INVESTMENT FIRMS RESOLUTION FUND

ANNUAL REPORT

2021

TABLE OF CONTENTS

LIST OF ABBREVIATIONS

BNB – Bulgarian National Bank

CONCEPTUAL FRAMEWORK - Conceptual Framework for Financial Reporting

EU – European union

FSC - Financial Supervision Commission

GS – Government securities

IAS - International Accounting Standard

IASB - International Accounting Standards Board

ICF - Investor Compensation Fund

IFRF - Investment Firms Resolution Fund

IFRS - International Financial Reporting Standard

MFIA – Markets in Financial Instruments Act

MB - Management Board of the Investor Compensation Fund

POSA - Public Offering of Securities Act

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

RFR – Risk free rate

SRF - Single Resolution Fund

Activity Report of IFRF for 2021

Description of the activity

The Investment Firm Resolution Fund was established in January 2017 under the Law on the Recovery and Resolution of Credit Institutions and Investment Firms, in which was transposed into Bulgarian legislation Directive 2014/59/EU of the European Parliament and of the Council as of May 15th 2014 for establishment of credit institutions and investment firms recovery and resolution framework and for amendment of Directive 82/891/EES of the Council and directives 2001/24/ES, 2002/47/ES, 2004/25/ES, 2005/56/ES, 2007/36/ES, 2011/35/EU, 2012/30/EU and 2013/36/EU and of regulations (EU) №1093/2010 and (EU) № 648/2012 of European parliament and of the Council. The main activity of IFRF is to finance the tools foreseen in RRCIIFA for the recovery and resolution of the investment intermediaries under art. 10, para. 1 of the Markets in Financial Instruments Act, i.e. investment intermediaries with minimum required equity of 1.5 million BGN.

The IFRF financial means may be used to grant loans and guarantees to an institution under resolution, a bridge investment intermediary or an asset management vehicle; purchase of assets of an institution under resolution; acquisition of ordinary shares issued by a bridge investment intermediary, a bridge financial holding company or by an asset management vehicle. The funds can also be used to cover losses or recapitalize the institution under resolution, as well as to lend to other financing arrangements on a voluntary basis. As of 31.12.2021, the total number of participants in IFRF is 18.

IFRF is financed by annual contributions from its participants (investment intermediaries with minimum required equity of 1.5 million BGN). The individual annual contribution for each investment intermediary is determined for every calendar year by the Financial Supervision Commission in its capacity as a resolution authority regarding the investment intermediaries. FSC notifies each investment intermediary on its due annual contribution to IFRF, which should be paid within 30 days from the notification date. The Management Board of ICF monitors the compliance with that deadline and informs the resolution authority about the payment of the annual contributions and about possible delays.

The total amount of the determined by FSC individual annual contributions for 2021 of the participants in IFRF is 35 204,94 BGN. All investment intermediaries paid their assigned individual contributions and only one of them paid the due amount after the legal deadline, which is why it was charged with interest for delay.

During the year an annual contribution for 2020 was received from an investment intermediary, which in 2020 received a license to provide investment services and activities under art. 6, para. 2, items 3 and 6 of MFIA, with which he became a participant in the Fund. Thus, the total amount of accrued annual contributions in 2021 is 37 thousand BGN.

Apart from annual contributions, the Fund's resources are also formed by the income from investing the funds, interest on overdue receivables and other sources.

As of 31.12.2021, the resources of IFRF amount at 181 thousand BGN, of which 98% are invested in government securities, and the remaining are on current account in Bulgarian National Bank in its capacity as a depositary of IFRF`s funds. This current account is in the name of ICF, because IFRF is not an independent legal entity but only IFRF`s funds are kept in this account. Although the resources of IFRF are managed by the MB of ICF, they are separate and independent of the ICF's resources.

FSC in its capacity of a resolution authority takes the decision for the use of IFRF`s resources only for the purposes of resolution and assigns the Management Board of ICF to execute the taken decision.

Investment of the IFRF Financial Means

The decisions for investment of the IFRF's resources are performed according to the provisions of RRCIIFA and the approved by MB of ICF "Investment Policy and government securities management model of IFRF". The IFRF's funds are invested in conformity with the security, liquidity and diversification principles.

IFRF resources may be invested in deposits in BGN and EUR or other financial instruments offered by the BNB; deposits in euro with foreign banks assigned one of the three highest credit ratings by two credit rating agencies; debt instruments in euro, excluding embedded options, issued by foreign countries, foreign banks, foreign financial institutions, international financial organizations, foreign agencies or other foreign companies which instruments or issuers are assigned one of the three highest ratings by two credit rating agencies.

IFRF has the right to enter in repo agreements (repurchase agreements) in euro with foreign banks, foreign financial institutions or international financial organizations assigned one of the three highest credit ratings by two credit rating agencies; and lend against equivalent collateral its debt instruments holdings to foreign banks, foreign financial institutions or international financial organizations assigned one of the three highest credit ratings by two credit rating agencies. Also in compliance with the legal requirements the resources of IFRF may be awarded for management to the BNB against remuneration.

In accordance with the regulatory framework and the "Investment Policy and government securities management model of IFRF", during the year the Management Board of the ICF decided to purchase government securities denominated in EUR with the funds accumulated from the contributions received in 2020 and 2021.

Management of IFRF

IFRF is not an independent legal entity and is managed by the Management Board of the Investor Compensation Fund.

The Management Board of ICF is responsible for the collection and investment of the funds of IFRF, as well as for concluding contracts for borrowing funds and other forms of support and granting loans under the terms and conditions of RRCIIFA. In addition, the Management Board of the ICF is responsible for the implementation of the decisions taken by the FSC for the use of the IFRF`s funds.

In the performance of its functions, the MB of the ICF is assisted by the "IFRF Activities" Department, which is part of the organizational structure of the ICF. This unit is separate and independent of the other units in the organization of ICF and as of 31.12.2021 it has one employee.

In 2021, the procedure for resolution of investment intermediaries was not applied, which is why no IFRF resources were used.

The coronavirus pandemic continued in 2021 and anti-epidemic measures affected all spheres of economic life. The activity of IFRF was in line with the changed environment and the imposed restrictions, as the ICF`s MB showed the required organizational flexibility to ensure the continuity of the processes. Inflation is another very big threat to economies, which creates instability and uncertainty, hiding the risk of destroying entire social systems.

As of the date of the report, the COVID-19 pandemic has not passed and inflation is increasing, so the ICF`s Management Board cannot assess whether the financial consequences of the pandemic and inflation will trigger the recovery and resolution procedure of a participant in IFRF and respectively whether and how this will affect the financial state of IFRF.

In 2022 the management of the ICF will continue to take into account the impact of the epidemic and inflation on the activities of IFRF, which will continue to be fully compliant with the requirements of RRCIIFA and the provisions of other regulations relating to its activities.

INVESTMENT FIRMS RESOLUTION FUND

FINANCIAL STATEMENTS

2021

REPORT OF INDEPENDENT AUDITOR

To: The Management Board of the INVESTOR COMPENSATION FUND

Report on the financial statement

Opinion

We have audited the financial statements of the INVESTMENT FIRMS RESOLUTION FUND, consisting of the statement of financial position as of 31.12.2021 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended at that date, as well as the explanatory notes to the financial statements, including the summary disclosure of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the fund as of 31.12.2021, its financial performance and cash flows for the year then ended, in accordance with International Accounting Standards, as adopted by the European Union.

Grounds for expressing an opinion

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

Report on other legal and regulatory requirements

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 statement and our audit report on it.

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

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

We have nothing to report in this regard.

Management's responsibilities for the financial statements

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

Registered auditor:

Nikolay Polinchev

Date: February 28, 2022.

ANNEX to the Independent Auditor's Report on the Financial Statements of the INVESTMENT FIRMS RESOLUTION FUND for 2021

Auditor's Responsibilities for the Audit of the Financial Statements

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

We also:

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

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

I. Statement of financial position

for the year ended on 31 December 2021

thousand BGN

	Explanatory appendices	31.12.2021	31.12.2020
ASSETS			
Non-current assets			
Non-current government securities reported at amortized cost	7.1	177	73
Total non-current assets		**177**	**73**
Current assets			
Receivables		2	-
Short-term part of long-term government securities		1	-
Cash and cash equivalents	7.2	1	70
Total current assets		**4**	**70**
TOTAL ASSETS		**181**	**143**
RESERVES			
Recovery and resolution reserve	7.3	180	143
Result for the period		1	-
TOTAL RESERVES		**181**	**143**

II. Statement of profit or loss and other comprehensive income

for the year ended on 31 December 2021

thousand BGN

	Explanatory appendices	31.12.2021	31.12.2020
INCOME			
Financial income / expenses	7.3	1	0
Result before tax	7.3	1	0
Total income		1	0
RESULT FOR THE PERIOD		**1**	**0**
OTHER COMPREHENSIVE INCOME			
Total other comprehensive income for the year, net of taxes		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1**	**0**

III. Statement of changes in reserves

for the year ended on 31 December 2021

thousand BGN

	Recovery and resolution reserve	Result for the period	Total reserves
BALANCE AS OF 31 DECEMBER 2019	**109**	**1**	**110**
Changes in reserves in 2020			
Annual contributions	33		33
Result for the period		0	0
BALANCE AS OF 31 DECEMBER 2020	**142**	**1**	**143**
Changes in reserves in 2021			
Annual contributions	37		37
Result for the period		1	1
Other changes (from rounding)	1	(1)	0
BALANCE AS OF 31 DECEMBER 2021	**180**	**1**	**181**

IV. Statement of cash flows

for the year ended on 31 December 2021

thousand BGN

	Explanatory appendices	31.12.2021	31.12.2020
Cash flows from operating activities			
Revenues from annual contributions of investment intermediaries	7.3	35	33
Net flow generated by operating activities		**35**	**33**
Cash flows from financial activities:			
Cash payments related to GS		(104)	-
Cash payments against coupons of government securities		0	1
Net flow used in financial activities		(104)	**1**
Net increase / (decrease) of cash and cash equivalents:		(69)	34
Cash at the beginning of the period		70	36
Cash at the end of the period	**7.2**	**1**	**70**

V. Explanatory appendices

1. General information

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

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

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

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

As of 31.12.2021, the MB of ICF has the following members:

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

2. Basis for the preparation

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

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

The financial statement was prepared according to the historical cost principle.

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

3. Responsibilities of the management

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

The actions of the MB of ICF and of "IFRF Activities" Department are in the direction of adoption of the principles of good management and increasing of trust of the participants in the Fund for resolution of investment intermediaries.

4. Declaration of conformity

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

For the preparation of the financial statements of IFRF estimations, calculations and educated guesses were made, 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 subjective evaluation and complexity or where the guesses and estimations are essential for the financial statement, are explicitly announced.

5. Principles

5.1 Fair presentation

According to that principle, the financial statements of IFRF fairly present the financial state, financial results of the activity and the cash flows. Also, 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 were fairly presented.

5.2 Principle of the going concern

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

The assessment of the MB of ICF, which manages IFRF, regarding the applicability of the principle of the going concern covers period of 12 months from the report date taking into account the forecast for the continuous effects of the COVID-19 pandemic on business. The MB of ICF has reached the conclusion that there is no present essential uncertainty which could raise considerable doubt about the capacity of IFRF to continue functioning as going concern, and that respectively it is feasible to prepare the financial statement on the presumption of going concern. The intentions of MB regarding the future existence of IFRF are that it will continue to perform all its activities. There are no changes in the legislative framework regarding the activity of IFRF 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.

5.3 Principle of accrual

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

5.4 Consistency of presentation

The presentation and classification of items in the financial statements of the Fund are retained in subsequent reporting periods, because in 2021, it was not found any other more relevant presentation, and no changes in accounting standards required changes in presentation.

5.5 Materiality and aggregation

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

5.6 Comparative information

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

6. Summary of the material accounting policies

6.1 Changes in the accounting policies and reporting

6.1.1 New and amended standards and clarifications

For the first time in 2021 some amendments and clarifications are applied, but they do not influence the financial statement of IFRF. IFRF has not adopted standards, clarifications or amendments which are published, but have not entered into force yet.

Interest Rate Benchmark Reform- Phase 2 - Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases".

On 27th of August 2020, the International Accounting Standards Board published Interest Rate Benchmark Reform - Phase 2 - Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases", concluding its work in response to the interbank interest rates reform. The amendments provide temporary relief, which relates to the effects of financial reporting, when the interbank offered rate is replaced by an alternative risk free rate. In particular, the amendments provide practical guidance, when taking into account changes in the basis for determining contractual cash flows on financial assets and liabilities, to require an adjustment to the effective interest rate equivalent to the movement of the market interest rate. The amendments also make it easier to terminate the hedge relationship, including a temporary exemption from the need to comply with the separately identifiable requirement when the RFR instrument is designated as hedge of a risk instrument. The amendments to IFRS 4 "Insurance Contracts" are intended to enable insurers that still apply IAS 39 "Financial Instruments Recognition and Measurement" to receive the same benefits as those provided in the amendments to IFRS 9 "Financial Instruments". There are also amendments to IFRS 7 "Financial Instruments: Disclosures" to enable users of financial statements to understand the effect of the reference interest rate reform on financial instruments and the IFRS risk management strategy.

The amendments are effective for annual periods beginning on or after 1 January 2021 and must be applied retrospectively. The adoption of the amendments did not influence the financial state or the results from the activity of IFRF.

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

As of the date of this financial statement, new standards, amendments and clarifications to existing standards are published, which are not in force or are not adopted by European parliament and by the Council for the fiscal year beginning on 1st of January 2021, and they had not been applied earlier by IFRF.

The amendments in standards are not applicable to the activity of IFRF and are as follows:

- **IFRS 17 "Insurance contracts", including "Amendments of IFRS 4 "Insurance contracts"** - in force on or after 1st of January 2023.
- **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 not determined yet. The amendments have not yet been adopted by the EU.
- **Amendments to IFRS 3 "Business combinations", IAS 16 "Property, plant and equipment", IAS 37 ", Provisions, contingent liabilities and contingent assets"** - effective from 1st of January 2022.
- **IFRS 16 "COVID-19-Related Rent Concessions beyond 30th June 2021" (Amendments)** - effective from 1st of April 2021.
- **Amendments to IAS 12 "Income Taxes: Deferred Tax on Assets and Liabilities Arising from a single transaction"** - in force after 1st of January 2023. The amendments have not yet been adopted by the EU.

- **Amendments to IAS 1 "Presentation of Financial Statements" entitled "Classification of Liabilities as Current or Non-Current"** - The amendments are effective for annual periods beginning on or after 1st of January 2023, where earlier application is allowed. The standard has not yet been adopted by the European Parliament and the Council.
- **Amendments to IAS 1 "Presentation of Financial Statements" and Statement of Practice under IFRS 2 "Disclosure of Accounting Policies"** - The amendments are effective for annual periods beginning on or after 1st of January 2023. Earlier application of the amendments to IAS 1 "Presentation of financial statements" is allowed, provided that this fact is disclosed. These amendments have not yet been adopted by the European Parliament and the Council.
- **Annual improvements to IFRS Cycle 2018-2020** - The amendments are effective for annual periods beginning on or after 1st of January 2022. The amendments have not yet been adopted by the European Parliament and the Council.
- **Amendments to IAS 8 "Accounting policy, changes in accounting estimations and errors": Definition of accounting Estimates** - effective for annual periods beginning on or after 1st of January 2023. Earlier application is allowed. These amendments have not yet been adopted by the European Parliament and the Council.

6.2 Changes in the accounting policy

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

6.3 Conversion into foreign currency

The financial statement is presented in BGN, which is the official currency and the presentation currency of IFRF. The transactions in foreign currency are recorded 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 working 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 initial acquisition transaction.

6.4 Recognition of income

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

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

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

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

6.5 Financial instruments – initial recognition and subsequent measurement

6.5.1 Initial recognition

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

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

6.5.2 Subsequent measurement of financial assets

Financial assets accounted at amortized value

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

Impairment of financial assets

IFRF recognizes impairment for expected credit losses on all debt instruments, which are accounted at amortized value. The expected credit losses are based on the difference between the contractual cash flows and all cash flows, which IFRF expects to receive discounted on annual basis with the initial effective interest rate.

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

- **Stage 1 (regular exposures)** - the financial assets without indications for credit risk deterioration versus the initial evaluation are categorized here. For financial instruments, on which there had not been significant increase of credit risk versus the initial recognition, correction for expected credit losses, which originate from potential default in the next 12 months, is applied.
- **Stage 2 (exposures with irregular servicing)** - the financial assets with significant increase of credit risk versus the initial evaluation, but without objective proofs for impairment, are categorized here. For those credit exposures, on which there had been significant increase of credit risk versus the initial recognition, a recognition of correction for the expected credit losses for the remaining life of the exposure is required. Interest is accounted on the basis of the gross book value of the exposure.
- **Stage 3 (exposures with credit impairment)** - the financial assets with significant increase of credit risk and for which are present objective proofs for impairment are categorized here. For those exposures, which are unserved, recognition of credit devaluation for the remaining life of the exposure, irrespective of the duration of default, is required. Interest is accounted on the basis of the amortized value of the asset.

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

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

6.5.3 Impairment of receivables

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

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

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

6.5.4 Derecognition of financial assets

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

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

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

6.5.5 Subsequent measurement of financial liabilities

Liabilities accounted at amortized value

All liabilities are accounted at amortized value using the effective interest rate method. The elements categorized as trade or other payables usually are not revaluated, 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, expired or are revoked.

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

Compensation 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.

6.6 Management of financial risks

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

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

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

Types of risks

- **Credit risk**

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

In accordance to art. 136, para. 3, item 3 of RRCIIFA, part of the IFRF's resources are invested in debt instruments in EUR issued by a foreign government with one of the top three credit ratings assigned by two credit rating agencies. In case the credit rating of an issuer changes, the Fund is obliged to take actions to sell the relevant financial instruments.

Considering that the IFRF's resources are invested in assets with highest credit ratings, it can be assumed in the short run that the losses due to default would be zero, which leads to zero value of the expected credit losses for the IFRF portfolio. According to the policy for recognition of expected credit losses, the MB of ICF makes credit risk assessment once per year. For 2021 MB of ICF determined that the expected credit losses for the IFRF portfolio are 0 BGN.

The total exposure bearing credit risk is 177 thousand BGN (2020: 73 thousand BGN).

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

- **Liquidity risk**

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

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

- **Market risk**

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

- **Currency risk**

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

1 EUR = 1,95583 BGN

- **Price risk**

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

- **Interest rate risk**

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

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

In 2021 IFRF did not use borrowed funds bearing interest.

In 2021 from the Fund's resources on current account at BNB negative interest on the account balance was withheld. The expenses were borne and restored by ICF.

6.7 Other receivables

Those amounts usually originate from due contributions related to the ordinary activities of the IFRF.

Interest on the other receivables can be accounted on the basis of the market rates, when the term for repayment exceeds six months.

6.8 Equity

Equity is formed from the accrued reserves in IFRF.

FSC as resolution authority determins the individual contributions for each of the investment intermediaries as per art. 1, para. 1, item 2 of RRCIIFA.

6.9 Cash and cash equivalents

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

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

6.10 Government grants

IFRF would account government grants as other income.

IFRF did not receive government grants in 2021, including regarding COVID – 19.

6.11 Current income tax

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

7. Explanations to the financial statements

7.1 Debt instruments accounted at amortized value

thousand BGN

Debt instruments accounted at amortized value	31.12.2021	31.12.2020
Bonds of non-related parties	177	73
Total	**177**	**73**

The amount of recognized amortizations in 2021 is 712.26 BGN (2020: - 167.80 BGN)

7.2 Monetary funds and short-term deposits

thousand BGN

Monetary funds	31.12.2021	31.12.2020
Current accounts	1	70
incl. in BGN	1	70

The monetary funds on bank accounts bear floating interest rates based on the daily interest rates on bank deposits. As of 31.12.2021, the fair value of monetary funds is one thousand BGN (as of 31.12.2020, it was 70 thousand BGN).

7.3 Reserves

The changes in reserves are presented below:

thousand BGN

Description	Reserves
As of 31 December 2019	**110**
Changes in reserves in 2020	
Annual contributions	33
Result for the period	0
As of 31 December 2020	**143**
Changes in reserves in 2021	
Annual contributions	37
Result for the period	1
As of 31 December 2021	**181**

The amount of financial income/expenses in 2021 was 530.80 BGN (2020: 375.23 BGN).

As of 31.12.2021, the number of participants in IFRF is 18, the same as the number of participants in 2020.

In order to exercise control for compliance with the deadline under art. 139, para. 5 of RRCIIFA, FSC notified IFRF by letters from 13.04.2021 and 22.04.2021 about the amount of the contribution of each of the participants.

According to art. 139, para. 10 of RRCIIFA FSC was informed by a letter dated 18.05.2021 that as of 18.05.2021 only one investment intermediary has not paid the due contribution in the amount of 1,955.83 BGN.

8. Events after the reporting period

On February 22nd, 2022, the investment intermediary paid the due contribution to IFRF for 2021.

9. Date of approval of the financial statement

This financial statement was approved via Resolution of the MB of the ICF on 24.02.2022.

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