopted accounting policy, the Fund recognizes as “Non-current fixed assets” the assets, which have acquisition price above 500 BGN. The assets below that value are recognized in the “Statement of profit or loss and the other comprehensive income”.

2.11.1. Initial evaluation of non-current fixed assets

At the acquisition, ICF evaluates “Non-current fixed assets” at the acquisition price, including the purchase price and all related direct expenses needed to bring the asset to working condition according to its purpose.

2.11.2. Subsequent evaluations of non-current fixed assets

The subsequent evaluation of “Non-current fixed assets” is by book value, which includes the acquisition price decreased by the amortization and the impairment losses.

The Fund recognizes the subsequent expenses as current maintenance of “Non-current fixed assets” in the “Statement of profit or loss and the other comprehensive income” in the period of their servicing. When the subsequent expenses can be reliably evaluated and it is probable that the Fund can get future economic benefits from the asset, then the subsequent expenses are included in the book value of the asset.

The Fund accounts the amortization of „Non-current fixed assets” by linear method for their expected service life, as follows:

Assets	Rate	Years
Furniture and equipment	15%	6.67
Computers and peripheral devices	50%	2.00

At any date of the financial statements, the Fund makes a review of the service life of the “Non-current fixed assets” and if necessary, corrects it.

In 2020, the Fund used fully depreciated “Non-current fixed assets” and assets below the threshold of significance in the “Accounting policy” at a total value of 22 thousand BGN

2.12. Intangible assets

The intangible assets of the Fund include “Software”.

The Fund recognizes as “Intangible assets” the assets, which have acquisition value above 500 BGN. The assets below that value are recognized in “Statement of profit or loss and the other comprehensive income”.

In 2020, the Fund used fully amortized “Non-current intangible assets” at a total value of 29 thousand BGN.

Intellectual property rights

The “Intellectual property rights” have limited life span and are accounted at acquisition price decreased by amortization. The amortization is calculated by linear method for the duration of the service life – 6.67 years.

The Fund recognizes the expenses on development of “Intellectual property rights” as intangible assets, when the following conditions are met:

- It has the technical capacity to complete the development;
- The management of the Fund intends to complete development of the “Intellectual property

rights” and to use them;

- It can be proven how the “*Intellectual property rights*” will generate potential future economic benefits;
- There are available relevant technical and financial means to complete the development of the “*Intellectual property rights*”;
- The expenses regarding the “*Intellectual property rights*” in the course of their development can be reliably measured.

The expenses on development of the “*Intellectual property rights*”, which do not meet the mentioned criteria, are recognized in “*Statement of profit or loss and the other comprehensive income*”. The expenses on development of the “*Intellectual property rights*”, which in previous years were recognized as expenses, are not recognized as assets in subsequent periods.

The expenses on development of the “*Intellectual property rights*”, recognized as assets, are amortized over their expected life span.

Software

The expenses, related to maintenance of computer software, are recognized as expenses in the moment of emergence.

The Fund recognizes the subsequent expenses as current maintenance of the computer software in “*Statement of profit or loss and the other comprehensive income*” in the period of their servicing. When the subsequent expenses can be reliably evaluated and it is probably the Fund to get future economic benefits from the asset, the subsequent expenses are included in the book value of the asset or are recognized as a separate asset.

2.13. Impairment of non-current assets

The Fund makes a review of non-current assets for impairment, when events or changes in circumstances prompt that the book value of the assets may not be recovered. In those cases the book value of the assets is corrected to their recoverable value.

For the purposes of valuation, the assets of the Fund are grouped at the lowest level, which has individually identified cash flows (units generating cash flows).

2.14. Financial assets

The investments in financial assets are made according to the “*Investment policy of ICF*”, complying to the requirements for security and liquidity, at yields within the market rates corresponding to those requirements.

Recognition and valuation

The Fund recognizes a financial asset, when it 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.

The financial assets are initially recognized at acquisition value plus expenses on the transaction.

The classification of the financial instruments of the Fund depends on the business model for management of the financial assets as of the date of their acquisition and the characteristics of the contractual cash flows. The MB of ICF defines the classification of the financial assets as of the date of their initial recognition in the report of financial state. The change in classification of the financial assets of the Fund is made after decision of MB. The Fund classifies the financial assets in two main groups: GS held for collection of contractual cash flows, and GS held to realize capital gain from changes of fair value.

Depending on the characteristics of the contractual cash flows and their classification, subsequently the Fund evaluates GS held for collection of cash flows by amortized value, and the subsequent valuation of GS held for capital gain is by fair value through other comprehensive income.

Subsequent valuation of financial assets

Financial assets accounted at amortized value

In that category can fall the following financial assets of the Fund depending on the selected business model and the characteristics of the cash flows from them: receivables, cash and cash equivalents and GS held to collect cash flows.

The accounting at amortized value requires application of the effective interest rate method. 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.

Financial assets accounted at fair value through other comprehensive income

In that category ICF puts instruments, which according to the model of management of GS are held to collect cash flows and to sell them. The cash flows from the instruments are only payments on principal and interest on the unpaid part of principal. The assets are presented in the financial report at fair value through other comprehensive income. The effects of impairment form revaluation reserve. At maturity or resale of those assets, the formed reserve is recognized as current result for the period.

Impairment of financial assets

ICF 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 ICF expects to receive discounted on annual basis with the initial effective interest rate.

The Fund applies “*Policy for recognition of expected credit losses of ICF and IFRF*”. According to that, 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. It explicitly describes three stages of credit risk deterioration, and for each stage are envisaged specific reporting requirements. At each reporting date, MB of ICF determines for the financial instruments of ICF at which stage they should be classified, so that the respective requirements can be applied.

- **Stage 1 (regular exposures)** – here the financial assets without indications for credit risk deterioration versus the initial evaluation are categorized. 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)** – here the financial assets with significant increase of credit risk versus the initial evaluation, but without objective proofs for impairment are categorized. 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)** – here the financial assets with significant increase of credit risk and for which are present objective proofs for impairment are categorized. For those exposures, which are unserviced, a recognition of credit impairment 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.

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 issuers of the debt securities in which the resources of ICF are invested. At the assessment the probability of default and the losses due to default by issuers of the securities held by ICF was taken into account.

Impairment of receivables

ICF 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 in overdue.

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

The Management Board of ICF made an assessment of the possibility the receivables of the Fund to be collected. MB determined the provision on receivables based on default analysis, historical experience about the rate of derecognition of uncollectable receivables and analysis of the solvency of the respective clients, changes in the contracted terms of payment, etc. Based on that and considering the impact of the pandemic on business, MB of ICF changed assessment on the collectability of receivables. See also *Explanation 6 “Receivables”*.

Other receivables

Those amounts usually originate from receivables related to the ordinary activity of the Fund. Interest on the other receivables can be accounted on the basis of the market rates, when the term for repayment exceeds six months. Usually, the collateral is not received.

Derecognition of financial assets

ICF derecognizes a financial asset, when the contractual rights on the cash flows from that asset expire or when ICF 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 ICF 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 ICF neither retains, nor transfers risks and benefits related to a financial asset, that asset is derecognized in the statement of financial position when ICF loses control over it. The rights and obligations which ICF retains in those cases are accounted as separate assets or liabilities. After transactions when ICF 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 ICF kept its share in the asset and bears the risk from changes in its value.

2.15. 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 profit or loss.

Compensation of 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.

2.16. Accounting of leases contracts

The Fund applies IFRS 16 “Leases” with respect to all leases contracts, including the short-term ones (i.e. with term up to 12 months) and the contracts where the underlying asset has a low value. On the date of entering in force of the contract, ICF assesses whether the contract is or contains leases. Namely, whether the contract transfers the right to control the underlying asset for a definite period of time. ICF recognizes liabilities on leases and beneficiary assets on contracts granting rights of use.

Determination of leases term on contracts with options to extend or terminate a lease

The Fund assesses the potential duration of the non-termination period and the term of the leases contract. The Fund does not deem it a leases contract, if both parties on the contract have the right to terminate it without permission by the other party against minimal penalty.

ICF accounts the leasing payments on short-term leases contracts and the leases contracts with low value of the underlying asset as expenses via the linear method for the term of the leases contract.

If ICF has decided to not account a contract as leases and there are changes in the contract clauses or in the leases term, then ICF again makes assessment of the categorization and accounting of the contract.

2.17. Equity

Equity is formed from the accrued reserves in ICF. Reserves include: reserve for compensations, reserve from fair value revaluation through other comprehensive income, reserve from short-term part of long-term GS, uncovered losses from previous years and result for the period.

2.18. Cash and cash equivalents

The cash funds and the short-term bank deposits in the balance sheet include funds on bank accounts, cash on hand and short-term deposits with maturity of up to three months. For the purposes of the cash flow statement, cash and cash equivalents include the monetary funds and equivalents as they are defined above. The owned by the Fund “*Cash and cash equivalents*” are more detailed in *Explanation 7 “Cash and cash equivalents”*.

2.19. Current and deferred income taxes

As per art. 77m, para. 3 of POSA, ICF is exempted from corporate tax on the activities for compensation of investors and for recovery and resolution of investment intermediaries. In 2020, ICF has no profit taxable according to CITA. According to CITA, ICF is taxable entity for the tax on expenses.

2.20. Pension contributions and other payables to staff

As an employer, ICF is obliged to pay the due social insurance contributions to the Public Social Insurance funds according to the Law on the Budget of PSI and the Law on the Budget of NHIF. The percent rates on the contributions payable by ICF are according to the provisions of the Social Insurance Code.

Short-term income of employees

ICF pays remunerations to its employees and the members of the MB. They are recognized as expenses in the “*Statement of profit or loss and the other comprehensive income*” for the period when work was performed or the conditions for their payment were met, and as a current payable (after deduction of all already paid amounts and withholdable deductions) at the amount of the non-discounted value. The amounts payable by the Fund are recognized as current expense and liability in non-discounted amount for the period of accounting of the income they are related to.

As of the date of the financial statements, the Fund assesses and accounts as current its liabilities to staff related to accruing compensated holidays. The assessment should include estimate of the expenses for remunerations and of the expenses for social insurance and healthcare contributions which ICF pays on those remunerations. The Fund has not developed and does not apply programs for income after resignation of staff.

2.21. Recognition of financial income

“*Financial income*” is evaluated at fair value of the received payment or the receivable. The Fund recognizes as “*Financial income*” the income from invested “*Reserves for compensations*”.

“*Financial income/(expenses)*” is detailed in *Explanation 12 “Financial income/(expenses)”*, *Explanation 5.1 “GS subsequently accounted at fair value through other comprehensive income”*, and *Explanation 5.2 „GS subsequently accounted at amortized value”*.

Interest income

Interest income is accounted using the effective interest rate method, with effective rate being the one which exactly discounts the expected future cash flows for the expected term of the financial instrument or for a shorter period, as relevant, to the book value of the financial asset. Interest income is included in financial income in the income statement.

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

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

2.22. Uncertainty of the accounting approximate estimates

By the preparation of the financial report, the management makes a few estimations, assessments and assumptions regarding the recognition and valuation of assets, liabilities, income and expenses.

The actual results may differ from the estimations, assessments and assumptions of the management and they rarely coincide fully with the preliminary assessments.

Information about the essential estimations, assessments and assumptions, which have biggest impact on the recognition and valuations of assets, liabilities, income and expenses, is presented below.

2.22.1. Effective life of depreciating assets

The management reassesses the effective life of the depreciating assets at the end of each reporting period. As of 31st December, the management determines the effective life of assets, which is the expected period of usage of each asset by ICF. The book value of the assets are analyzed in *Explanation 3 "Non-current fixed assets"*. The actual life may differ from the estimate due to technical wear or moral ageing, mostly of software and computer equipment.

2.22.2. Impairment of receivables

The management assesses the feasibility of that provision based on temporal analysis of receivables, historical experience on the rate of derecognized uncollectable receivables, as well as on analysis of solvency of the respective client, amendments in the contractual clauses, changes in payment terms, etc. If the financial position and the results from business activity of the clients deteriorate (beyond expectations), the value of receivables which have to be derecognized during subsequent reporting periods can be higher than the expected one as of the balance sheet date. The management of the Fund changed its assessment on impairment of receivables versus the previous years, and as of 31.12.2020 it amounts at 1 051 thousand BGN (for 2019 it was 1 134 thousand BGN). See *Explanation 6 "Receivables"*.

2.22.3. Determination of the expected credit losses

In relation with the requirements for impairment specified in IFRS 9, MB of ICF in estimating the probability of default (PD) of the issuer considered factors regarding the economic situation in the country. The factors considered by MB of ICF are: country credit rating, amount and the way of managing the government debt, increase/decrease of personal income and unemployment

rates, the government fiscal policy and its compliance, the fiscal reserve size, the GDP, the servicing of payments on issued GS, etc.

The credit rating of Bulgaria is an appraisal of the quality and security of the GS debt based on analysis of the financial position. The table below presents the credit rating of Bulgaria, as assigned by 2 international agencies.

The credit rating of Bulgaria is as follows:

Rating agency	31.12.2020		31.12.2019	
	Long-term	Short-term	Long-term	Short-term
Standard & Poor's (S&P)				
– in foreign and local currency	BBB	A – 2	BBB	A – 2
Fitch				
– in foreign currency	BBB	F2	BBB	F2
– in local currency	BBB		BBB	

After having reviewed and assessed the above presented quantitative and qualitative factors, MB of ICF estimated that in the short run (up to 12 months), the losses due to default for ICF can and should be assumed as 0, which has led to zero value of the expected credit losses.

Determination of the expected credit losses on deposits and monetary funds

As of 31.12.2020, ICF has a deposit in one commercial bank amounting at 200 thousand BGN. Considering the deposit term, having in mind that the bank has international credit rating assigned by international rating agency, and that it is under direct supervision of the European Central Bank, MB of ICF determined zero value of the expected credit losses for 2020.

ICF does not estimate risk regarding the monetary funds, because most of them are on current account at BNB, and small amounts are on current accounts in commercial banks supervised by ECB.

2.23. Management of financial risks

The activity of the Fund is mostly subject to credit, liquidity and market risks. The overall management of risks is focused on the unpredictability of financial markets and on the search of ways to minimize the potential negative effects on the financial position of the Fund. The management and supervision of the various risks faced by the Fund are described below. The management of the Fund on ongoing basis monitors the changes in the 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 31.12.2020, ICF has no active contracts for repo transactions.

ICF 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 Fund could not collect within the expected term the contributions from the participants in the investor compensation scheme and from the possibility that the Bulgarian government would not make payments on GS held by the Fund.

MB of ICF applies “*Policy for recognition of expected credit losses of ICF and IFRF*” /the Policy/ regarding those practices for credit risk management of ICF, which impact the evaluation of the credit risk and the measurement of the expected credit losses on exposures and the provisions according to the applicable accounting framework.

The policy sets proper mechanisms for control, administration and accounting procedures, which are in line with the reliable and efficient risk management, and internal methods allowing assessment of credit risk on the exposures and efficient systems for ongoing administration and monitoring on the various portfolios and exposures related to credit risk, including with the aim to detect and manage problematic exposures through adequate value corrections and assigning provisions.

The control procedures on the collection of resources by the Fund are detailed in POSA. Besides that, the Fund applies “*Internal procedure for collection of contributions owed by the participants in the Investor Compensation Fund*”.

The Fund may invest the accumulated resources in deposits and GS. The ratios between GS, receivables, cash and cash equivalents versus the total amount of assets as of the dates of the financial statements are as follows:

Assets with credit risk versus the total value of assets ¹	31.12.2020	31.12.2019
Share of GS	95.39%	97.13%
Share of cash and cash equivalents	2.51%	0.51%
Receivables from KTB AD (insolvent)	0.40%	0.64%
Receivables from II with revoked licenses ²	0.00%	0.04 %
Receivables on court expenses for cases against II ³	0.00%	0.05%
Receivables from II regarding the 4 th quarter of the annual contribution for the respective year	1.66%	1.59%

¹ The total percentage is not 100%, because the non-current fixed assets, the intangible assets and the prepaid expenses are not exposed to credit risk and thus, are not included in the table. Their share of the total value of assets is 0.04% of it as of 31.12.2019 and as of 31.12.2020.

² Via Resolution of MB, receivables are impaired by 100% as of 31.12.2020.

³ As of 01.01.2020, the total value of receivables amounts at 9 250 BGN. In 2020, 9 000 BGN of them were recovered, and 250 BGN are impaired by 100% via decision of MB.

The credit risk, which would arise from the share of GS in the portfolio, is estimated as minimal, because the Bulgarian government properly serves the payments on its liabilities.

Liquidity risk

Liquidity risk would arise in case the Fund has to pay compensations in excess of the available resources or in case of insolvency of a participant in the scheme when the Fund does not recover its “*Cash and cash equivalents*”.

Details about the client assets and the potential compensations are given in the annual report.

The Fund pays compensations to the clients of an investment intermediary in the occurrence of the circumstances as per art. 77b, para. 1 related to art. 77a para. 5 and art. 77v, para. 1 of POSA. Considering the procedure for payment of compensations defined in POSA and Ordinance No. 46 for the procedure and way for payment of compensations by ICF, the Fund would not face risk of sudden and quick payment of compensations.

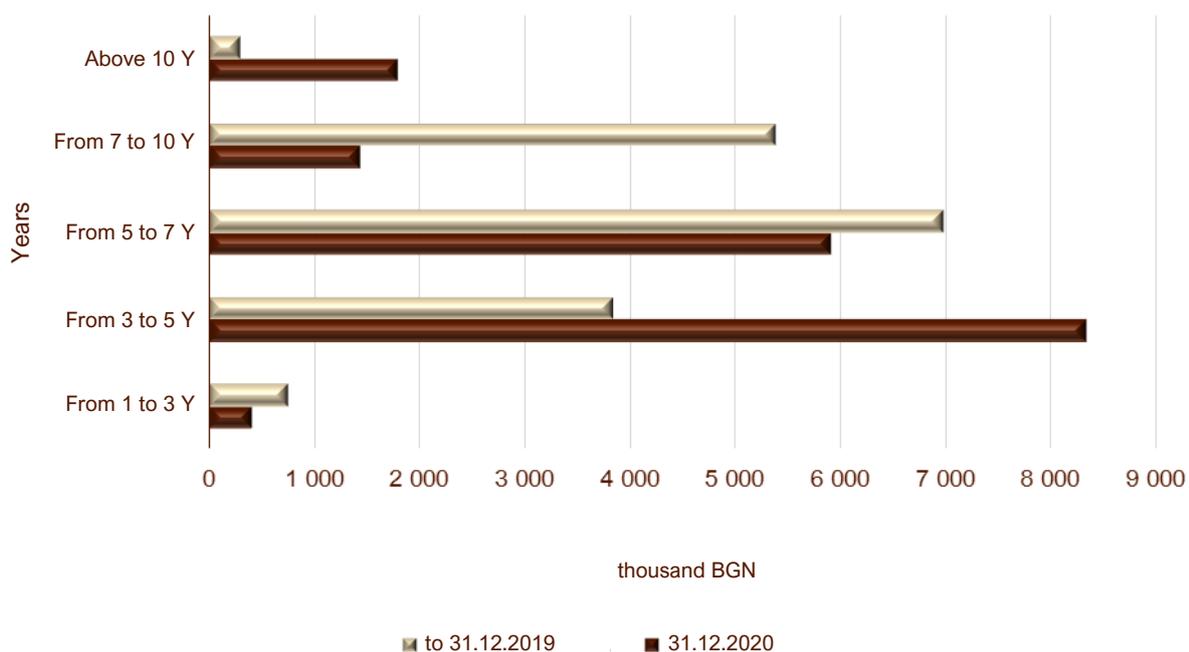
In case of shortage of funds to cover the liabilities of the Fund towards the clients of investment intermediaries, via resolution of the Management Board the insufficiency can be covered according to art. 77s of POSA.

With the aim to minimize liquidity risk, MB of the Fund monitors and takes decisions on the management of the Fund’s resources.

There would be liquidity risk on the GS held by the Fund, when they have very low liquidity and cannot be sold on a very short notice in case of necessity without suffering increased transaction expenses or capital losses. The procedures for the management of the Fund’s portfolio are detailed in the “*Investment policy of ICF and in the Model for management of GS of ICF*”.

The next figure presents the maturity structure of the Fund’s portfolio of GS.

Maturity structure of the government securities portfolio



Market risk

Market risk comprises currency, price and interest rate risks.

- **Currency risk**

The Fund is not exposed to currency risk, because it does not have investments in currencies other than EUR or BGN. On its investments in EUR, the Fund 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.

The next table presents the distribution of the financial assets by currency and term.

Distribution of the financial assets by currency and by term

thousand BGN

	31.12.2020				31.12.2019			
	Current		Non-current		Current		Non-current	
	BGN	EU	BGN	EU	BGN	EU	BGN	EU
Financial assets accounted at fair value through other comprehensive income:			1 017	5 681			1 575	5 863
incl. interest receivables	13	62			25	61		
Total financial assets accounted at fair value through other comprehensive income:	75		6 698		86		7 438	
Financial assets accounted at amortized value			7 329	3 835			7 406	2 375
incl. interest receivables	75	75			74	47		
Total financial assets accounted at amortized value:	150		11 164		121		9 781	
Receivables from KTB AD (insolvent) in BGN:	76				115			
Receivables from II* with revoked license	-				8			
Receivables on 4 th quarter from the annual contribution	314				284			
Cash	277				92			
Cash equivalents	200							
Total cash and cash equivalents	477				92			

- **Price risk**

The Fund is exposed to price risk with respect to the GS it holds “available for trading”. The Fund revalues the GS held for trading at the end of each month. The changes in the market prices of GS influence the income from GS. The amortization of GS held to maturity is not influenced by the market price levels.

The changes in market prices of GS held by the Fund would have influence in case that urgent sale of GS is needed, in order to secure liquidity for payment of compensations.

The management of the Fund has adopted and applies “*Investment policy of ICF*”, which contains the procedures for minimization of that type of risk.

Via resolution by MB of ICF dated 15.12.2020, in effect from 01.01.2021, the GS held by the Fund will be accounted only at amortized value, i.e. market prices will not influence the accounting of GS in the financial reports. Considering that, there is no analysis of the sensitivity of the Fund to changes in the prices of GS.

- **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 GS.

With the change of the interest rate policy of BNB from 2016 onwards, the Fund’s resources held as monetary funds at BNB are exposed to interest rate risk. In 2020, negative interest on the funds

on account was withheld from the Fund's resources on a current account in BNB. In that aspect, the Fund accounts for interest rate risk on the funds on current accounts in BNB, but it is limited within the range from 0% to -1%.

The Fund's portfolio comprises mainly investments in GS, which provide interest income. Because the interest income on GS is fixed on the purchase date /GS held by the Fund have fixed coupon payments/, the interest rate risk on the cash flows is limited. The amortization of the premium on GS held to maturity is included in the amount of interest rate income from GS as a correction of the interest income from GS. The amortization of the premium on GS held to maturity participates in the interest income from GS as a risk free component. The Fund has no GS which had any change in the contracted interest rates.

As of 31.12.2020, the share of income interest amounts at 247 thousand BGN, which is 73.04% from total income – 338 thousand BGN /in 2019, interest income was equal to 100% of the total income and amounted at 211 thousand BGN/.

As of 31.12.2020, the Fund holds investments in deposits at an interest rate of 0.

The Fund does not use loans, and there is no such interest accounted.

2.24. Fair Value Measurement

The Fund measures the fair value of GS held by it by collecting offers at market prices “buy rate” as of the revaluation date. Those values may differ from the actual ones which would be determined at the end of the reporting period at a fair market transaction between informed parties.

The Fund assumes that the book value of the financial assets and liabilities with maturity by the end of the next financial year approximates their fair value.

The Fund determines levels for the evaluations at fair value according to IFRS 13 “Fair Value Measurement”. Each level is determined by the lowest essential element of the respective level. The essentiality of each element is determined by its impact on the measurement of the fair value of the measured assets and liabilities, taking into account all factors. For the measurement at fair value of GS, the Fund regularly receives offers from primary dealers of GS, which is why the received prices fall in the 2nd level of the hierarchy of fair values. The offer prices are used for the measurement at fair value without additional processing.

Below is presented the hierarchical level of the security fair values as of various dates.

thousand BGN				
31.12.2019	Level 1	Level 2	Level 3	Total
GS	-	7 438		7 438
31.12.2020				
GS		6 698		6 698

In 2020, there were no transitions between the hierarchical levels of the fair values for the year.

3. NON-CURRENT FIXED ASSETS

The non-current fixed assets are presented in the following table:

Non-current fixed assets	Office equipment and PCs	thousand BGN
For the year ended on 31 December 2019:		
Value	9	
Accumulated amortization	(4)	
Amortization expenses	(3)	
Acquisitions	3	
Assets derecognized	(2)	
Amortization of derecognized assets	2	
Net book value on 31.12.2019	5	
Value	10	
Accumulated amortization	(5)	
For the year ended on 31 December 2020:		
Value	10	
Accumulated amortization	(5)	
Amortization expenses	(3)	
Acquisitions	5	
Assets derecognized	(1)	
Amortization of derecognized assets	1	
Net book value on 31.12.2020	7	
Value	14	
Accumulated amortization	(7)	
Net book value on 31.12.2020	7	

4. NON-CURRENT INTANGIBLE ASSETS

The non-current intangible assets are presented in the following table:

Non-current intangible assets	Software licenses	thousand BGN
For the year ended on 31 December 2019:		
Value	6	
Accumulated amortization	(2)	
Amortization expenses	1	
Acquisitions	(3)	
Assets derecognized	(2)	
Amortization of derecognized assets	2	
Net book value on 31.12.2019	2	
Value	5	
Accumulated amortization	(3)	
For the year ended on 31 December 2020:		
Value	5	
Accumulated amortization	(3)	
Amortization expenses	(2)	
Assets derecognized	(1)	
Amortization of derecognized assets	1	
Net book value on 31.12.2020	0	

5. NON-CURRENT GS SUBSEQUENTLY ACCOUNTED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AT AMORTIZED VALUE

GS held by the Fund are categorized as “Financial assets subsequently accounted at fair value through other comprehensive income” or as “Financial assets subsequently accounted at amortized value.”

5.1. GS subsequently accounted at fair value through other comprehensive income

thousand BGN

GS accounted at fair value	31.12.2020	31.12.2019
Book value as of 1 January:	7 524	6 837
Acquisitions:	-	2 618
incl. non-current GS	-	2 573
Sold GS:	(518)	(1 791)
Received interest	(297)	(311)
incl. in EUR	(232)	(256)
Accrued interest	108	76
incl. in EUR	27	71
Reserve on coupon payments	179	199
incl. in EUR	205	151
Revaluation	(223)	(104)
Book value as of 31 December	6 773	7 524
incl. short-term part of long-term GS	75	86

As of 31.12.2020, ICF has no GS accounted at fair value through other comprehensive income with remaining term to maturity less than 1 year from the date of the financial statements.

5.2. GS subsequently evaluated at amortized value

thousand BGN

GS, accounted at amortized value	31.12.2020	31.12.2019
Book value as of 1 January:	9 902	9 229
incl. GS accounted as cash equivalents	-	-
Acquisitions:	1 510	761
incl. non-current GS	1 510	761
Currency revaluation of acquired GS	(2)	0
Received interest	(236)	(223)
incl. in EUR	(61)	(43)
Accrued interest	246	229
incl. in EUR	71	55
Amortization of premium and currency revaluation	(106)	(94)
Book value as of 31 December:	11 314	9 902
incl. short-term part of long-term GS	150	121

As of 31.12.2020, ICF has no GS accounted at amortized value with remaining term to maturity less than 1 year from the date of the financial statement.

6. RECEIVABLES

The *Receivables* are presented in the following table:

	thousand BGN	
Receivables:	31.12.2020	31.12.2019
Receivables on 4 th quarter from II for the respective year	314	285
Court assigned receivables on deposits in KTB AD (insolvent)	1 119	1 248
Accrued impairment on deposits in KTB AD (insolvent)	(1 043)	(1 134)
Receivables from II with revoked license	8	17
Impairment of receivables from II with revoked license	(8)	-
Total receivables:	390	416

According to art. 77n, para. 4 of POSA the fourth contribution for the respective calendar year is payable until the end of January in the next year.

Regarding the receivable of ICF from KTB AD (insolvent), via resolutions of the MB of ICF the initial percentage defined by ICF as court assigned receivable: 20%, was changed to 26.39 %. In 2019, ICF received a part of its receivable on deposits in KTB AD (insolvent) amounting at 168 559.59 BGN, and on 08.10.2020 another part: amounting at 129 169.57 BGN. Besides that, ICF has a receivable from KTB AD (insolvent) due to unpaid annual contribution amounting at 220 340.40 BGN. The receivable of ICF from KTB AD (insolvent) due to unpaid annual contribution was not accounted, because it is unsecured and has priority according to art. 94, para. 1, item 7 of the Law on bank insolvency, according to the list of accepted receivables from KTB AD (insolvent) and there is no probability that it could be collected. Additional explanations are given in *Explanation 19 "Events after the reporting period"*.

Via resolution of the MB of ICF dated 23.02.2021, the receivable of the Fund from "Beta Corp" AD (in liquidation) amounting at 2 319.26 BGN as of 31.12.2020 due to unpaid annual contribution, is impaired by 100%.

ICF is an adjoined creditor in the case against Matador Prime OOD (insolvent). Via resolution of the MB, the receivable of the Fund from Matador Prime OOD (insolvent) due to unpaid annual contribution amounting at 5 456.58 BGN was impaired by 100%. Besides that, with respect to the insolvency case of Matador Prime OOD (insolvent), ICF had paid court expenses amounting at 9 250 BGN. On 07.07.2020, 9 000 BGN of them are recovered, and the remaining 250 BGN as of 31.12.2020, were devaluated by 100% with resolution of the MB of ICF dated 23.02.2021. With respect to Matador Prime OOD (insolvent), see *Explanation 10 "Liabilities"* and *Explanation 19 "Events after the end of the reporting period"*.

ICF is an adjoined creditor in an insolvency procedure of "Positiva" AD (insolvent), for the total amount of 46 600.53 BGN, and performed subrogation on receivable related to paid compensation to a client of "Positiva" AD (insolvent) amounting at 40 000 BGN together with the legal interest of 6 600.53 BGN on the paid compensation. The interest was calculated for the period from 18.04.2018 (date of payment of the compensation) until 02.12.2019 (date of opening the insolvency procedure). The amounts "Positiva" AD (insolvent) owes to the Fund are not accounted, because the court has not yet issued a final decision and data are missing about the property of "Positiva" AD (insolvent).

7. CASH AND CASH EQUIVALENTS

The Cash and cash equivalents of the Fund are presented in the following table:

thousand BGN

Cash and cash equivalents:	31.12.2020	31.12.2019
Cash on hand	1	2
Funds in banks	276	90
Deposits in commercial banks	200	-
Total Cash and cash equivalents:	477	92

As of 31.12.2020, the Fund has a deposit in one commercial bank. As of 31.12.2019, the Fund did not have deposits.

8. THE RESOURCES OF THE FUND

The resources of the Fund are presented in the following table:

thousand BGN

Resources of ICF	31.12.2020	31.12.2019
Non-current fixed assets	7	5
Non-current intangible assets	0	2
GS accounted at fair value through other comprehensive income	6 698	7 438
GS accounted at amortized value	11 164	9 781
Receivables	390	416
Short-term part of long-term GS	225	207
Prepaid expenses	0	0
Cash, current accounts and deposits	477	92
Total resources of the Fund:	18 961	17 941

As can be seen in the Table, in 2020, the Fund's resources grew by 1 020 thousand BGN or 5.69%.

9. RESERVES

The Reserves are presented in the following table:

	thousand BGN	
Reserves:	31.12.2020	31.12.2019
Total reserves	17 932	16 847
Initial and annual contributions	1 337	1 203
Net effect of non-received fourth contribution	29	20
Recognized as reserve overpaid contributions by II with expired preclusice term	-	7
Assigned amounts for payment of compensations to clients of investment intermediary from the reserve for compensations	(198)	-
Impaired unpaid contributions by investment intermediaries	(8)	0
Revaluation reserve at fair value, which will subsequently be transferred to profit/loss	(223)	(104)
Revaluation reserve at fair value, transferred to profit/loss	71	10
Reserve from coupon payments, which will subsequently be transferred to profit/loss	249	234
Reserve from coupon payments, transferred to profit/loss	(70)	(35)
Result for the period	(235)	(250)
Total reserves at disposal of the Fund:	18 884	17 932

According to POSA, investment intermediaries are obliged to pay the last fourth part of the annual contribution until 30.01 of the next year. The accounted non-received contribution as of 31.12 of the respective year is included to the amount of the received initial and annual contributions for the next year.

As can be seen from the table above, the reserves of the Fund increased by 952 thousand BGN or 5.31%.

10. LIABILITIES

The Liabilities to suppliers are presented in the following table:

	thousand BGN	
Liabilities:	31.12.2020	31.12.2019
Liabilities to clients of investment intermediaries as per resolutions of the MB of ICF for payment of compensations	64	-
Overpaid and pending reconciliation annual contributions of investment intermediaries	0	0
Liabilities regarding provisioned holiday leaves and social insurance on them, as well as for tax on the expenses according to CITA	12	0
Current liabilities	1	1
Total liabilities:	77	1

From 01.01.2020 to 31.12.2020, according to art. 77a, para. 2, art. 77b, para. 1, item 3, art. 77v, art. 77g, art. 77z, para. 1, item 4 and art. 77f, para. 3 of POSA, the MB of the Fund took 16 decisions for payment of compensations to clients of Matador Prime OOD (insolvent) amounting at totally 197 936.82 BGN. The amount of the determined compensations was deducted from the reserve for investor compensations of ICF. As of 31.12.2020 the compensations on 12 cases amounting at totally 134 183.96 BGN were paid. See also *Explanation 19 "Events after the reporting period"*. In 2019, ICF did not account liabilities to clients of Matador Prime OOD (insolvent), because the MB of ICF has not decided finally on them.

As of 31.12.2020, ICF accounted tax liabilities amounting at 0 BGN (as of 31.12.2019 0 BGN).

11. OTHER INCOME

„Other income” is presented in the following table:

	thousand BGN	
Other income:	31.12.2020	31.12.2019
Recovered impairment	90	-
Sales income	1	-
Total other income:	91	-

With resolutions by the MB of ICF as of 31.12.2020 impairment on deposits of ICF in KTB AD (insolvent) amounting at totally 90 thousand BGN was recovered. In 2020, the Fund generated tangible asset sales income amounting at 575 BGN.

12. FINANCIAL INCOME/(EXPENSES)

The Financial income/(expenses) are presented in the following table:

	thousand BGN	
Financial income/(expenses):	31.12.2020	31.12.2019
Interest on GS	353	305
Amortization of premium on GS	(106)	(94)
Financial expenses from sale of GS	(71)	(10)
Expenses on currency operations	(1)	(1)
Other financial expenses	(10)	(5)
Interest income on defaults	0	0
Total financial income/(expenses):	165	195

In 2020, the net result of the financial income and expenses decreased versus 2019 by 30 thousand BGN, and at the same time, in Other comprehensive income, the net effect of recognized coupon payments in Other comprehensive income is 179 thousand BGN (in 2019 it was 199 thousand BGN) and the net income from changes in fair value of financial assets amounts at (152) thousand BGN, (in 2019 it was (94) thousand BGN), which will subsequently be transferred to profit or loss.

13. EXPENSES ON MATERIALS

The expenses on materials are presented in the following table:

thousand BGN

Expenses on materials	31.12.2020	31.12.2019
Fuel and materials for a vehicle	(1)	(2)
Expenses on materials for repairs in the office	(1)	0
Expenses on office consumables	(3)	(2)
Other epenses on materials	(1)	(1)
Total expenses on materials:	(6)	(5)

As it can be seen in the Table, there are no significant changes in the amount of expenses on materials in 2020 versus 2019.

14. EXPENSES ON EXTERNAL SERVICES

The expenses on external services are presented in the following table:

thousand BGN

Expenses on external services	31.12.2020	31.12.2019
Expenses on external services related to vehicle	(1)	(1)
Expenses on consumables, rent, insurances and office upkeep	(48)	(48)
Expenses on rights for software usage	(8)	(8)
Expenses on phone and postal services	(5)	(4)
Paid remunerations on civils contracts	(37)	(25)
Membership fee to EFDI	(2)	(2)
Auditor services	(5)	(5)
Translations of official documents	(10)	(2)
Miscellaneous	(2)	(5)
Total expenses on external services:	(118)	(100)

In 2020, the amount of the expenses on external services increased versus 2019, mostly because of the payment of remunerations on civil contracts and expenses for translations of official documents related to the payment of compensations of clients of Matador Prime (insolvent).

15. STAFF EXPENSES

As of 31 December 2020, the number of full time employees in the Fund is 5 (in 2019 – 5), and MB of the Fund comprises 5 members (in 2019 – 5).

The staff expenses are presented in the following table:

	thousand BGN	
Staff expenses:	31.12.2020	31.12.2019
Expenses on remunerations:	(307)	(285)
incl. expenses on remunerations of the MB members	(182)	(163)
Expenses on social insurance	(34)	(32)
incl. expenses on social insurance for the MB members and on civil contracts	(9)	(9)
Provisions on unused holiday leaves and compensable social insurance on them	(9)	2
Social benefits	(2)	(2)
Total staff expenses:	(352)	(317)

In 2020, the Fund has liabilities to staff for unused compensable holiday leaves and social insurance on them amounting at 12 thousand BGN (in 2019 – 7 thousand BGN).

16. OTHER EXPENSES

The Other expenses are presented in the following table:

	thousand BGN	
Other expenses	31.12.2020	31.12.2019
Expenses on business trips	(1)	(8)
Expenses for representative purpose	(2)	(3)
Fees for financial supervision on ICF and IFRF	(4)	(4)
Expenses according to the Law on Healthy and Safe Working Conditions and related ordinances	(1)	(1)
Miscellaneous	(2)	(1)
Total other expenses:	(10)	(17)

In relation to the pandemic in 2020 the expenses for business trips are 7 thousand BGN less than the amount of the expenses in 2019

17. GOVERNMENT GRANTS

ICF did not receive government grants in 2020, including from anti-Covid-19 measures.

18. RESEARCH & DEVELOPMENT AND ENVIRONMENT PROTECTION ACTIVITIES

In 2020, the Fund has not performed research and development activities.

The Fund's activities do not include environment protection ones.

19. EVENTS BEYOND THE REPORTING PERIOD

On 17.02.2021, on the website of the Commercial Registry and the Registry of Non-profit Legal Entities the fourth partial account for distribution of available funds among the creditors of KTB AD (insolvent) as per Art. 69, para. 1 of the Law on Bank Insolvency was published. In it, ICF is stated on line 6573, page 173 with an amount to receive 76 174.24 BGN.

On 26.01.2021, MB of ICF took a resolution for payment of a compensation to a client of Matador Prime OOD (insolvent) at the amount of 40 000 BGN. From 01.01.2021 to the date of certification of this report, ICF paid compensations to five clients of Matador Prime OOD amounting at totally 103 813.46 BGN.

20. DATE OF APPROVAL OF THE FINANCIAL STATEMENTS

This Financial statements were approved via Resolution of MB on 27.04.2021.



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