



**INVESTOR  
COMPENSATION  
FUND**



# **ANNUAL REPORT 2021**

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## MISSION OF ICF

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.

## STATUTE

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.

## INVESTOR COMPENSATION FUND

### MANAGEMENT BOARD:

Chairperson of the MB:

**Petya Hantova**

Deputy Chairperson:

**Diyana Miteva**

Members:

**Radoslava Maslarska**

**Irina Kazandjieva-Yordanova**

**Petko Krastev**

Headquarters:

1000 Sofia,  
31 Tsar Shishman str., Floor 2

Auditor:

**Nikolay Polinchev**

# ABBREVIATIONS:

<b>ABB</b> – Association of Banks in Bulgaria	<b>IFRS 9</b> - IFRS 9 „Financial Instruments“
<b>BALII</b> – Bulgarian Association of Licensed Investment Intermediaries	<b>MF</b> - Monetary Funds
<b>BAAMC</b> – Bulgarian Association of Asset Management Companies	<b>ROOICF</b> – Regulation on the Organization and Operation of the Investor Compensation Fund
<b>GDP</b> – Gross Domestic Product	<b>CA</b> – Current Account
<b>B-II</b> – Banks-Investment Intermediaries	<b>BNAO</b> – Bulgarian National Audit Office
<b>BNB</b> – Bulgarian National Bank	<b>AMC</b> – Asset Management Companies
<b>BSE</b> – Bulgarian Stock Exchange	<b>MB</b> – Management Board
<b>PSI</b> – Public Social Insurance	<b>FI</b> – Financial Instruments
<b>GS</b> – Government Securities	<b>ICF, the Fund</b> – Investor Compensation Fund
<b>EC</b> – European Commission	<b>IFRF</b> – Investment Firms Resolution Fund
<b>EU</b> – European Union	<b>GS</b> – Government Securities;
<b>ECB</b> – European Central Bank	<b>IADI</b> – International Association of Deposit Insurers
<b>RRCIIFA</b> – Recovery and Resolution of Credit Institutions and Investment Firms Act	<b>IASB</b> – International Accounting Standards Board
<b>CITA</b> - Corporate Income Tax Act	<b>EFDI</b> – European Forum of Deposit Insurers
<b>POSA</b> – Public Offering of Securities Act	<b>RFR</b> - Risk Free Rate
<b>MFIA</b> – Markets of financial instruments Act	
<b>II</b> – Investment Intermediaries	
<b>Conceptual Framework</b> – Conceptual Framework for Financial Reporting	
<b>FSC</b> – Financial Supervision Commission	
<b>SME</b> - Small and Medium Enterprises	
<b>IAS</b> – International Accounting Standard	

# I. ANNUAL REPORT OF ICF FOR 2021

## 1. KEY MOMENTS IN THE ACTIVITY OF THE FUND IN 2021

The main activity of the Investor compensation fund is to protect the clients of investment Intermediaries, banks-investment intermediaries and asset management companies by providing compensation in cases when they are not able to fulfil their obligations to clients for reasons, directly related to their financial state. The compensation which the Fund pays to each investor amounts to 90% of the value of the receivable/client assets, but not more than 40 000 BGN.

During the year compensations have been paid to five clients of "Matador Prime" LTD (insolvent) amounting at totally 104 000 BGN. Four of the resolutions in this regard have been made by the MB in 2020, and one resolution was made in the beginning of 2021. The procedure for payment of compensation to the clients of "Matador Prime" LTD (insolvent) was initiated on 01.02.2019. In total, 146<sup>1</sup> claims for payment of compensations were received in the Fund within the statutory deadline of 1 year (ended at 01.02.2020). The MB took decisions on all received claims for payment of compensations from clients of "Matador Prime" LTD (insolvent).

In 2021 the Fund's activity is predominantly 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. Furthermore, the MB adopted some changes in the internal rules concerning the activity of the Fund.

At the end of the year, the Management Board of the Fund took a decision to decrease the amount of the contribution on financial instruments eligible to compensation for 2022 to 0,03% while the amount of the contribution on monetary funds eligible to compensation was kept at the level from the previous five years – 0.25%. The main arguments for decreasing the amount of the contribution on FI are: the significant amount of the Fund's resources and the high degree of coverage of the Fund's resources in case of payment of compensation.

Another aspect of the Fund's activity in 2021 was the international activity, consisting on the one hand the participation of Fund's representatives in international events and on the other hand the exchange of information with the other investor compensation schemes from EU. All of the international

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<sup>1</sup> 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 Primer (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.

meetings were related to the Fund's associative membership in the European Forum of Deposit Insurers and the various working groups within it. Considering the pandemic crisis, all international meetings were held online.

The Covid pandemic which started in late 2019, continued to have its impact on economic and social life during the whole 2021. The imposed restrictive measures during the year challenged seriously all economies, as the economic consequences from the coronavirus crisis and the ways to adapt to the changes differ in various sectors. The Fund quickly managed to organize its activity in accordance with the changed environment, ensuring continuity of processes and efficiently and timely performance of its functions. Along with the continuing pandemic, in the end of 2021 the world faced rapidly increasing inflation rates. It all made for an even bigger uncertainty.

As of the date of report preparation, the dynamic development of the economic situation caused by the increased inflation, the pandemic and the outbreak of the war in Ukraine, makes it difficult to estimate what will be the effect on the financial state of Fund's participants and whether the procedure for payment of compensations to clients will be triggered. However, the MB of the Fund will continue to take into account the impact of the economic situation and the international events on the activity of the Fund and it will take all necessary actions to adapt to the changes of the environment.

In 2022 the main activity of the Fund will be focused on the protection of investors in financial instruments, by providing compensations in the cases determined by the law. Therefore, the Fund will continue to collect contributions from the participants and to invest its resources in accordance to regulations and market state. Another main priority of the Fund in the following year will be its international cooperation. ICF's representatives on the one hand are going to attend international events and on the other hand, are going to exchange information and experience with other investor compensation schemes from other countries.

## 2. RESOURCES

The main part of the Fund's resources is formed by the annual contributions received from the II, B-II and AMC. Moreover, each new participant makes an initial contribution.<sup>2</sup> 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 amount of the investment portfolio of the Fund since its establishment to 2021,

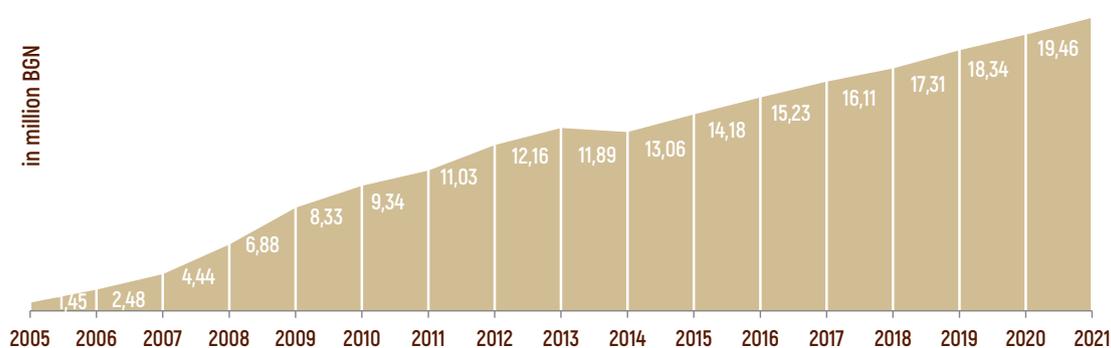
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<sup>2</sup>AMC do not pay initial contribution to the Fund

as of December 31st of the respective year. As of December 31st 2021, the investment portfolio of the Fund is 19.46 million BGN<sup>3</sup>, as compared to a year earlier it has increased by 1.12 million BGN. As the figure shows the Fund's investment portfolio has been increasing with a constant rate since 2014 – on average about 7,3% per annum, while in the first few years the rate was much higher, because of the amount of the contributions in that period has been set at the highest allowable level.

The administrative expenses of the Fund for 2021 (calculated on a cash basis) are 509.7 thousand BGN, as savings of 7% of the budgeted expenses have been realized.

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



Sources: ICF

## 2.1. CONTRIBUTIONS

The participants in the Fund pay initial and annual contributions. The initial contribution amounts 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.<sup>4</sup> The proceeds from initial contributions in 2021 amounted at 2 500 BGN since one company was granted a license for performing investment services and activities under art. 6, para. 2, items 1,2,4,5 and 7 of MFIA and for additional services under art. 6, para. 3, items 1 -5 of MFIA.

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.

<sup>3</sup> The Fund's investment portfolio includes government securities at amortized amount (excluding accrued interest), cash on hand and current and deposit accounts. The amortized amount of government securities is as of December 31st, 2021.

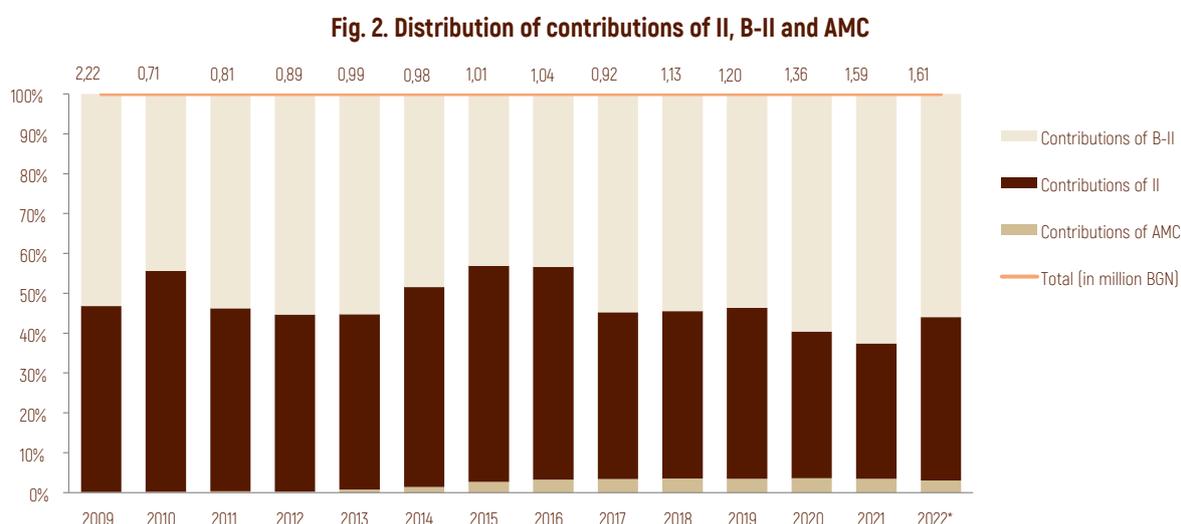
<sup>4</sup> IP whose license does not include holding of client money or financial instruments and which do not perform investment services and activities under art. 6, para. 2, items 3, 6, 8 and 9 of MFIA, do not participate in the Fund.

The annual contribution for 2021, determined by a decision of the MB, is as follows:

- 0,25% of the average monthly amount of the monetary funds eligible to compensation for 2020 and
- 0,05% of the average monthly amount of the rest of the clients' assets, eligible to compensation in 2020

The revenues from annual and initial contributions of participants in the Fund in 2021 amounted at 1,575 million BGN. For comparison, in 2020, the revenues from contributions amounted at 1,337 million BGN.

Fig. 2 presents the annual contributions of II, B-II and AMC for the period 2009-2022. It is based on the average monthly values of eligible to compensation FI and MF, declared by the participants for the previous year.



\*Data for 2022 is preliminary

Sources: ICF

The annual contribution in 2021 of II, B-II and AMC is 1,585 million BGN<sup>5</sup> versus 1,360 million BGN in 2020. The observed growth of 16,6% is due to increase in the basis, on which the contributions are calculated, namely the average monthly value of the clients' assets eligible to compensation held by the participants. Given the reported significant growth in the amount of client assets of B-II eligible to compensation, the share of their contribution to the Fund is highest in 2021 (about 64% for B-II, 34% for II, and 3% for AMC), and it is declining in 2022 (about 56% for B-II, 41% for II, and 3% for AMC).

The annual contribution for 2022 is expected to be with 22,6 thousand BGN higher than for 2021. The similar amounts of the contribution for 2021 and 2022 are due to the simultaneous effect of the lower FI contribution rate set in 2022 and the significant increase in the average monthly value of clients' assets,

<sup>5</sup> The shown amount includes four quarters of the annual contribution for 2021 and differs from the actually received income from contributions, because in 2021 on the Fund's current accounts were received one quarter of the annual contribution due for 2020 which is payable until 30.01.2021, and three quarters of the contribution due for 2021.

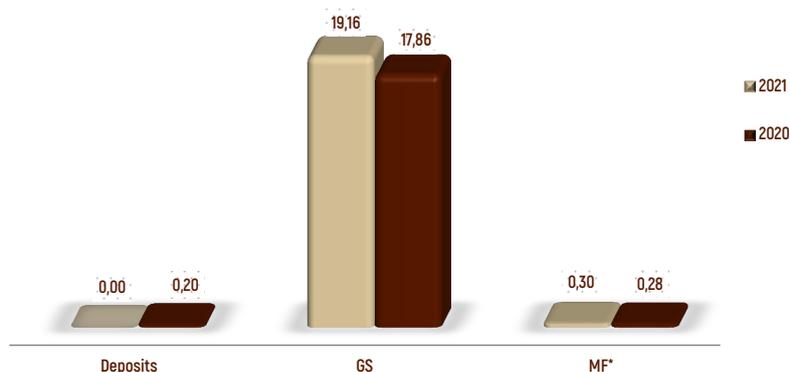
eligible to compensation in 2021.

## 2.2. INVESTMENTS

The accumulated resources in the Fund are invested in accordance with the provisions of POSA and the „Investment Policy and the model for management of GS of ICF“, and the investment decisions are in accordance to the requirements for security, liquidity and yield. 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 portfolio<sup>6</sup> of the Fund as of the end of 2020 and 2021.

**Fig. 3 Investment portfolio structure in million BGN**



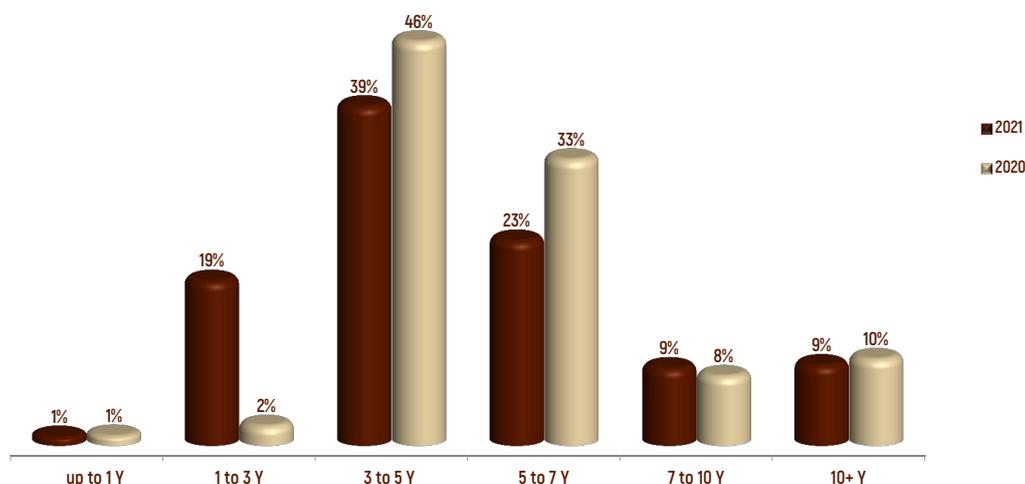
\*MF – cash in hand and on current accounts

A major part of the Fund's resources is invested in government securities, and as of 31.12.2021 their share is 98,5% versus 97,4% at the end of 2020. In contrast to the previous year, when the Fund held some of the resources in short-term deposits in banks, as of 31.12.2021 the Fund did not have investments in deposits. The funds on current accounts and in cash amount at 301 thousand BGN, which is a close amount to the previous year.

Fig. 4 presents the maturity structure of government securities and deposits as of 31.12.2021 and as of 31.12.2020.

<sup>6</sup>The value of government securities does not include accrued interest.

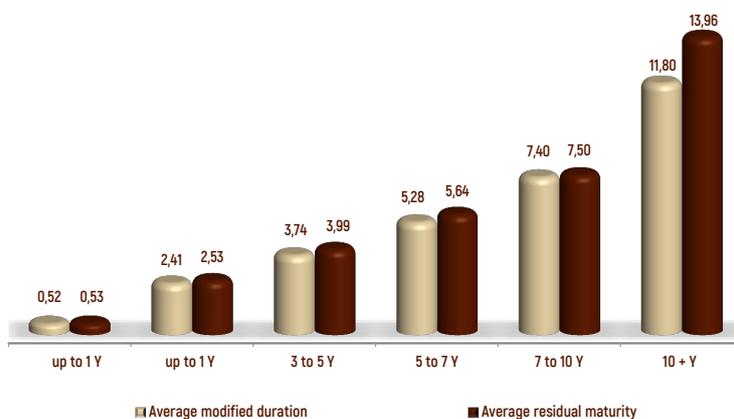
**Fig. 4. Maturity structure of GS and deposits**



The shifts between the intervals are due to the decrease of the maturity of the held GS, whereas the increase in the 7 to 10 years 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 31.12.21, 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 31.12.2021 is 4.88 years versus 5.58 years at the end of 2020. The average remaining term of the investments in GS also decreases slightly: from 6.16 years as of 31.12.2020 to 5.3 years at the end of 2021.<sup>7</sup>

<sup>7</sup> 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 31.12.2021.

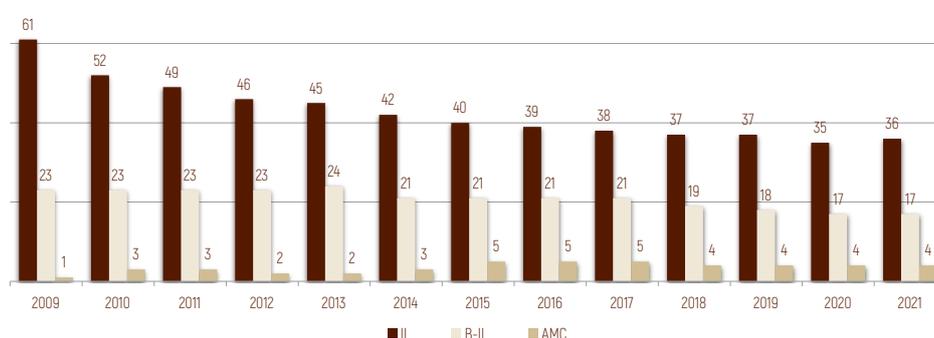
### 3. PARTICIPANTS

One new II joined the compensation scheme in 2021 since on August 5, 2021 FSC issued a decision for granting a license to "Nahman Capital" OOD to perform activity as investment intermediary to provide investment services and activities under art. 6, para. 2, items 1,2,4,5 and 7 of MFIA and for additional services as per art. 6, para. 3, items 1-5 and 7 of MFIA. As of 31.12.2021, the firms that submit to the Fund data on client assets are totally 57, of which 36 are investment intermediaries, 17 are banks-investment intermediaries and 4 are asset management companies. A list of participants in the Fund is given in Appendix 2.

Fig. 6 presents the total number of II, B-II and AMC in the Fund for the period 2009 – 2021. As shown on the figure, there is a decrease in the number of licensed II's. There is also a slight decrease in the number of B-II's in the last few years, which is due to the processes of consolidation observed in the banking sector in the country.

As for the AMC's that participate in the Fund there is no visible change in the analyzed period.

**Fig. 6. Number of participants in the investor compensation scheme**



The Bulgarian investment intermediaries that have the right to perform services and activities in the territory of Member states under the conditions of free provision of services are 17 in total<sup>8</sup>. One II operates through an established branch in Poland.

Investment intermediaries from EU member states also can provide investment services in the territory of the country either through a branch or through a free provision of services.<sup>9</sup>

<sup>8</sup> According to an II list published on the FSC website that have the right to perform investment services and activities on EU territory.

<sup>9</sup> A list of EU member states' II's that have the right to perform investment services on Bulgarian territory is visible on the FSC website, menu "Supervised entities", submenu "Notifications".

## 4. CLIENT ASSETS MANAGED BY THE PARTICIPANTS

According to the legal requirements, 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 eligible to compensation and for those that are not subject to compensation.

According to data submitted by the participants in the Fund, the total amount of client assets eligible to compensation as of 31.12.2021, is 5.08 billion BGN, and of those noneligible to compensation - 38.2 billion BGN.

Table 1 presents client assets eligible and noneligible to compensation of all participants (II, B-II and AMC) as of 31.12.2021 and as of 31.12.2020.

**Table № 1 Client assets managed by the participants as of December 31st of the respective year /in BGN/**

By groups:	Client assets eligible to compensation as of 31.12.2021	Client assets eligible to compensation as of 31.12.2020	Change on an annual basis	Client assets noneligible to compensation as of 31.12.2021	Client assets eligible to compensation as of 31.12.2020	Change on an annual basis
	(1)	(2)	[3=(1-2)/2]	(4)	(5)	[6=(4-5)/5]
<b>FI - B - II</b>	3 646 407 866	2 336 216 691	56%	32 044 121 102	29 901 873 085	7%
<b>FI - II</b>	1 178 525 211	757 253 857	56%	5 982 828 132	17 791 921 732	-66%
<b>MF - II</b>	135 514 233	111 270 341	22%	118 529 235	121 858 421	-3%
<b>FI - AMC</b>	102 275 810	63 702 733	61%	75 131 361	63 539 983	18%
<b>MF - AMC</b>	12 292 677	6 638 893	85%	7 602 868	9 262 140	-18%
<b>TOTAL:</b>	5 075 015 797	3 275 082 515	54,96%	38 228 212 699	47 888 455 361	-20,17%

Sources: ICF

The client assets subject to compensations increased significantly by 1,8 billion BGN compared to the end of 2020 when their amount was 3.28 billion BGN. In all groups of participants there is an increase in the amount of client's assets, as compared to 31.12.2020 in nominal terms, the greatest increase is of FI held by B-II and II, of about 1.7 billion BGN. The MF eligible to compensation also increased, respectively by 22% in the group of II and by 85% in the group of AMC.

In contrast to client assets eligible to compensation, the noneligible ones decreased significantly – from **47.9 billion BGN** as of 31.12.2020, to **38.2 billion BGN** as of 31.12.2021. The decrease is mainly due to FI, held by II that are 11.8 billion BGN less on annual basis. At the same time the FI held by B-II and AMC increased with 7% and 18% respectively compared to the end of 2020.

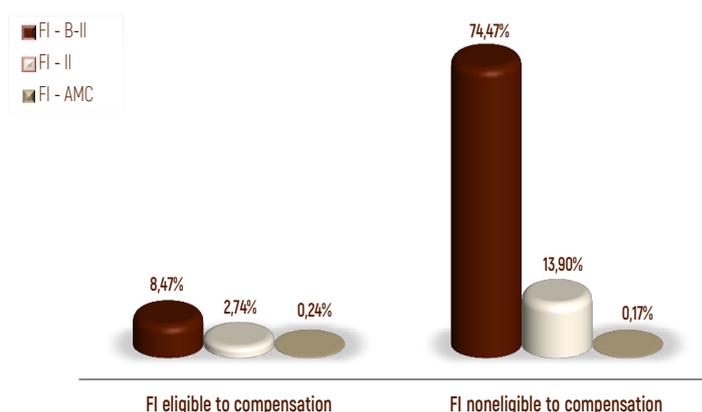
As of 31.12.2021, B-II continue to manage the greatest amount of client assets - 35.7 billion BGN<sup>10</sup>, of which the protected by the Fund were 3.65 billion BGN, and the unprotected were 32 billion BGN. The share of the protected FI in the total value of FI managed by B-II increased from **7%** as of 31.12.2020 to **10%** as of 31.12.2021.

As of 31.12.2021, AMC held client assets at the total amount of **197 million BGN**, of which the eligible to compensation were **104.6 million BGN**. The FI of the group, either eligible or noneligible to compensation, increased, respectively by 38.6 million BGN and 11.6 million BGN. As regards MF, the protected ones increased by 85% while the unprotected ones decreased by around 18%.

The resources of the Fund as of 31.12.2021, formed by initial and annual contributions of the II, B-II and the AMC, as well as from investments income, amount to 19.679 million BGN<sup>11</sup> and they represent 0.4% of the amount of client assets eligible to compensation (5.08 billion BGN). When the accumulated resources in the Fund exceed 5% of the total amount of client assets at all participants, the MB of the Fund may decide to temporarily suspend the payment of annual contributions. As of 31.12.2021, 5% of the client assets eligible to compensation amount to nearly 253,8 million BGN (5% of 5.08 billion BGN).

Fig. 7 represents the distribution of eligible and noneligible to compensation FI by groups of intermediaries as of 31.12.2021. The total amount of all FI is 43 billion BGN, of which the share of the protected ones is around 11.5% versus 6.2% as of 31.12.2020. The increase is due to the significant increase of FI eligible to compensation.

**Fig. 7. Distribution of FI by groups of intermediaries, as of 31.12.2021**



B-II hold the greatest amount of FI eligible to compensation – 8.5% of all FI (versus 4.59% as of the end of 2020), and they continue to hold the largest share of FI noneligible to compensation – 74.5% (versus

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

<sup>11</sup>The amount comprises GS at amortized amount (with accrued interest), cash on hand and on current and deposit accounts.

59% as of the end of 2020).

In 2021 the Fund's participants reported the highest value of protected FI since the establishment of the Fund – 4.9 billion BGN in December. At the same time, 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 19% of the maximal value.

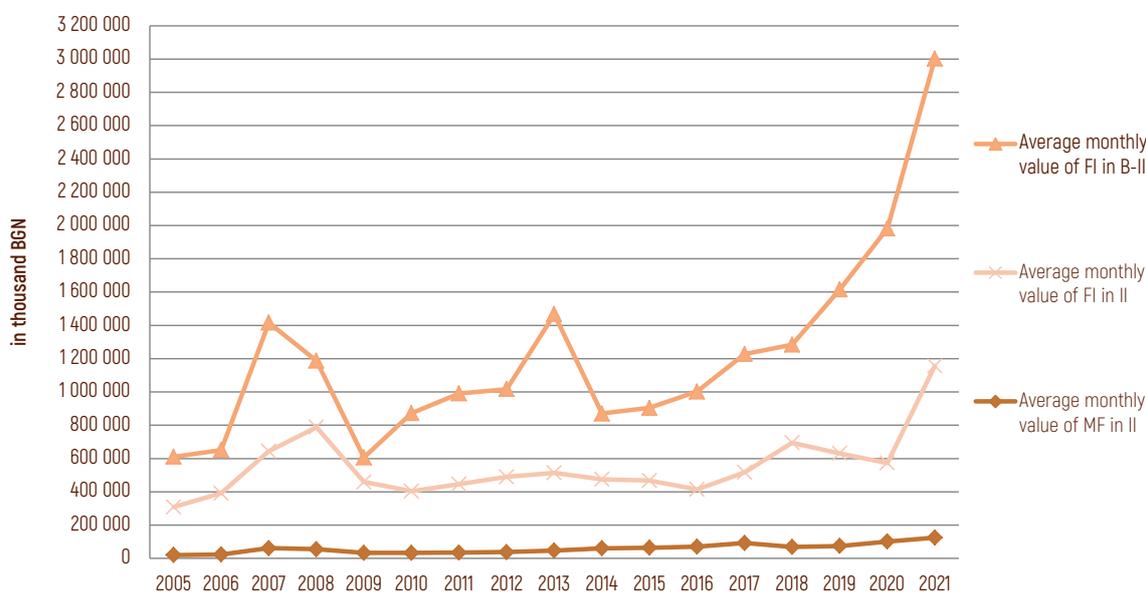
**Table № 2 Financial instruments subject to compensation**

FI of clients	Date	Peak value	Minimum	Peak value in 2021
	December, 2021	4 927 208 887		
	February, 2009		917 667 292	
	December, 2021			4 927 208 887
% of the peak value		100%	19%	100%

Sources: ICF

Fig. 8 presents the average monthly values of the client assets eligible to compensation, 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 client assets eligible to compensation.

**Fig. 8. Average monthly value of protected client assets in II and B-II**



In 2021 the average monthly amount of FI eligible to compensation in II and B-II increased significantly: from 2.55 billion BGN in 2020 to 4.16 billion BGN in 2021. The average monthly amount of FI in B-II is 3 billion BGN. This is around 1.02 billion BGN higher than in 2020. In 2021 the average monthly amount of FI in II is 1.16 billion BGN, i.e. by 583 million BGN higher compared to 2020. This is the highest level of FI in II since the establishment of the Fund, even exceeding the level before the financial crisis. As for MF

eligible to compensation: a slight increase in the average monthly account is visible (125 million BGN in 2021 versus 101 million BGN in 2020).

The client assets eligible to compensation and held by AMC are not included in Fig. 8, as they are of small value. In 2021, on average per month, AMC held FI eligible to compensation at the amount of 84 million BGN versus 60.7 million BGN in 2020. The average monthly amount of the MF eligible to compensation in AMC in 2021 is 9.1 million BGN which is almost the same as in 2020.

Table 3 presents the client assets eligible to compensation, 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	2021
Client assets eligible to compensation (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	5 075
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	30 781
Ratio client assets/ stock exchange capitalization	11%	12%	13%	21%	23%	16%	17%	17%	8%	9%	8%	12%	16%
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	119 951	128 439
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%	23,64%	23,97%

Source: web page of BSE, ICF

As can be seen from the table the stock exchange capitalization increased by 9% compared to 31.12.2020, reaching 30.78 billion BGN. The ratio of client assets subject to compensation to the stock exchange capitalization also increased - from 12% as of the end of 2020 to 16% as of 31.12.2021. The increase is due to the bigger growth of the amount of the client assets eligible to compensation. The proportion of stock exchange capitalization to GDP<sup>12</sup> is almost the same as of the end of 2020.

## 5. EXPOSURE TO THE PARTICIPANTS

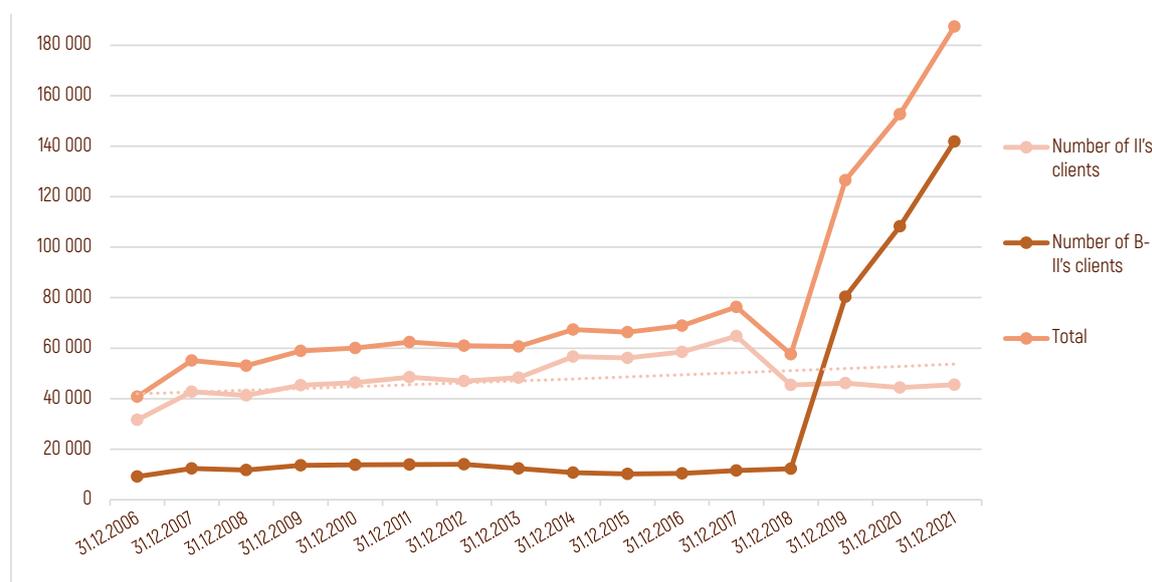
Every six months the participants in the Fund submit information on the number of their clients that possess assets subject to compensation, distributed by intervals based on the assets they own.

Based on this information, the Fund's exposure to the participants is assessed as well as the extent to which the funds available in the Fund will be sufficient for payment of compensations in case of triggering the procedure for payment of compensations. Fig. 9 represents the number of clients, that held

<sup>12</sup> The data for GDP in 2020 has been revised from those used in the 2020 Annual Report.

assets eligible to compensation, by groups of participants as of December 31st, for the period from 2006 to 2020, inclusive.

**Fig. 9. Number of protected clients by groups of intermediaries**



As of 31.12.2021, the total number of clients that are eligible to compensation for all participants in the Fund (II, B-II, AMC) is 188 177, i.e., their number increased by 34 954 compared to 2020. The increase is mainly due to the clients that eligible to compensation in the group of B-II, which as of the end of 2021 are 141 857 versus 108 256 a year before. The clients of II that held assets eligible to compensation as of the end of the year are 45 535 or 1 104 clients more than at the end of 2020. Until 2018, inclusive, B-II reported significantly less clients than II.

AMC declare a total of 785 clients with assets eligible to compensation.

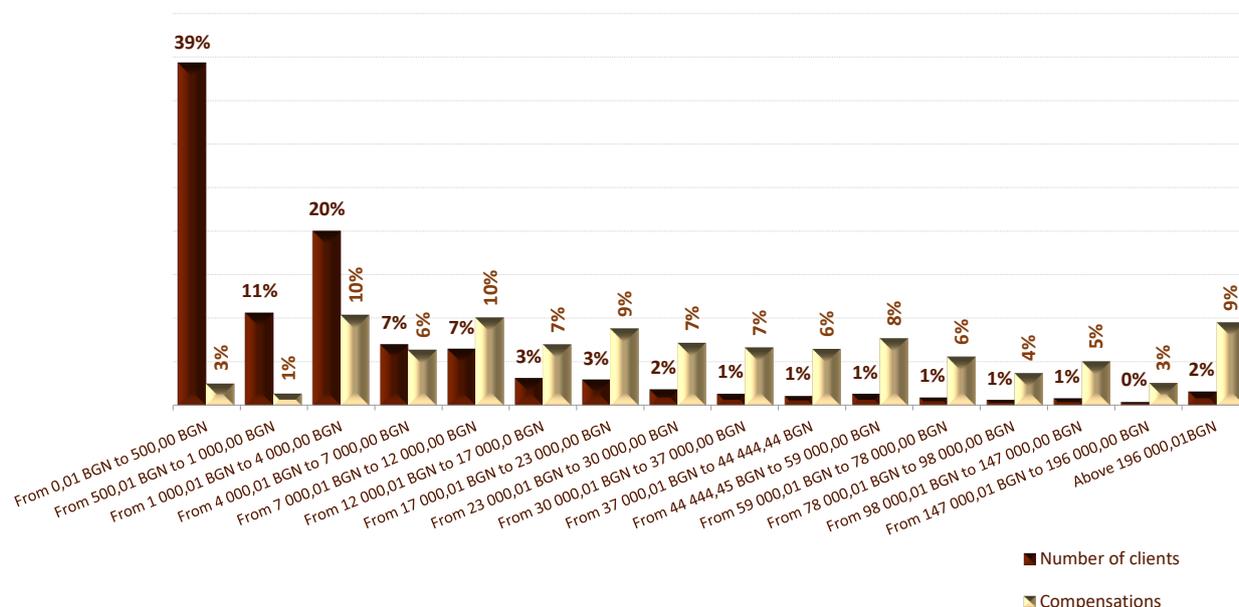
As of 31.12.2021, the Fund's exposure to its participants is **1.32 billion BGN** versus **868.20 million BGN** as of 31.12.2020.<sup>13</sup> The increase is due to the larger number of clients holding assets eligible to compensation, declared by B-II.

Due to the significant increase of clients in the B-II group, the exposure of the Fund is the highest in this group – **1.06 billion BGN**. The maximum compensation, calculated for the clients of II is **247.4 million BGN**, and for the clients of AMC – 20 million BGN.

<sup>13</sup> 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 clients' 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 31.12.2021. 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. 10 represents a distribution of the calculated maximum compensation and the number of clients eligible to compensation by groups of client assets.

**Fig. 10. Distribution of the maximum compensation and the number of clients, by groups of client assets**

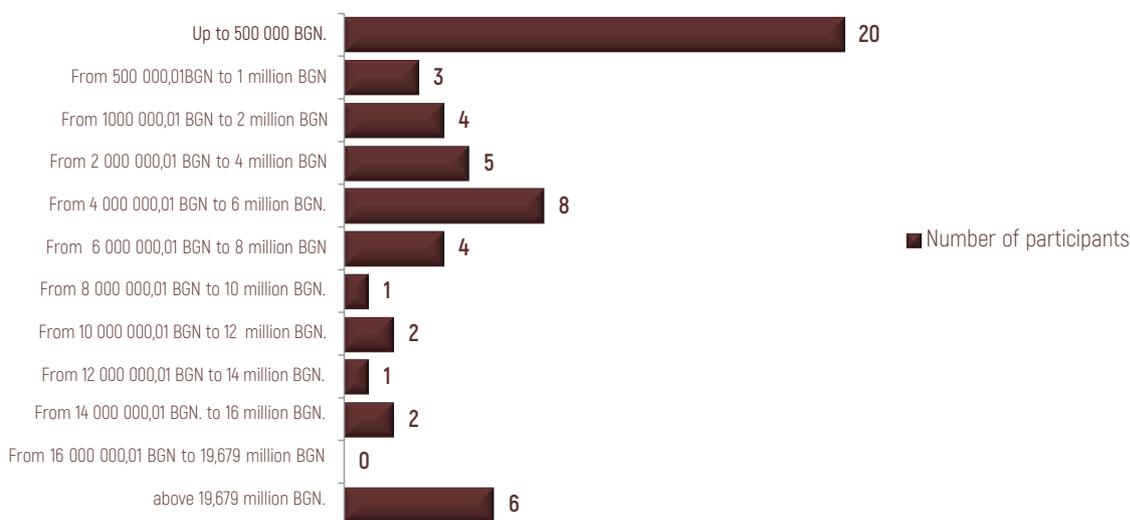


From a total of 188 177 clients of II, B-II and AMC, 73 936 or 39% hold assets up to 500 BGN. The maximum compensation calculated for these clients is 33.3 million BGN or 3% of all compensations. The largest compensation that the Fund would pay is for the clients who hold assets up to **4 thousand BGN**, they are 20% of all clients, and the compensation for them is 10% of all compensations, which in absolute value is 136 million BGN. As of 31.12.2021 the clients eligible to compensation who hold assets over **44 thousand BGN** are 11 200 (6% of all clients), and the maximum compensation calculated for them amounts at 448 million BGN, which is 34% of all compensations.

As of 31.12.2021 the accumulated resources of the Fund amount at 19.679 million BGN, and the total amount of the calculated potential compensation for all participants is 1.32 billion BGN, i.e., the Fund has 1,5% coverage of the potentially payable compensations (19.679 million BGN/1.32 billion BGN).

Fig. 11 presents the distribution of the participants by amount of compensation and by intervals up to the value of the Fund's resources (19.679 million BGN as of 31.12.2021).

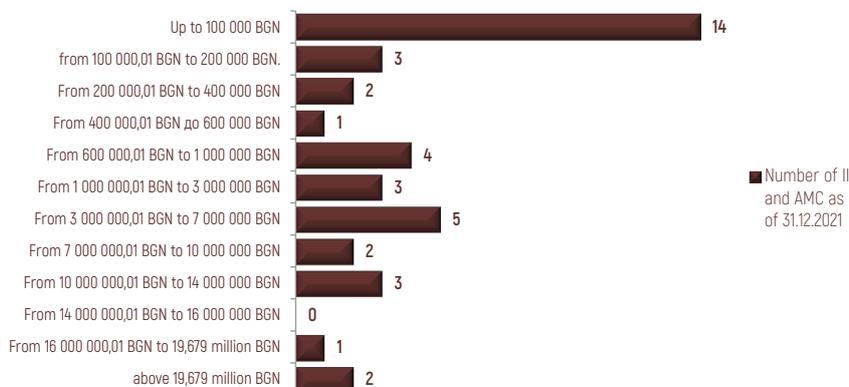
**Fig. 11. Number of participants depending on the Fund's exposure to their clients**



For a total of 20 intermediaries, the calculated compensation is in the range of up to **500 thousand BGN**, of which 15 II and 5 B-II. For six participants, the calculated compensation is above the Fund's resources, of which 3 are II and 3 - B-II. 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.

Fig. 12 represents the distribution of II and AMC according to the amount of MF eligible to compensation, held by them. The greatest number of participants hold clients' MF up to 100 thousand BGN (14 participants) and up to 7 million BGN (5 participants). In the current reporting period, there are 2 participants holding MF exceeding the Fund's resources.

**Fig. 12. Amount of MF of II and AMC as of 31.12.2021.**



## 6. INTERNATIONAL ACTIVITY

Although the pandemic situation in 2021 the Fund continued to perform international activity, which was mainly in line with associate membership of the Fund in EFDI. It is expressed on the one hand in the participation of its representatives in international meetings, working groups and conferences, and on the other hand in the exchange of information and experience with European schemes on various issues related to the schemes' activity. The meetings were held online because of the ongoing pandemic.

A meeting of the working group was held in September, on which the Fund's representatives made a presentation on the investments of the investors compensations schemes and the challenges that they face.

In the end of 2021, an online meeting was held within the investor compensation working group, main topic in which was the European legal framework concerning the investor protection.

In 2021 the Fund also initiated inquiries regarding the legal framework of investor compensation activity in other EU states and actively participated in discussions and questionnaires organized by other foreign schemes.

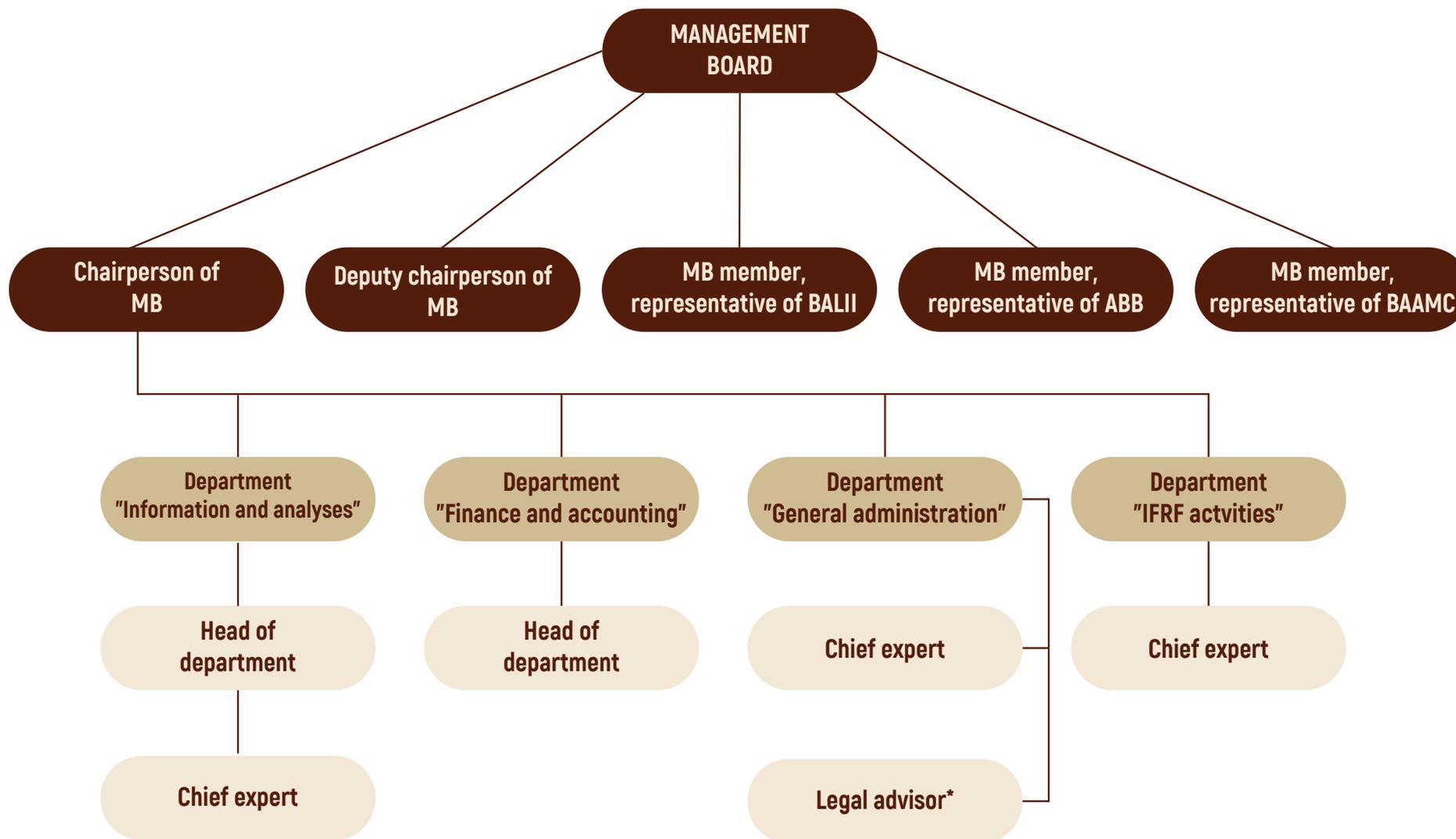
The participation of Fund's representatives at various events, as well as the exchange of information in the form of inquiries and surveys between the European schemes contribute for the improvement of the Fund's activity according to the best practices.



**INVESTOR  
COMPENSATION  
FUND**

# **APPENDICES**

## APPENDICE №1



\* The legal advisor is employed under a civil contract.

## APPENDICE №2

### INVESTMENT INTERMEDIARIES

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

## **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. ARKUS ASSET MANAGEMENT AD
2. EXPAT ASSET MANAGEMENT EAD
3. SKY ASSET MANAGEMENT
4. KAROL CAPITAL MANAGEMENT EAD
5. COMPASS INVEST AD



**INVESTOR  
COMPENSATION  
FUND**

# **FINANCIAL STATEMENT 2021**

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## **REPORT OF INDEPENDENT AUDITOR**

To: The Management Board of INVESTOR COMPENSATION FUND

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### **Report on financial statement**

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#### ***Opinion***

We have audited the financial statement of INVESTOR COMPENSATION FUND (Fund), consisting of the statement of financial position as of 31.12.2021 and 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 explanatory appendices to the financial statement, including summary disclosure of significant accounting policies.

In our opinion, the accompanying financial statements presents authentically, in all material aspects the financial state of the Fund as of 31.12.2021, its financial results of its activity and cash flows for the year ended this date, in accordance with the international accounting standards adopted by the European Union.

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#### ***Grounds for expressing an opinion***

We have performed our audit in accordance with International Standards on Auditing (ISA). Our responsibilities are pursuant to these standards are further described in the section of our report Auditor's Responsibilities for the Audit of the Financial Statements. We are independent from INVESTOR COMPENSATION FUND in accordance with International code of ethics for professional accountants (including International standards of independence) of the International Ethics Standards Board for Accountants (IESBA Code), together with ethical requirements of the Independent Financial Audit Law (IFAL), applicable to our audit of the financial statement in Republic of Bulgaria, as we have fulfilled our other ethical responsibilities in accordance with requirements of IFAL 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.

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### **Report on other legal and regulatory requirements – Annual activity report**

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

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

Based on the procedures performed, our opinion is that:

- The information included in the activity report for the financial year for which the financial statement has been prepared, comply with the financial statement.
- The activity report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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## ***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 under 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 it is stated.

In connection with our audit of the financial statement our responsibility is to read the other information and thereby assess whether that other information is material inconsistencies with the financial statement and with our knowledge gained during the audit, or otherwise appear to contain material misstatement. In case 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 statement**

The management is responsible for preparation and fair presentation of this financial statement 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 statement, the management is responsible for assessing the ability of the Fund 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 INVESTOR COMPENSATION FUND or to discontinue its activity, or if management has virtually no alternative but to do so.

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

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## Auditor's Responsibilities for the Audit of the Financial Statement

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Our objectives are to obtain a reasonable degree of assurance as to whether the financial statement as whole do not contain material misstatements, whether due to fraud or error, and to issue an audit report which includes our opinion. The reasonable degree of assurance is high degree of assurance, but there is no guarantee that the audit performed pursuant to ISA, will always reveal material misstatement, where one exist. 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 5 2022.



684 Николай  
Полинчев  
Регистриран одитор

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## ANNEX to the Independent Auditor's Report on the Financial Statements of the INVESTOR COMPENSATION FUND for 2021

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### *Auditor's responsibilities of the for the audit of the financial statement*

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

We also:

- Identify and evaluate the risks of material misstatements in financial statement, 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 ensure a basis for our opinion. The risk of not revealing 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.
- Evaluate the overall presentation, structure and content of financial statement, including disclosures, and whether the financial statement present the underlying transactions and events, in a manner that achieves reliable presentation.

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

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# I. STATEMENT OF FINANCIAL POSITION

For the year, ended on 31st of December 2021

thousand BGN

	Explanatory appendices	31.12.2021	31.12.2020
<b>ASSETS</b>			
<b>Non-current assets</b>			
Non-current tangible assets	2.11, 3	5	7
Non-current intangible assets	2.12, 4	-	0
Non-current GS, measured at fair value through other comprehensive income	2.14, 2.23, 5.1	-	6 698
Non-current GS, measured at amortized cost	2.14, 2.23, 5.2	18 970	11 164
<b>Total non-current assets:</b>		<b>18 975</b>	<b>17 869</b>
<b>Current assets</b>			
Receivables	6	327	390
Short-term part of long-term GS	2.23	216	225
Current GV, valued at amortized cost, including accrued interest on them	2.23, 5.2	192	-
Cash and cash equivalents	7	301	477
<b>Total current assets:</b>		<b>1 036</b>	<b>1 092</b>
<b>TOTAL ASSETS:</b>		<b>20 011</b>	<b>18 961</b>
<b>RESERVES AND LIABILITIES</b>			
<b>Reserves</b>			
Reserves	9.1, 9.2	20 293	19 230
Reserve from revaluation of GS, measured at fair value through other comprehensive income	2.14	-	(416)
Reserve from short-term part of long-term GS, measured at fair value through other comprehensive income	2.14	-	555
Uncovered loss from past years		-	(250)
Result for the period		(298)	(235)
<b>Total reserves:</b>		<b>19 995</b>	<b>18 884</b>
<b>Liabilities</b>	10		
Liabilities to clients of investment intermediaries for payment of compensations		0	64
Liabilities to staff		13	10
Liabilities to social security funds		2	2
Tax liabilities		1	1
<b>Total liabilities:</b>		<b>16</b>	<b>77</b>
<b>Total reserves and liabilities:</b>		<b>20 011</b>	<b>18 961</b>

## II. PROFIT OR LOSS STATEMENT AND OTHER COMPREHENSIVE INCOME

for the year, ended on 31st of December 2021

thousand BGN

	Explanatory appendices	31.12.2021	31.12.2020
Other income	11	-	91
Interest income, calculated under the effective interest method	12	185	176
Profit from derecognition of GS, valued at amortized cost		33	-
Financial income	13	(11)	(11)
Expenses for materials	14	(3)	(6)
Expenses on external services	15	(106)	(118)
Depreciation cost	3,4	(4)	(5)
Staff expenses	16	(382)	(352)
Other expenses	17	(10)	(10)
<b>Pre-tax result:</b>		<b>(298)</b>	<b>(235)</b>
<b>Result for the period:</b>		<b>(298)</b>	<b>(235)</b>
<b>Other comprehensive income</b>	<b>2.14</b>		
Income from change in the fair value of financial assets, valued through other comprehensive income, which subsequently will be reclassified to profit/loss		-	(223)
Income from change in fair value of financial assets transferred to profit/loss		-	71
Income from coupon payments, which consequently will be reported in profit/loss		-	249
Income from coupon payments, transferred to profit/(loss)		-	(70)
<b>Total comprehensive income for the year, net of taxes</b>		<b>-</b>	<b>27</b>
<b>Total comprehensive income for the year:</b>		<b>(298)</b>	<b>(208)</b>

### III. STATEMENT OF CHANGES IN RESERVES

For the year, ended on 31st of December 2021

thousand BGN

	Compensation reserve	Reserve from income of investment of resources	Revaluation reserve	Reserve of coupon payments	Result for the period	Total reserves
<b>Balance as of 1st of January 2020</b>	<b>18 070</b>	<b>0</b>	<b>(264)</b>	<b>376</b>	<b>(250)</b>	<b>17 932</b>
<b>Change in balance on 1st of January 2020</b>	<b>(950)</b>	<b>950</b>				<b>0</b>
<b>Balance on 1st of January 2020 after setting-up reserve from income of collected resources</b>	<b>17 120</b>	<b>950</b>	<b>(264)</b>	<b>376</b>	<b>(250)</b>	<b>17 932</b>
<b>Changes in reserves in 2020</b>						
Initial and annual contributions in 2020	1 337					1 337
Accrued amounts for payment of compensations to clients of an investment intermediary at the expense of compensation reserve	(198)					(198)
Impaired unpaid contributions from investment intermediaries	(8)					(8)
Net effect from non-received/received contributions for 2019 /2020	29					29
Result for the period					(235)	(235)
<b>Total changes in reserves in 2020</b>	<b>1 160</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(235)</b>	<b>925</b>
<b>Other comprehensive income in 2020</b>						
Fair value revaluation reserve through other comprehensive income, which subsequently will be transferred to profit/loss	-		(223)			(223)
Fair value revaluation reserve transferred to profit/loss			71			71
Reserve of coupon payments, which subsequently will be transferred to profit/loss				249		249
Reserve of coupon payments transferred to profit/loss				(70)		(70)
<b>Total other comprehensive income in 2020</b>	<b>-</b>	<b>-</b>	<b>(152)</b>	<b>179</b>	<b>-</b>	<b>27</b>
<b>Total comprehensive income in 2020</b>	<b>1 160</b>	<b>-</b>	<b>(152)</b>	<b>179</b>	<b>(235)</b>	<b>952</b>
<b>Balance as of 31st of December 2020</b>	<b>18 280</b>	<b>950</b>	<b>(416)</b>	<b>555</b>	<b>(485)</b>	<b>18 884</b>
<b>Changes in reserves in 2021</b>						
Initial and annual contributions in 2021	1 575					1 575
Accrued amounts for payment of compensations to clients of an investment intermediary at the expense of compensation reserve	(40)					(40)
Net effect from non-received/received contributions for 2020/2021	13					13
Transferred accumulated loss from 2019 and 2020 to the reserve from income of investment of resources		(485)			485	0
Result for the period					(298)	(298)
<b>Total changes in reserves in 2021</b>	<b>1 548</b>	<b>(485)</b>	<b>-</b>	<b>-</b>	<b>187</b>	<b>1 250</b>
<b>Other comprehensive income in 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Derecognized reserve from revaluation due to reclassification of GS			416			416
Derecognized reserve from coupon payments due to reclassification of GS				(555)		(555)
<b>Total other comprehensive income in 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(139)</b>
<b>Total comprehensive income in 2021</b>	<b>1 548</b>	<b>(485)</b>	<b>416</b>	<b>(555)</b>	<b>(298)</b>	<b>1 111</b>
<b>Balance as of 31st of December 2021</b>	<b>19 828</b>	<b>465</b>	<b>-</b>	<b>-</b>	<b>(298)</b>	<b>19 995</b>

## IV. CASH FLOW STATEMENT

for the year, ended on 31st of December 2021

thousand BGN

	Explanatory appendices	31.12.2021	31.12.2020
<b>Cash flows from operating activities:</b>			
Proceeds from initial and annual contributions of investment intermediaries		1 575	1 337
Recovered court expenses		-	9
Compensations paid to clients of investment intermediary		(104)	(134)
Payments to suppliers		(107)	(115)
Payments to staff		(390)	(369)
<b>Net cash flows from operating activities:</b>		<b>974</b>	<b>728</b>
<b>Cash flows from investment activities:</b>			
Payments for acquisition of fixed assets		(2)	(6)
Proceeds from sales of fixed assets		-	1
<b>Net flow used in investment activities:</b>		<b>(2)</b>	<b>(5)</b>
<b>Cash flows from financial activities:</b>			
Proceeds from maturity/sales of GS		547	518
Payments related to GS		(2 295)	(1 510)
Payments for bank fees, commissions and interest		(11)	(8)
Proceeds for coupons of GS		535	533
Recovered amount from KTB AD (insolvent)		76	129
<b>Net flow used in financial activities:</b>		<b>(1 148)</b>	<b>(338)</b>
Net increase/(decrease) of cash and cash equivalents:		<b>(176)</b>	<b>385</b>
Cash and cash equivalents as of 1st of January		<b>477</b>	<b>92</b>
<b>Cash as of 31st of December:</b>	<b>7</b>	<b>301</b>	<b>477</b>

## V. EXPLANATORY APPENDICES

### 1. General information

Investor compensation fund aims at increasing the credibility in the Bulgarian capital market by providing payment of compensation to the clients of investment intermediaries and their branches in the host countries in cases when the investment intermediary is not able to fulfill its obligations to the clients due to reasons directly related to its financial state.

The activity of the Fund is determined in art. 77a of POSA. Pursuant to art. 77a of POSA the Fund raises funds from:

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

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

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

The management of the Fund is carried out by Management Board, which comprises of five members: chairperson, deputy chairperson and three members. The remunerations of the MB members are fixed and they don't depend on Fund's financial indicators, 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 the provisions of art. 77e, para. 1 and para. 2 of POSA.

The other three members of MB are proposed in accordance to the provisions of 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

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 five years. The MB members continue to perform their powers 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 31.12.2021 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. It is subject to certification by an independent registered auditor and to promulgation in accordance with art. 136, para. 1, item 5 of RRCIIFA. 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 preparation of the financial statement, are presented below. This policy has been consistently applied for all represented periods, unless specified otherwise. The adoption of the new standards and the amendments 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 is prepared under historical price principle, except the financial assets, classified as reported at fair value in other comprehensive income.

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

### **2.2. Responsibilities of the management**

The MB of ICF confirms that for the reporting period were applied consistently adequate accounting policies in the preparation of the Annual financial statement and reasonable and conservative judgements, assumptions and estimations were made.

The actions of the MB of ICF are in the direction of adoption of the principles of good management and improvement of trust of the participants in the investor compensation scheme.

### **2.3. Declaration of conformity**

The Financial statement of ICF was prepared according to the approved by the European Commission: IFRS, IAS, interpretations of the IFRS Committee and of the Permanent committee for clarification.

For the preparation of the financial statements of the ICF estimations, calculations and educated guesses have been made, which affect the reported values of assets and liabilities, of income and expenses, and also on the declaration of conditional receivables and payables as of the report date. These estimations, calculations and assumptions are based on the information, which is available as of the date of the financial statement, which is why the future actual results could be different from them. The items, which imply higher degree of subjectivity and complexity, or where the guesses and estimations are essential to the financial statement, are explicitly declared.

## **2.4. Principles**

### **2.4.1. Fair presentation**

Pursuant to that principle the financial statements of ICF fairly presents the financial state, financial results of the activity and the cash flows. 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 ICF's financial statements are 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-month period from the reporting date, taking into account the forecast of the continuous effects of COVID-19 pandemic on business.

The MB of ICF has reached the conclusion that there is not present essential uncertainty which could raise significant doubts regarding the capability of ICF to continue to function as going concern and respectively, it is feasible to prepare the financial statement on the presumption of going concern. The intentions of the 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**

The ICF prepares its financial statements, except for the cash flow statement, on the basis of the principle of accrual, so that items are recognized as assets, liabilities, reserves, income and expenses, when they meet the definitions and criteria for their 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 2021, 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 statement of ICF contains material information, and the estimation for materiality was made depending of 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 for all amounts, reported 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 better understanding of the financial statement. In the cases when IFRS require otherwise, the information for the previous periods is presented according to the specific standard.

## **2.6. New and amended standards and clarifications, adopted by ICF**

For the first time in 2021 some new 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 they are not yet effective.

**Interest Rate Benchmark Reform - phase 2 – amendments to IFRS 9 „Financial instruments“, IAS „Financial instruments – recognition and measurement“ and IFRS 7 “Financial instruments: Disclosures“, IFRS 4 “Insurance contracts“ and IFRS 16 “Leases“.**

On 27-th of August 2020 the International Accounting Standards Board published „Interest rate benchmark reform – phase 2 – Amendments to IFRS 9 “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 rate reform. The amendments provide temporary easings, which relates to the effects of financial reporting, when the interbank interest rate is replaced by alternative almost risk-free interest rate. In particular, the amendments envisaged 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. Also, the amendments introduced a facilitation for termination of hedge relationships, including 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 easings as the one, provided in the amendments, made to IFRS 9 „Financial instruments“. There are also amendments to IFRS 7 „Financial instruments: disclosures“, to enable the 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 the 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 ICF.

## **2.7. Published new standards, amendments and clarifications to existing standards, which have not come in force or have not been adopted by European parliament and by the Council.**

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 ICF.

### **The amendments in standards that are not applicable to the activity of ICF are as follows:**

- **IFRS 17 „Insurance contracts“, including „Amendments to IFRS 4 „Insurance contracts“** – in force on or after 1st 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 about to be determined. The amendments have not been adopted by European parliament and by the Council yet.
- **Amendments to IFRS 3 „Business combinations“, IAS 16 “Property, plant and equipment“, IAS 37 „Provisions, contingent payables and contingent assets“** – effective from 1st January 2022.
- **IFRS 16 “Covid-19-Related Rent Concessions beyond 30th June 2021” (Amendments)** – effective from 1st April 2021.
- **Amendments to IFRS 12 „Income taxes: Deferred tax on Assets and Liabilities arising from a single transaction“** – in force after 1st January 2023. The amendments have not been adopted by European parliament and by the Council yet.

- **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 reporting periods, beginning on or after 1st 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 January 2022. The amendments have not yet been adopted by the European Parliament and the Council.
- The amendments to standards, that ICF's MB will analyze and assess the effects of the amendments on financial state or results of activity, are as follows:
- **Amendments to IAS 1 „Presentation of financial statements“ with title „Classification of payables as current and non-current“**– The amendments are effective for reporting periods, beginning on or after 1st January 2023, and the earlier application is allowed. The standard has not yet been adopted by European parliament and by the Council;
- **Amendments to IAS 8 „Accounting policy, changes in accounting estimates and errors“ – Definition of accounting estimates** – effective for annual reporting periods, beginning on or after 1st January 2023. Earlier application is allowed. These amendments have not yet been adopted by the European Parliament and the Council.

## 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 initially are reported in the official currency using the exchange rate as of the transaction date. Monetary assets and liabilities, denominated in foreign currencies, are recalculated in the official currency as of the date of the statement using the relevant exchange rate of BNB for the last business day of the respective month. All exchange rate differences are recognized in the statement of comprehensive income. The non-monetary assets and liabilities, which are evaluated at historical acquisition price in foreign currency, are recalculated in official currency using the exchange rate as of the date of the initial transaction (acquisition).

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

## 2.10. Recognition of income

The ICF evaluates income at fair value of the received or receivable payment.

## 2.11. Recognition of financial income

The ICF recognizes the interest income, calculated by using the method of effective interest rate, in the profit and loss section of the profit or loss statement and other comprehensive income.

The effective interest rate is the rate, that exactly discounts the estimated future cash payments and proceeds for the expected life of the financial asset or liability up to the gross book value of the financial asset or liability.

The interest income, calculated by using the method of effective interest rate, are presented in detail in Explanation 12 and Explanation 5.2.

## 2.12. Tangible assets

The tangible assets are presented in the financial statement at historical acquisition price, decreased by the accumulated depreciation and accrued impairment expenses.

In 2021 the Fund did not offer as collateral tangible assets and there are restrictions on its ownership on any of them.

In 2021 the Fund classified the tangible assets in the following groups:

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

According to the adopted accounting policy the Fund recognize as tangible assets the assets, which have acquisition price above 500 BGN. The assets below that value are recognized in „Profit or loss statement and other comprehensive income“.

### 2.12.1. Initial evaluation of tangible assets

At the acquisition, ICF evaluates the tangible assets at the acquisition price (cost price), which

includes purchase price and all direct expenses, needed to bring the asset in to working condition according to its purpose.

### 2.12.2. Subsequent evaluation of tangible assets

The subsequent evaluation of the tangible assets is by book value, which includes the acquisition price, decreased by accrued amortization and accumulated impairment losses.

The Fund recognizes the subsequent expenses for current maintenance of the tangible 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 will receive future economic benefits of the asset, then the subsequent expenses are included in the book value of the asset.

The Fund calculates the amortization of the tangible assets by linear method for their expected useful life by groups, as follows:

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

At any date of the financial statement the Fund makes a review of the useful life of the tangible assets and if necessary, corrects it. The book values of the assets are analyzed in Explanation 3. The actual useful life may differ from the estimate due to technical and moral wear and tear.

### 2.13. Intangible assets

The Fund recognizes as intangible assets the assets, which have acquisition value above 500 BGN. The assets below that value are recognized in "Profit or loss statement and the other comprehensive income".

In 2021 the Fund has classified intangible assets in "Software" group. The Fund recognizes the maintenance expenses of software programs in "Profit or loss statement and the other comprehensive income" in the period of their servicing.

#### 2.13.1. Initial evaluation of intangible assets

At initial acquisition the ICF evaluates the intangible assets at acquisition price (cost price) which

includes purchase price and all direct expenses, needed to bring the asset in to working condition according to its purpose.

### 2.13.2. Subsequent evaluation of intangible assets

The subsequent evaluation of the intangible assets is by cost price, which includes the acquisition price decreased by accrued depreciation and accumulated impairment losses.

The Fund recognizes the intangible assets current maintenance expenses 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 probable that the Fund will receive future economic benefits of the asset, then the subsequent expenses are included in the book value of the asset.

The Fund calculates amortization of the intangible assets by linear method for their expected useful life by groups, as follows:

Assets	Rate	Years
Software	15%	6.67

At every date of the financial statement the Fund makes a review of the useful life of the intangible assets and if needed, corrects it. The book values of the assets are analyzed in Explanation 4. The actual useful life may differ from the estimate due to technical and moral wear and tear.

### 2.14. Impairment of tangible and intangible assets

The Fund makes a review of the tangible and intangible assets for impairment, when events or changes in the circumstances indicate 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). The actual useful life may differ from the estimate due to technical and moral tear and wear.

### 2.15. Financial assets

The investments in financial assets are made according to the "Investment policy and the model for management of GS 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, the financial assets are recognized on the date 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 statement of financial position. The change in classification of the financial assets of the Fund is done after decision of the MB.

At its meeting on 15.12.2020, the MB of ICF decided as of 01.01.2021 the government securities held by the Fund to be valued only at amortized value. Pursuant to the requirements of IFRS 9 „Financial instruments“ in the reclassification of financial assets from category “measured at fair value through other comprehensive income” to category “measured at amortized value”, they are indicated at their fair value as of the reclassification date. The cumulative profit or loss, previously recognized in other comprehensive income, is subtracted from the equity and adjusted at the expense of the fair value of the financial assets at the reclassification date. As a result of the reclassification, the financial assets are valued at the reclassification date as if they had always been valued at amortized cost. This adjustment affected other comprehensive income but did not affect profit or loss and therefore did not constitute a reclassification adjustment. The effective interest rate and the estimation of expected credit losses have not been adjusted as a result of the reclassification. The effect of the reclassification is presented in Table 1 entitled “Classification of the financial assets of ICF as 31.12.2020 and as of 01.01.2021”.

**Table № 1 Classification of the financial assets of ICF as of 31.12.2020 and as of 01.01.2021**

thousand BGN

A group of financial assets	Classification of financial assets as of 31.12.2020	Classification of financial assets as of 01.01.2021	Impairment approach	Book value as of 31.12.2020	Book value as of 01.01.2021
Non-current GS	GS, measured at fair value through other comprehensive income	-	Expected credit losses model under IFRS 9	6 698	-
Non-current GS	GS, measured at amortized cost	GS, measured at amortized cost	Expected credit losses model under IFRS 9	11 164	17 724

On 01.01.2021, the classification was changed in 8 positions.

Table № 2 entitled „Reconciliation of the book value of the financial assets, measured at fair value through other comprehensive income and at amortized cost as of 31.12.2020 and as of 01.01.2021“ presents reconciliation of the book value of the financial assets as of 31.12.2020 and as of 01.01.2021.

**Table № 2 Reconciliation of the book value of the financial assets, measured at fair value through other comprehensive income and at amortized cost as of 31.12.2020 z. and as of 01.01.2021**

thousand BGN

Group of assets	31.12.2020	Reclassification	Adjustment from rounding	01.01.2021
Financial assets, measured at fair value through other comprehensive income	6 698	(6 698)	-	-
Financial assets, measured at amortized cost	11 164	6 559	1	17 724
Total effect on assets	17 862	(139)	1	17 724
<b>Other comprehensive income</b>				
Impairment reserve	416	(416)		-
Coupon payments reserve	(555)	555		-
<b>Total effect on other comprehensive income</b>	<b>(139)</b>	<b>139</b>	<b>-</b>	<b>-</b>

### Subsequent valuation of financial assets

#### Financial assets measured at amortized cost

The following financial assets of the Fund may fall in this category depending on the selected business model and the characteristic of the cash flows from them: receivables, cash and cash equivalents and GS, held to collect contractual cash flows.

The valuation at amortized cost requires the application of the effective interest rate method. The amortized cost of a financial asset is the value at which the financial asset was initially accounted, decreased by principal payments plus or minus the accumulated 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

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 an 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 special reporting requirements. At each reporting date the 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)** – financial assets without indication for credit risk deterioration versus the initial value are classified here. For financial instruments, on which there had not been significant increase of credit risk versus the initial recognition, a 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 significant increase of credit risk versus the initial evaluation, but without objective evidence 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 instrument.
- **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. Interest is accounted on the basis of the gross book value of the instrument.

The methodologies and assumptions, used in the basic calculations of the expected credit losses, 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 financial 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 from 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.

## 2.16. Financial liabilities

### Financial liabilities, accounted at amortized cost

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

ICF 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 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.

## 2.17. Accounting of leases contracts

The Fund applies IFRS 16 „Leases“ in 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 makes an assessment with respect to the potential duration of the non-termination period and the leases term. 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.

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.

## **2.18. Equity**

The equity is formed of the accumulated reserves in the Fund. Reserves include: reserve for compensation, reserve from fair value revaluation through other comprehensive income, reserve from coupon payments, uncovered loss from previous years, retained earnings for the current year result for the period.

## **2.19. Cash and cash equivalents**

The cash funds and short-term 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. ICF accounts as cash equivalents the owned GS with remaining maturity term less than a year from the date of the financial statement. The owned by the Fund "Cash and cash equivalents" are more detailed in Explanation 7.

## **2.20. Current and deferred income tax**

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 2021, ICF has no profit taxable according to CITA. According to CITA, ICF is taxable entity for the tax on expenses.

## **2.21. Pension and other payables to staff**

As an employer, ICF is obliged to pay the 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 to 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 applicable 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 statement, the Fund assesses and accounts as current its liabilities to staff related to accruing compensated holidays. The assessment includes 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.

## **2.22. Uncertainty of the accounting approximate estimates**

In the preparation of the financial statement 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 of the assumptions, assessments and estimations of the management and they rarely coincide fully with the preliminary assessments.

### **2.22.1. 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, 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 3 presents the credit rating of Bulgaria, as assigned by 2 international agencies.

**Table № 3 Credit rating of Bulgaria**

Credit agency	31.12.2021		31.12.2020	
	Long-term	Short-term	Long-term	Short-term
Standard & Poor's (S&P) In foreign and local currency Fitch	BBB	A - 2	BBB	A - 2
in foreign currency	BBB	F2	BBB	F2
in local currency	BBB	F2	BBB	F2

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 expected credit losses on deposits and monetary funds**

As of 31.12.2021 ICF has no deposits in commercial banks.

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 mainly exposed to credit, liquidity and market risk. 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 31.12.2021, 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**

The credit risk arises 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 exposed to credit risk versus the total value of assets <sup>1</sup>	31.12.2021	31.12.2020
Share of GS and accrued coupons	96.83%	95.39%
Share of cash and cash equivalents	1.51%	2.51%
Receivables from KTB AD (insolvent) <sup>2</sup>	0.00%	0.40%
Receivables from II regarding the 4th quarter of the annual contribution for the respective year	1.79%	1.66%

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

The 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".

Detailed information on client assets and potential compensations is presented in the annual report.

According to the legislation the Fund pays compensations to the clients of an investment intermediary upon occurrence of the circumstances under art 77b, para. 1 related to art. 77a para. 5 and

<sup>1</sup>The total percentage is not 100% because the non-currents tangible and intangible assets and the prepaid expenses are not exposed to credit risk and thus, are not included in the table. Their share versus the total amount of assets is 0.02% as of 31.12.2021 и 0.04 % as of 31.12.2020.

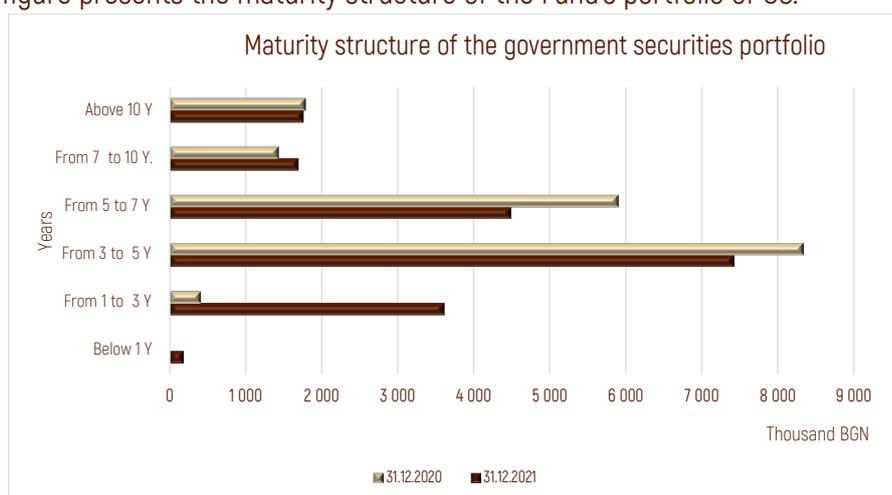
<sup>2</sup> On 07.12.2021 ICF received part of its claim from KTB AD (insolvent) in the amount of 76 174.24 BGN

art. 77v, para. 1 of POSA. Considering the procedure for payment of compensations, defined in POSA and Ordinance №46 on the order and the way of compensation payments by the Fund, 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.



### Market risk

Market risk comprises currency, price and interest rate risk.

### 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 distribution of the financial assets by currency and term is presented below.

Distribution of the financial assets by currency and by term	31.12.2021				31.12.2020			
	current		non-current		current		non-current	
	BGN	EUR	BGN	EUR	BGN	EUR	BGN	EUR
	thousand BGN							
Financial assets, accounted at fair value through other comprehensive income:	-	-	-	-			1 017	5 681
incl. interest receivables	-	-	-	-	13	62		
Total financial assets, accounted at fair value through other comprehensive income:	-		-		-		6 698	
incl. interest receivables	-		-		75		-	
Financial assets accounted at amortized cost:	192	-	9 910	9 276			7 329	3 835
incl. interest receivables	4		80	136	75	75		
Total financial assets accounted at amortized cost:	192		19 186		-		11 164	
incl. interest receivables	4		216		150		-	
Receivables from KTB AD (insolvent) in BGN:	-		-		76		-	
Receivables on 4th quarter from the annual contribution	327		-		314		-	
Cash	301		-		277		-	
Cash equivalents	-		-		200		-	
<b>Total cash and cash equivalents</b>	<b>301</b>		<b>-</b>		<b>477</b>		<b>-</b>	

### Price risk

The amortization of GS held to maturity is not influenced by the market price levels. The changes in the market prices of the 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 and model for management of GS of the Fund“, which contains the procedures for minimization of that type of risk.

Via decision of the MB of the Fund dated 15.12.2020 in effect from 01.01.2021 the owned by the Fund GS will be accounted only at amortized cost, 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 arises 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 2021, 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 31.12.2021 interest income amounts at 185 thousand BGN, which is 84.79% from total income - 217 thousand BGN/in 2020 interest income amounted at 177 thousand BGN, which is 66.29% of the total income - 267 thousand BGN/.

As of 31.12.2021 the Fund has no investments in deposits.

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 the GS held by it by collecting offers at market prices "buy rate" as of the revaluation date. That value may differ from the actual one, which would be determined at the end of the reporting period at fair market transaction between informed parties.

The Fund accepts that the book value of the financial assets and liabilities maturing 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 at 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. As of 31.12.2021 the Fund has no GS, that are measured at fair value through other comprehensive income.

Below is presented the hierarchical level of the security fair values as of 31.12.2020.

thousand BGN

Levels/Type of investment	Level 1	Level 2	Level 3	Total
31.12.2020				
<b>GS</b>		<b>6 698</b>		<b>6 698</b>

### 3. Tangible assets

The tangible assets are presented below:

thousand BGN

Non-current tangible assets	Office equipment and PCs
For the year ended on 31 December 2020:	
Value	10
Accumulated amortization	(5)
Amortization expenses	(3)
Acquisitions	5
Derecognized assets	(1)
Amortization of derecognized assets	1
Net book value on 31.12.2020	7
Value	14
Accumulated amortization	(7)
For the year ended on 31 December 2021:	
Value	14
Accumulated amortization	(7)
Amortization expenses	(4)
Acquisitions	2
Derecognized assets	(4)
Amortization of derecognized assets	(4)
Net book value on 31.12.2021	5
Value	12
Accumulated amortization	(7)

In 2021 the Fund used tangible assets that are fully amortized or below materiality level at the amount 20 thousand BGN.

## 4. Intangible assets

The intangible assets are presented below:

thousand BGN

Non-current intangible assets	Software licenses
For the year ended on 31 December 2020:	
Value	5
Accumulated amortization	(3)
Amortization expenses	(2)
Derecognized assets	(1)
Amortization on derecognized assets	1
Net book value on 31.12.2020	0
For the year ended on 31 December 2021:	
Value	4
Accumulated amortization	(4)
Amortization expenses	0
Derecognized assets	(3)
Amortization on derecognized assets	(3)
Net book value on 31.12.2021	0
Value	1
Accumulated amortization	(1)

In 2021 the Fund did not use intangible assets that are fully amortized or below materiality level at the amount of 28 thousand BGN.

## 5. Non-current GS, accounted at fair value through other comprehensive income and at amortized value

As of 31.12.2021 ICF had no GS, accounted at fair value through other comprehensive income. [See 2.14].

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

thousand BGN

GS accounted at fair value through other comprehensive income	As of 01.01.2021	As of 31.12.2020
Book value at the beginning of the period:	6 773	7 524
incl. short-term part of long-term GS	75	
Derecognition of short-term part on long-term GS	(75)	

Derecognition of accumulated reserve	(139)	
Reclassification	(6 559)	
Acquisitions:		-
incl. non-current GS		-
Sold GS:		(518)
Received interest		(297)
incl. in EUR		(232)
Accrued interest		108
incl. in EUR		27
Reserve on coupon payments		179
incl. in EUR		205
Revaluation		(223)
<b>Value at the end of the period:</b>	<b>-</b>	<b>6 773</b>
incl. short-term part of long-term GS	-	75

## 5.2. GS, accounted at amortized cost

thousand BGN

GS, accounted at amortized cost	As of 31.12.2021	As of 01.01.2021	As of 31.12.2020
Value at the beginning of the period:	17 948	11 314	9 902
incl. short-term part of GS	224	150	121
Reclassified GS from accounted at fair value group through other comprehensive income to accounted at amortized cost group		6 634	
incl. short-term part of long-term GS		74	
Acquisitions:	2 295		1 510
incl. non-current GS	2 295		1 510
Sold:	(514)		
incl. non-current GS	(514)		
Currency revaluation of acquired GS	-		(2)
Received interest	(535)		(236)
incl. in EUR	(329)		(61)
Accrued interest	534		246
incl. in EUR	328		71
Amortization of premium and currency revaluation	(350)		(106)
<b>Value at the end of the period:</b>	<b>19 378</b>	<b>17 948</b>	<b>11 314</b>
incl. short-term part of long-term GS	216	224	150
incl. current GS accounted at amortized cost	192		
incl. accrued interest on current GS accounted at amortized cost	4		

As of 31.12.2021 the GS, accounted at amortized cost and accrued interest on them amount at 19 378 thousand BGN, of which the long-term GS amounted at 18 970 thousand BGN, and the accrued interest on them amount at 216 thousand BGN. The short-term GS with remaining term to maturity less than 1 year amount at 188 thousand BGN and the accrued interest on them amount at 4 thousand BGN.

## 6. Receivables

The receivables of the Fund as of 31.12.2021 arise from accrued 4th quarter of the annual contribution of investment intermediaries. 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.

thousand BGN

Receivables:	31.12.2021	31.12.2020
Receivables on 4th quarter from II for the respective year	327	314
Court assigned receivables on deposits in KTB AD (insolvent)	1 043	1 119
Accrued impairment on deposits in KTB AD (insolvent)	(1 043)	(1 043)
<b>Total receivables:</b>	<b>327</b>	<b>390</b>

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.

In 2020 ICF received a part of its receivable on deposits in KTB AD (insolvent) amounting at 129 169.57 BGN., and on 07.12.2021 received another part amounting at 76 174.24 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.

## 7. Monetary funds

The monetary funds of the Fund as of 31.12.2021 include cash on hand and in banks and are as follows:

thousand BGN

Monetary funds:	31.12.2021	31.12.2020
Cash on hand	1	1
Funds in banks	300	276

Deposit in commercial bank	-	200
<b>Total:</b>	<b>301</b>	<b>477</b>

As of 31.12.2021 the Fund has no deposits. As of 31.12.2020, the Fund has a deposit in one commercial bank.

## 8. Resources of the Fund

The resources of the Fund are presented below:

thousand BGN

Resources of ICF	31.12.2021	31.12.2020
Non-current tangible assets	5	7
GS accounted at fair value through other comprehensive income	-	6 698
GS accounted at amortized cost, incl. with remaining term below 1 year	19 158	11 164
Receivables	327	390
Short term part of GS	220	225
Prepaid expenses	0	0
Cash on hand, in banks and deposits	301	477
<b>Total resources of the Fund:</b>	<b>20 011</b>	<b>18 961</b>

As it can be seen in the table, in 2021, the Fund's resources increased by 1 050 thousand BGN or 5.54%.

## 9. Reserves

### 9.1 General reserves

The general reserves of the Fund are presented below:

thousand BGN

General reserves:	31.12.2021	31.12.2020
<b>General reserves at the beginning of the period</b>	<b>18 884</b>	<b>17 932</b>
Initial and annual contributions	1 575	1 337
Paid compensations at the expense of annual contributions	(40)	
Net effect of non-received fourth contribution	13	29
Result for the period	(298)	(235)
Assigned amounts for payment of compensations to clients of investment intermediary from the reserve for compensations		(198)
Impaired unpaid contributions by investment intermediaries	-	(8)

Revaluation reserve at fair value, which will subsequently be transferred to profit/loss	-	(223)
Revaluation reserve at fair value, transferred to profit/loss	-	71
PReserve from coupon payments, which will subsequently be transferred to profit/loss	-	249
Reserve from coupon payments, transferred to profit/loss	-	(70)
Derecognized revaluation reserve on GS, due to reclassification of GS from accounted at fair value category through other comprehensive income to accounted at amortized cost category	416	
Derecognized reserve from coupon payments on GS, due to reclassification of GS from accounted at fair value category through other comprehensive income to accounted at amortized cost category	(555)	
<b>Total reserves at disposal of the Fund:</b>	<b>19 995</b>	<b>18 884</b>

In 2021 pursuant to art. 77p of POSA the resources of the Fund were used for payment of compensations to clients of "Matador Prime" OOD (insolvent).

The accounted non-received contribution as of 31.12 of the respective year is included to the amount of the reserves for the current year (See Explanation 6).

As can be seen from the table above, the reserves of the Fund increased by 1 111 thousand BGN or increase by 5.56%, versus 2020.

## 9.2 Reserve from income of investment of the raised resources

According to art. 21, para. 2 of ROOICF, the administrative and other expenses related to the Fund's activity, are covered by the income from investment of the collected resources and from other sources.

Pursuant to para. 4 of transitional and final provisions of ROOICF the Fund may use the financial resources, received by the raised payments, for covering the administrative costs for 2005, 2006, 2007 and 2008. After 2009 the administrative expenses of the Fund are covered by the income from investment.

The formed reserve from income of investment of the raised resources in the Fund after 2008 is as follows:

thousand BGN

Year	Financial result net of taxes	Reserve from income of investment of the raised resources
2009	329	329
2010	300	300
2011	250	250
2012	764	764

2013	112	112
2014	107	107
2015	(934)	(934)
2016	93	93
2017	76	76
2018	(148)	(148)
2019	(250)	(250)
2020	(235)	(235)
<b>Total:</b>	<b>465</b>	<b>465</b>

The current financial result for 2021 is negative, amount at 298 thousand BGN.

## 10. Liabilities

The liabilities of the Fund as of 31.12.2021 are presented below:

thousand BGN

<b>Liabilities:</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
Liabilities to clients of investment intermediaries in connection with resolutions of the MB of ICF for payment of compensations	-	64
Overpaid and pending reconciliation annual contributions of investment intermediaries		0
Liabilities to staff regarding provisioned holiday leaves	13	10
Liabilities to social insurance funds regarding provisioned holiday leaves	2	2
Tax on expenses according to CITA	1	1
<b>Total liabilities:</b>	<b>16</b>	<b>77</b>

In 2021 ICF has paid compensations to five clients of „Matador Prime“ OOD (insolvent) at the total amount of 103 813.46 BGN, and four of the resolutions in this regard have been made by the MB of the Fund in 2020. In 2021 the MB of ICF took a decision for payment of compensation to a client of „Matador Prime“ OOD (insolvent) at the amount 40 000 BGN, and the due compensation was paid on 26.01.2021.

## 11. Other income

The other income is presented below:

thousand BGN

<b>Other income:</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
Recovered impairment	-	90
Sales income	-	1
<b>Total other income:</b>	<b>-</b>	<b>91</b>

In 2021 the MB of ICF did not recover impairment and did not sell tangible fixed assets.

## 12. Interest income calculated under the effective interest method

The interest income calculated under the effective interest method are presented below:

thousand BGN

<b>Interest income calculated under the effective interest method:</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
Interest on GS	535	282
Amortization of premium on GS	(350)	(106)
Profit on sale of financial assets, measured at fair value through other comprehensive income	-	0
<b>Total interest income calculated under the effective interest method:</b>	<b>185</b>	<b>176</b>

In 2021 the interest income calculated under the effective interest method, increased by 8 thousand BGN versus 2020 or by 4.55%.

## 13. Financial expenses

The financial expenses are presented below:

thousand BGN

<b>Financial expenses:</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
Interest expenses for holding of monetary funds	(2)	-
Foreign currency transaction expenses	0	(1)
Other financial expenses	(9)	(10)
<b>Total financial income/(expenses):</b>	<b>(11)</b>	<b>(11)</b>

In 2021 the amount of the financial expenses is 11 thousand BGN, the same one as in 2020.

## 14. Expenses on materials

The expenses on materials are presented below:

thousand BGN

<b>Expenses on materials</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
Fuel and materials for a vehicle	-	(1)
Expenses on materials for repairs in the office	(1)	(1)
Expenses on office consumables	(2)	(3)
Other expenses on materials	0	(1)
<b>Total expenses on materials:</b>	<b>(3)</b>	<b>(6)</b>

In 2021 the amount of the expenses on materials decreases by 3 thousand BGN versus 2020 or decrease of 50%.

## 15. Expenses on external services

The expenses on external services are presented below:

thousand BGN

Expenses on external services	31.12.2021	31.12.2020
Electricity, cold and hot water supply, heating and committed electrical power fee	(7)	(6)
Rent of office	(37)	(37)
Maintenance and other services	(8)	(2)
Transport and postal services	(1)	(2)
Phone services	(3)	(4)
Paid remunerations on civil contracts	(28)	(47)
Expenses related to audit of the financial statements of ICF and IFRF	(6)	(6)
Subscriptions and subscribe services	(16)	(14)
<b>Total funds of ICF:</b>	<b>(106)</b>	<b>(118)</b>

In 2021 the amount of expenses on external services decreased by 12 thousand BGN compared to 2020 or decrease of 10.17%.

## 16. Staff expenses

As of 31 December 2021, the number of full-time employees in the Fund is 5 (in 2020 – 5), and MB of the Fund comprises 5 members (in 2020 - 5).

The staff expenses are presented below:

thousand BGN

Staff expenses:	31.12.2021	31.12.2020
Expenses on remunerations:	(334)	(307)
incl. expenses on remunerations of the MB members	(208)	(182)
Expenses on social insurance	(34)	(34)
incl. expenses on social insurance for the MB members and on civil contracts	(8)	(9)
Provisions on unused holiday leaves and compensable social insurance on them	(10)	(9)
Social benefits	(4)	(2)
<b>Total staff expenses:</b>	<b>(382)</b>	<b>(352)</b>

In 2021 the amount of the expenses increased by 30 thousand BGN versus 2020 or increase by 8.52%.

## 17. Other expenses

The other expenses are presented below:

thousand BGN

Other expenses	31.12.2021	31.12.2020
Expenses for business trips	-	(1)
Expenses for representative purpose	(4)	(2)
Fees for general financial supervision of ICF and IFRF	(4)	(4)
Expenses according to the Law on Healthy and Safe	(2)	(1)
Miscellaneous	(0)	(2)
<b>Total other expenses:</b>	<b>(10)</b>	<b>(10)</b>

The amount of other expenses in 2021 is the same as in 2020 – 10 thousand BGN.

## 18. Government grants

ICF did not receive government grants in 2021 including COVID-19 related ones.

## 19. Research & development and environment protection activities

In 2021 the Fund did not perform research and development activity. The activity of the Fund does not imply environment protection activities.

## 20. Events beyond the reporting period

According to a resolution of the MB of ICF from 27.04.2022 the losses for the period from 2009 to 2020 have been compensated at the expense of the income of investments of the collected in the Fund resources for the same period.

## 21. Date of approval of the financial statement

This financial statement was approved by a resolution of MB on 27.04.2022.



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