INVESTMENT FIRMS RESOLUTION FUND

ANNUAL REPORT

2022

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LIST OF ABBREVIATIONS

BNB – Bulgarian National Bank

EU – European union

FSC - Financial Supervision Commission

GS – Government securities

IAS - International Accounting Standard

IASB – International Accounting Standards Board

ICF – Investor Compensation Fund

IFRS - International Financial Reporting Standard

IFRF - Investment Firms Resolution Fund

MB - Management Board of the Investor Compensation Fund

MFIA – Markets of financial instruments Act

POSA - Public Offering of Securities Act

RFR - Risk Free Rate

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

Activity Report of IFRF for 2022

Description of the Activity

The Investment Firms Resolution Fund (IFRF) was established in January 2017 and operates in accordance with the provisions of the Recovery and Resolution of Credit Institutions and Investment Firms Act (RRCIIFA). The main activity of the IFRF is to finance the implementation of the tools for recovery and resolution of investment firms under art. 10, para. 1 of the Markets of financial instruments Act (MFIA), i.e. investment intermediaries with a minimum required capital of at least the lev equivalent of EUR 750 000. Under the RRCIIFA, the IFRF financial means may be used to finance one or more of the following activities: provision of loans and guarantees to an institution under resolution, a bridge investment intermediary or an asset management vehicle; purchase of assets of an institution under resolution; acquisition of ordinary shares issued by a bridge investment intermediary, a bridge financial holding company or by an asset management vehicle. The funds may also be used to cover losses or recapitalise an institution under resolution, as well as to lend to other funding mechanisms on a voluntary basis. As of 31.12.2022, the total number of participants in the IFRF is 19 and increases by 1 compared to the previous year. The number of investment intermediaries participating in the IFRF is subject to the fulfilment of the requirements of art. 10, para. 1 of the MFIA.

For the purposes of recovery and resolution of troubled investment intermediaries, the IFRF collects annual contributions from participants (intermediaries with a minimum required capital of at least the lev equivalent of EUR 750 000). The total amount of the annual contributions of the participants for the relevant year is determined each calendar year by the Financial Supervision Commission (FSC) in its capacity as resolution authority regarding investment intermediaries. Subsequently, the FSC also determines the individual contribution amount of each investment intermediary. The Investor Compensation Fund (ICF) is responsible for the management of the funds of the IFRF. The FSC provides the Management Board (MB) of the Investor Compensation Fund (ICF) with information on the total amount of annual contributions and the individually determined contributions of investment intermediaries. The FSC is obliged to notify each investment intermediary of the annual contribution due to the IFRF, which must be paid within 30 days of the notification date. Compliance with this deadline is monitored by the MB of the Investor Compensation Fund, which informs the resolution authority about the payment of annual contributions and about possible delays.

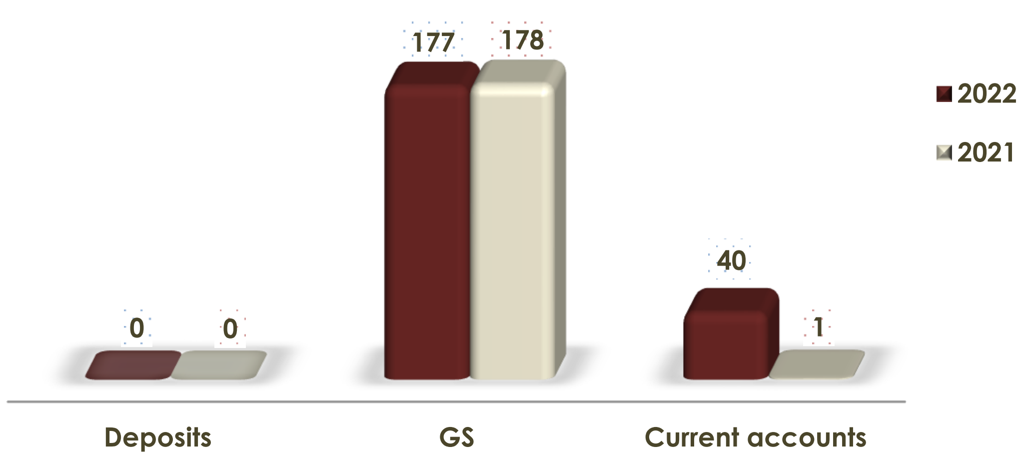
The total amount of the individual annual contributions for 2022 of the participants in the IFRF, determined by the FSC, is 35.2 thousand BGN, with one more intermediary joining the IFRF after the date of payment of contributions, whose contribution is to be determined in 2023. All intermediaries covered by the act RRCIIFA have paid their contributions to the IFRF.

The FSC also has the power to determine extraordinary contributions of investment intermediaries when the amount of funds accumulated in the IFRF is insufficient to cover the costs related to the financing of the resolution. The total amount of extraordinary contributions may not exceed three times the amount of the last annual contribution determined. There has been no case of collection of extraordinary contributions since the establishment of the IFRF.

In addition to annual and extraordinary contributions, the Fund's resources are also generated from the investment income of resources raised in the Fund, interest on overdue receivables and other sources.

As of 31.12.2022, the IFRF resources amount to 217 thousand BGN, of which 82% are invested in government securities and the rest are held in a current account with the BNB as depositary of the IFRF funds (see Figure 1). This current account is in the name of the ICF, as the IFRF is not a separate legal entity, but only IFRF funds are held in it. Although the resources of IFRF are managed by the MB of ICF, they are separate and independent of the ICF's resources.

Figure 1
Structure of the IFRF portfolio (in thousand BGN)



The resources collected in the IFRF may only be used following a decision of the FSC in its capacity as resolution authority up to the amount necessary to ensure the effective implementation of the resolution tools. The implementation of the decision taken shall be entrusted to the MB of the ICF. The IFRF funds may only be used for resolution purposes.

The 2019 amendments to RRCIIFA provide for the resources of the IFRF to be held in two separate sub-funds, respectively a sub-fund to finance the implementation of the resolution tools and powers in relation to investment intermediaries covered by RRCIIFA and a sub-fund to collect contributions under art. 69, 70 and 71 of Regulation (EU) № 806/2014 and transfer to the Single Resolution Fund. Two sub-funds have not been allocated in the IFRF as there are no investment intermediaries in Bulgaria that fall within the scope of Regulation (EU) No 806/2014, i.e., they do not fall within the scope of the ECB's consolidated supervision of the parent undertaking.

Investment of the IFRF financial means

The investment of the IFRF resources is performed according to the provisions of RRCIIFA, the "Investment Policy of the IFRF", adopted by the MB of ICF, and the decisions of the MB of ICF. The IFRF's funds are invested in conformity with the security, liquidity, and diversification principles. In accordance with the established internal procedures, the MB reviews periodically the "IFRF's Investment Policy" and makes changes to it as necessary.

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

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

Contributions collected during the year are held in the current account at the BNB and will be used to purchase government securities in case of appropriate conditions.

As of 31.12.2022, the participants in the IFRF manage total client assets of 5.66 billion BGN, of which 98% are in the form of financial instruments and the rest are cash. Compared to the end of 2021, client assets managed by investment intermediaries with full license have increased by 719 million BGN, with this growth mainly due to client assets non eligible to compensation by the ICF. The client assets eligible to compensation by the ICF, of the members of the IFRF, as of 31.12.2022 are 806 million BGN or 15.8 million BGN more on an annual basis.

As of 31.12.2022 the clients of investment intermediaries under art. 10, para. 1 of the Markets of financial instruments Act (MFIA), who hold assets eligible to compensation by the ICF, are 41 332, almost the same number as at the end of 2021. ICF does not have information on the number of clients who are not eligible to compensation.

This available information suggests that the participants in the IFRF manage a significant amount of client assets, some of which are of "non-professional" clients and in the event of a participant experiencing financial difficulties and needing to be recovered and/or restructured, these clients would be protected.

Management of IFRF

IFRF is not an independent legal entity and is managed by the Management Board of the Investor Compensation Fund. The costs related to the management of this fund are part of the general administrative expenses of the ICF.

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

In the performance of its functions according to the RRCIIFA, including the management of the IFRF funds, the MB of the ICF is assisted by the "IFRF Activities" department, which is independent from other departments in the ICF. As of 31.12.2022 it has one employee.

In 2022, there are no circumstances that would trigger resolution procedures for investment intermediaries, therefore no use of funds from the IFRF is required.

In 2022, the coronavirus pandemic began to subside, with most anti-epidemic measures were lifted. At the same time, however, Europe's economies are facing the challenges caused by the military conflict in Ukraine, which started at the beginning of the year, and rapidly rising prices, with inflation in most countries, including Bulgaria, reaching double digits. Inflation is a very big threat to economies, creating great volatility and uncertainty, risking the destruction of entire societal systems. It leads to a reduction in real incomes, devaluation of the population's savings, disruption of the production process, etc. Inflation also has a negative impact on all parts of the financial system, including public finances. High levels of inflation and increasing interest rates as a result of central banks' monetary policy also affect the yields and prices of financial instruments. These factors external to the economy may create risks for the activities of financial intermediaries, which may also affect their financial situation.

In 2023, the activities of the IFRF will continue to be fully compliant with the requirements of the RRCIIFA and the provisions of other regulations governing its activities.

INVESTMENT FIRMS RESOLUTION FUND

FINANCIAL STATEMENTS

2022

REPORT OF INDEPENDENT AUDITOR

To: The Management Board of the INVESTOR COMPENSATION FUND

Report on the financial statement

Opinion

We have audited the financial statements of the INVESTMENT FIRMS RESOLUTION FUND, consisting of the statement of financial position as of 31.12.2022 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended at that date, as well as the explanatory notes to the financial statements, including the summary disclosure of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of 31.12.2022, its financial performance and cash flows for the year then ended, in accordance with International Accounting Standards, as adopted by the European Union.

Grounds for expressing an opinion

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

Report on other legal and regulatory requirements

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

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

Based on the procedures performed, our opinion is that:

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

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

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and thereby determine whether that other information is materially inconsistent with the financial statements or with our knowledge acquired during the audit or otherwise appears to contain material misstatement. In 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 statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain a reasonable degree of assurance as to whether the financial statements as whole do not contain material misstatements, whether due to fraud or error, and to issue an audit report that includes our opinion. A reasonable level of assurance is a high level of assurance, but there is no guarantee that an audit performed in accordance with ISA will always reveal a material misstatement where one exists. Deviations may arise as a result of fraud or error and are considered material if it could reasonably be expected that they, alone or as 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: March 15, 2023.

ANNEX to the Independent Auditor's Report on the Financial Statements of the INVESTMENT FIRMS RESOLUTION FUND for 2022

Auditor's Responsibilities for the Audit of the Financial Statements

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

We also:

- identify and evaluate the risks of material misstatements in the financial statements, whether due to fraud or error, develop and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not disclosing a material misstatement resulting from fraud is higher than the risk of material misstatement resulting from an error, as fraud may involve collusion, falsification, intentional omissions, statements to mislead the auditor, as well as neglect or circumvention of internal control.

- gain an understanding of internal control relevant to the audit in order to develop audit procedures that are appropriate in the particular circumstances, but not in order to express an opinion on the effectiveness of the Fund's internal control.

- we evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by management.

- we conclude about the appropriateness of management's use of the accounting basis based on the going concern assumption and, based on the audit evidence obtained, whether there is material uncertainty about events or conditions that could raise significant doubts about the ability of the Fund to continue to operate as a going concern. If we conclude that there is material uncertainty, we are required to draw attention in our audit report to the disclosures related to this uncertainty in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Fund to cease to operate as a going concern.

- we evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements present the underlying transactions and events in a manner that achieves reliable presentation.

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

I. Statement of financial position

for the year ended on 31 December 2022

thousand BGN

	Explanatory appendices	31.12.2022	31.12.2021
ASSETS			
Non-current Assets			
Non-current government securities reported at amortized cost	7.1	176	177
Total non-currents assets		**176**	**177**
Current assets			
Receivables			2
Short-term part of long-term government securities		1	1
Cash and cash equivalents	7.2	40	1
Total current assets		**41**	**4**
TOTAL ASSETS		**217**	**181**
RESERVES			
Recovery and resolution reserve	7.3	216	180
Result for the period		1	1
TOTAL RESERVES		**217**	**181**

II. Statement of profit or loss and other comprehensive income

for the year ended on 31 December 2022

thousand BGN

	Explanatory appendices	31.12.2022	31.12.2021
INCOME			
Financial income / expenses		1	1
Result before tax		1	1
Total income		1	1
RESULT FOR THE PERIOD		**1**	**1**
OTHER COMPREHENSIVE INCOME			
Total other comprehensive income for the year, net of taxes		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1**	**1**

III. Statement of changes in reserves

for the year ended on 31 December 2022

thousand BGN

	Recovery and resolution reserve	Result for the period	Total reserves
BALANCE AS OF 31 DECEMBER 2020	**142**	**1**	**143**
Changes in reserves in 2021			
Annual contributions	37		37
Result for the period		1	1
Other amendments (from rounding)	1	(1)	0
BALANCE AS OF 31 DECEMBER 2021	**180**	**1**	**181**
Changes in reserves in 2022			
Annual contributions	35		35
Result for the period		1	1
Other amendments (from rounding)	1	(1)	
BALANCE AS OF 31 DECEMBER 2022	**216**	**1**	**217**

IV. Statement of cash flows

for the year ended on 31 December 2022

thousand BGN

	Explanatory appendices	31.12.2022	31.12.2021
Cash flows from operating activities			
Revenues from annual contributions of investment intermediaries	7.3	37	35
Net flow generated by operating activities		**37**	**35**
Cash flows from financial activities			
Cash payments related to government securities (GS)		0	(104)
Cash payments against coupons of government securities		2	0
Net flow used in financial activities		2	**(104)**
Net increase / (decrease)		39	(69)
Cash at the beginning of the period		1	70
Cash at the end of the period	**7.2**	**40**	**1**

V. Explanatory appendices

1. General information

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

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

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

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

As of 31.12.2022, the MB of ICF has the following members:

- **Diyana Miteva** - Chairperson according to FSC Decision № 462-ICF dated 09.06.2022
- **Petko Krastev** – Member according to FSC Decision № 632-ICF dated 20.08.2020
- **Radoslava Maslarska** – Member according to FSC Decision № 204-ICF dated 17.03.2022
- **Irina Petkova Kazanjieva-Yordanova** – Member according to FSC Decision № 878-ICF dated 02.12.2021

Until 07.06.2022 , the MB of ICF is composed of:

- **Petya Hantova-Georgieva** – Chairperson according to FSC Decision № 632-ICF dated 20.08.2020
- **Diyana Miteva** – Deputy Chairperson according to FSC Decision № 204-ICF dated 17.03.2022
- **Petko Krastev** – Member according to FSC Decision № 632-ICF dated 20.08.2020
- **Radoslava Maslarska** – Member according to FSC Decision № 204-ICF dated 17.03.2022
- **Irina Petkova Kazanjieva-Yordanova** – Member according to FSC Decision № 878- ICF dated 02.12.2021

2. Basis for the preparation

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

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

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

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

3. Responsibilities of the management

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

The actions of the MB of ICF and of "IFRF Activities" department are in the direction of adoption of the principles of good management and increasing of trust of the participants in the Investment firms resolution fund.

4. Declaration of conformity

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

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

5. Principles

5.1. Fair presentation

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

5.2. Principle of the going concern

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

The assessment of the MB of ICF, which manages IFRF, regarding the applicability of the principle of the going concern covers period of 12 months from the report. The MB of ICF has reached the conclusion that there is no present essential uncertainty which could raise considerable doubt about the capacity of IFRF to continue functioning as going concern, and that respectively it is feasible to prepare the financial statement on the presumption of going concern. The intentions of MB regarding the future existence of IFRF are that it will continue to perform all its activities.

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

5.3. Principle of accrual

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

5.4. Consistency of presentation

The presentation and classification of items in the financial statements of the Fund are retained in subsequent reporting periods, because in 2022, it was not found any other more relevant presentation, and no changes in accounting standards required changes in presentation.

5.5. Materiality and aggregation

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

5.6. Comparative information

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

6. Summary of the material accounting policies

6.1. Changes in the accounting policies and reporting

6.1.1. New and amended standards and clarifications

The accounting policies of the IFRF are consistent with those applied in the previous reporting period, except for the following amended IFRS adopted from 1 January 2022:

For the first time in 2022 some amendments and clarifications are applied, but they do not influence the financial statement of IFRF. IFRF has not adopted standards, clarifications or amendments which are published, but have not entered into force yet.

Onerous Contracts - Contract Performance Costs - Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 mentioning which costs the Company should include when assessing whether a contract is onerous or losing. The amendments apply the ”directly related cost approach”. Costs that are directly related to a contract for the provision of goods and services include both intrinsic cost and an allocation of cost directly related to the assets under the contract. General and administrative expenses are not directly related to a contract and are excluded unless they are specifically billable to the counterparty to the contract. These modifications do not affect the financial statements of the IFRF.

Reference to the Conceptual Framework - Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework. The Amendments are intended to replace the reference to the Framework for the preparation and presentation of Financial Statements issued in 1989 with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without substantial changes to the requirements.

The Board also added an exception to the recognition principle in IFRS 3 to avoid potential 'day 2' profits or losses arising on liabilities and contingent liabilities that would fall within the scope of IAS 37 or IFRIC 21 Levies if incurred separately. At the same time, the Board decided to clarify the existing guidance in IFRS 3 on contingent assets, which would not be affected by the replacement of the reference to the Framework for the preparation and presentation of Financial Statements. These amendments have no impact on the financial statements of the IFRF.

Property, plant and equipment: proceeds before intended use - Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment - Proceeds before intended use, prohibiting entities from deducting from the acquisition cost of property, plant and equipment any proceeds from the sale of items produced while that asset is being brought to the location and condition necessary to enable it to function in the manner intended by management. Instead, the entity recognises the proceeds from the sale of such items and the costs of their production in profit or loss. These amendments have no impact on the financial statements of IFRF.

Annual Improvements to IFRS 2018-2020

IFRS 9 Financial Instruments - Fees in the "10 per cent" test for derecognition of financial liabilities

As part of the IFRS Annual Improvements - 2018-2020 process, the IASB published an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are materially different from the terms of the original financial liability. These fees include only paid or received one between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or replaced on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted. These amendments have no impact on the financial statements of the IFRF.

IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a First-time Adopter

As part of the IFRS Annual Improvements - 2018-2020 process, the IASB published an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment allows a subsidiary that chooses to apply paragraph D16(a) of IFRS 1 for assessment of cumulative differences of conversion of foreign currency using the amounts reported by its parent, based on the parent's date of transition to IFRS. This amendment also applies to associates or joint ventures that choose to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. These amendments have no impact on the financial statements of the IFRF.

IAS 41 Agriculture - Taxation at fair value measurement

As part of the IFRS Annual Improvements - 2018-2020 process, the IASB published an amendment to IAS 41 Agriculture. The amendment removes the requirement in Paragraph 22 of IAS 41 that entities must exclude cash flows related to taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment for future periods in respect of fair value measurements on or after the beginning of the first annual reporting period, beginning on or after 1 January 2022. Earlier application is permitted. These amendments have no impact on the financial statements of the IFRF.

6.1.2. New standards, amendments and clarifications to existing standards published but not in force or haven't been by the EU

At the date of approval of these financial statements, new standards, amendments and interpretations to existing standards have been published but have not been effective or adopted by the EU for the financial period beginning 1 January 2022 and have not been applied by the Fund from an earlier date. They are not expected to have a significant effect on the financial statements of the IFRF. Management expects that all standards and amendments will be adopted in the Fund's accounting policies in the first period beginning after the effective date.

The amendments are related to the following standards:

- IFRS 17 Insurance Contracts - effective from 1st of January 2023;
- Amendments to IAS 1: Classification of liabilities as current or non-current - effective from 1st of January 2023;
- Amendments to IAS 1 Presentation in financial statements and Statement of Practice under IFRS 2: Disclosure of Accounting Policies - effective from 1st of January 2023;
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates - effective from 1st of January 2023;
- Amendment to IAS 12 Income taxes: Deferred tax related to assets and liabilities, arising as a result of a single transaction - effective from 1st of January 2023;
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. These amendments have not yet been adopted by the EU.

6.2. Changes in the accounting policy

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

6.3. Conversion into foreign currency

The financial statement is presented in BGN, which is the official currency and the presentation currency of IFRF. Transactions in foreign currencies are initially recorded in the official currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the reporting date using the closing exchange rate of the BNB on the last working day of the relevant month. All exchange rate differences are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are evaluated at historical acquisition price in a foreign currency are recalculated into the official currency at the exchange rate at the date as of the date of the initial acquisition transaction.

6.4. Recognition of income

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

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

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

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

6.5. Financial instruments – initial recognition and subsequent measurement

6.5.1. Initial recognition

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

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

6.5.2. Subsequent measurement of financial assets

Financial assets accounted at amortized cost

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

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

Impairment of financial assets

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

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

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

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

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

6.5.3. Impairment of receivables

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

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

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

6.5.4. Derecognition of financial assets

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

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

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

6.5.5. Subsequent measurement of financial liabilities

Liabilities accounted at amortized cost

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

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

Derecognition of financial liabilities

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

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

Compensation of financial assets and financial liabilities

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

• there is right of offsetting regarding those amounts;

• and there is intent the offset to be settled on net basis or simultaneously to realize one asset and to settle one liability.

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

6.6. Management of financial risks

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

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

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

Types of risks

- **Credit risk**

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

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

Considering that the IFRF's resources are invested in assets with highest credit ratings, it can be assumed in the short run that the losses due to default would be zero, which leads to zero value of the expected credit losses for the IFRF portfolio. According to the policy for recognition of expected credit losses, the MB of ICF makes credit risk assessment once per year. For 2022 MB of ICF determined that the expected credit losses for the IFRF portfolio are 0 BGN.

The total exposure bearing credit risk is 177 thousand BGN (2021: 180 thousand BGN[1]).

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

- **Liquidity risk**

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

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

1 The amount also includes receivables and the short-term portion of long-term government securities.

- **Market risk**

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

- **Currency risk**

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

1 EUR = 1,95583 BGN

- **Price risk**

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

- **Interest rate risk**

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

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

During 2022, the IFRF did not use any borrowed funds for which interest was charged.

Negative interest on the current account at BNB has been charged on the Fund's balances until August 2022. The costs were borne and reimbursed by the ICF. Since September 2022, BNB started to charge positive interest. As of 31.12.2022, the IFRF has an uncovered cost of 100.00 BGN for bank charges, which has been recovered from the ICF in 2023.

6.7. Other receivables

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

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

6.8. Equity

Equity is formed from the accrued reserves in IFRF. FSC as resolution authority determines the individual contributions for each of the investment intermediaries as per art. 1, para. 1, item 2 of RRCIIFA.

6.9. Cash and cash equivalents

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

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

6.10. Government grants

IFRF would account government grants as other income.
IFRF did not receive government grants in 2022.

6.11. Current income tax

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

7.Explanations to the financial statements

7.1. Debt instruments accounted at amortized cost

thousand BGN

Debt instruments accounted at amortized cost	31.12.2022	31.12.2021
Bonds of non-related parties	176	177
Total	**176**	**177**

The amount of recognized amortizations in 2022 is -1 102.46 BGN (2021: -712.26 BGN).

7.2. Monetary funds and short-term deposit

thousand BGN

Monetary funds	31.12.2022	31.12.2021
Current accounts	40	1
incl. in BGN	40	1

The monetary funds on bank accounts bear floating interest rates based on the daily interest rates on bank deposits. As of 31.12.2022, the fair value of monetary funds is forty thousand BGN (as of 31.12.2021, it was one thousand BGN).

7.3. Reserves

The changes in reserves are presented below:

thousand BGN

Description	Reserves
As of 31 December 2020	**143**
Changes in reserves in 2021	
Annual contributions	37
Result for the period	1
As of 31 December 2021	**181**
Changes in reserves in 2022	
Annual contributions	35
Result for the period	1
As of 31 December 2022	**217**

The amount of financial income/expenses in 2022 was 796.14 BGN (in 2021 is 530.80 BGN).

As of 31.12.2022, the number of participants in IFRF is 19, i.e., one more than in the previous year.

8. Events after the reporting period

After the end of the reporting period, the ICF has settled its liability to the IFRF of 100.00 BGN for bank charges on the IFRF's current account with the BNB.

No events have occurred after the end of the reporting period that would require an adjustment to this report.

9. Date of approval of the financial statement

This financial statement was approved via Resolution of the MB of the ICF on 10.03.2023.

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