



**INVESTOR
COMPENSATION
FUND**



ANNUAL REPORT 2022

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I. MISSION AND STATUTE

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.

INVESTMENT COMPENSATION FUND

MANAGEMENT BOARD*

Chairperson of MB:	Diyana Miteva
Deputy Chairperson:	Gergana Mihaylova - Borisova
Members:	Radoslava Maslarska
	Irina Kazandjieva - Yordanova
	Petko Krastev

Headquarters:

1000 Sofia, 31 Tsar Shishman str., Floor 2

*As of the date of preparation of the report.

ABBREVIATIONS:

ABB – Association of Banks in Bulgaria

BALII – Bulgarian Association of Licensed Investment Intermediaries

BAAMC – Bulgarian Association of Asset Management Companies

BNB – Bulgarian National Bank

BSE – Bulgarian Stock Exchange

B-II – Banks-Investment Intermediaries

GS – Government Securities

EU – European Union

POSA – Public Offering of Securities Act

MFIA – Markets of Financial Instruments Act

II – Investment Intermediaries

FSC – Financial Supervision Commission

SME – Small and Medium Enterprises

MF – Monetary Funds

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

CA – Current Account

BNAO – Bulgarian National Audit Office

AMC – Asset Management Companies

MB – Management Board

FI – Financial Instruments

ICF – Investor Compensation Fund

IFRF – Investment Firms Resolution Fund

EFDI – European Forum of Deposit Insurers

II. ANNUAL REPORT OF ICF FOR 2022

1. KEY MOMENTS IN THE ACTIVITY OF THE FUND

The Investor Compensation Fund protects small (non-professional) investors in financial instruments, clients of investment intermediaries by providing compensation payments in the amount of 90% of the value of the receivable, but not more than BGN 40 000. The Fund pays compensations in cases where investment intermediary is unable to fulfil its obligations to clients due to reasons directly related to its financial condition.

The Fund's resources for payment of compensations are collected through contributions from the investment intermediaries (participants).

The amount of contribution that the investment intermediaries are required to make to the Fund is determined annually by the Management Board. At the end of 2022, the Management Board of the Fund took a decision to decrease the amount of the contribution on financial instruments (FI) for 2023 to 0,025% (at 0,03% in 2022), and the amount of the contribution on monetary funds (MF) for 2023 was reduced to 0,20 % (at 0,25% in previous years). The main arguments for decreasing the amount of the contribution on both FI and MF are, on the one hand, the significant amount of the Fund's resources reached and the low historical compensation payments, as well as the fact that the Fund's resources would be sufficient for payment of compensations to 90% of its participants.

In 2022 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. During the year, the changes proposed by the Fund to the Regulation on the Organization and Operation of the Investor Compensation Fund (ROOICF) were adopted. The changes concern the organizational structure of the Fund, the method of financing the administrative expenses of the Fund, etc.

During the year, proposals for changes to the legislation of the Fund were finalized and submitted for discussion to the Financial Supervision Commission (FSC). A new Investor Compensation Act is proposed, incorporating most of the provisions of Public

Offering of Securities Act which currently regulates this matter¹, but at the same time changes envisaged in the amount of compensation provided, the method of calculating the annual contributions to the Fund, the targeted level of available funds, the financing of the Fund and others. The aim of the proposed changes is to improve the operation of the Fund, taking into account its experience throughout its 17 years of existence as well as the changing market environment. Some of the proposed changes are borrowed from good foreign practices in the field of investor compensation.

In 2022, the Fund maintained effective communication with the participants, FSC, ABB, BALII, BAAMC and all interested parties. In addition, the Fund carried out constant information exchange with other investor protection systems within the European Union and actively participated in meetings of European investor protection systems, thereby contributing to the international cooperation and the development of research in the field. All international meetings were in relation with Fund's associate membership in the European Forum of Deposit Insurers (EFDI) and its various working groups.

The recent years have proven to be quite dynamic on a global scale and 2022 was no exception. The military conflict in Ukraine, which started at the beginning of the year, on the one hand, and the increasing rates of inflation, on the other, put all economies in front of serious challenges. All of this happened just after the world had begun to recover from the consequences of the COVID-19 pandemic and related measures.

In Bulgaria, the inflation rate reached double-digits figure and is a serious cause for concern. In almost all sectors, inflation outpaced wage growth leading to a decrease in people's real income. The production process was also hindered and in some sectors even stopped due to high electricity prices. In an attempt to support business and the population in this dynamic and challenging environment, the government implemented a series of measures that inevitably resulted in increased government expenditures and public debt. In addition, interest rates on government debt had begun to increase, as the unprecedentedly low levels at which countries, including Bulgaria, were able to finance themselves remained in the past.

¹ Currently, the activity of ICF is regulated under Section IV of Chapter five of the Public Offering of Securities Act - art. 77a – 77h, as well as in other legal acts (Markets of Financial Instruments Act, Collective investment schemes and other undertakings for collective investment act), which creates fragmentation and a low level of systematization of the legal framework.

As of the date of report preparation, the military conflict in Ukraine continues and the issue of inflation is still not fully controlled on a global scale. These conditions are dynamic, and at this stage, it is not possible to assess whether they would have an impact on the activity of the Fund. In 2023, the management of the ICF will continue to monitor the impact of the war and inflation on the financial condition of the participants in the ICF, including the Fund in particular. At the same time, the activity of the ICF will continue to be fully compliant with the requirements of the POSA and the provisions of other legal acts regulating its activity.

2. RESOURCES

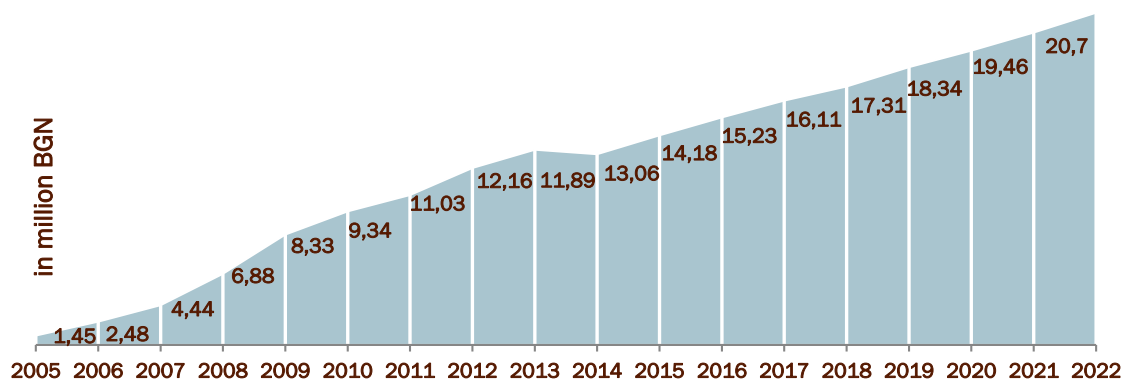
The main part of the Fund's resources is formed by the annual contributions received from the investment intermediaries (II), banks – investment Intermediaries (B-II) and asset management companies (AMC). Moreover, each new participant, who joins the Fund, makes an initial contribution.² The collected resources are invested by the Management Board of the Fund, and the income from investments also participate in the formation of the total amount of resources. The collection, investment and spending of the Fund's resources is carried out in compliance with the provisions of POSA, ROOICF and ICF's internal rules, and the supervision of these activities is carried out by the Bulgarian National Audit Office and the FSC.

Figure 1 shows the investment portfolio of the Fund since its establishment to 2022, as of the end of the respective year. As of December 31st 2022, the investment portfolio of the Fund is 20,7³ million BGN, as compared to a year earlier it has increased by 1,24 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 of the establishment of the Fund the rate was much higher, but then the contributions were set at the highest allowable level.

² AMC do not pay initial contribution to the Fund

³ The Fund's investment portfolio includes government securities at amortized cost (excluding accrued interest), cash on hand and current and deposit accounts. The amortized cost of government securities is as of December 31st, 2022.

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



Source: ICF

2.1. CONTRIBUTIONS

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

The annual contribution for 2022, 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 2021 and
- 0,03% of the average monthly amount of the rest of the clients' assets, eligible to compensation in 2021.

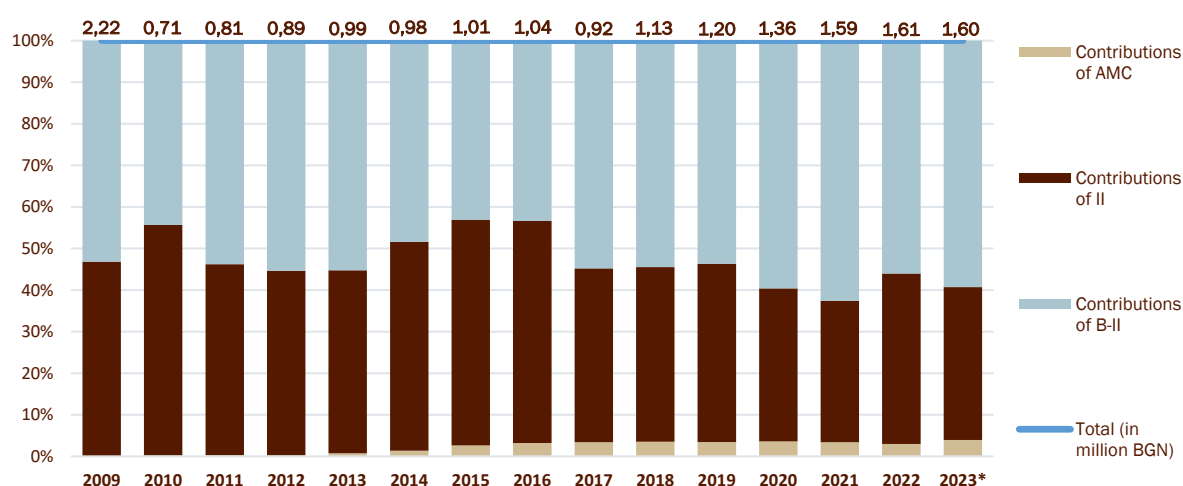
The participants in the Fund also pay initial contribution, which is payable in one instalment by II and B-II at their admission to the scheme.⁴ The initial contribution amounts at 1% of the minimal equity required for an investment intermediary according to the permitted services and activities under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

⁴ 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. AMC do not pay initial contribution to the Fund.

The proceeds from annual and initial contributions of participants in the Fund in 2022⁵ amounted at 1,567 million BGN, of which 12 169 BGN⁶ are from initial contribution. For comparison, in 2021, the proceeds from contributions amounted at 1,575 million BGN.

Fig. 2 presents the annual contributions of B-II, II and AMC for the period 2009-2023. It is based on the average monthly values of eligible to compensation FI and MF, declared by the participants for the previous year.

Fig. 2. Distribution of contributions of II, B-II and AMC



Sources: ICF

* Data for 2023 is preliminary

The annual contributions in 2022 of II, B-II and AMC is 1,608 million BGN⁷ versus 1,585 million BGN of 2021. As the Fig. 2 shows, the share of B-II in the formation of the contribution for 2022 is the largest – about 56% of the total amount of contributions.

⁵ In 2022, one-quarter of the due annual contribution for 2021, which is payable until 30.01.2022 and three-quarters of the due contributions for 2022 has been received into the Fund's account.

⁶ The initial contribution has been paid by a participant in the Fund, who in the middle of 2022, expanded its license from partial to full, correspondingly increased its the minimum capital to 750 000 EUR.

⁷ The shown amount includes four quarters of the annual contribution for 2022 and differs from the actually received income from contributions, because in 2022 on the Fund's current accounts were received one quarter of the annual contribution due for 2021 which is payable until 30.01.2022, and three quarters of the contribution due for 2022.

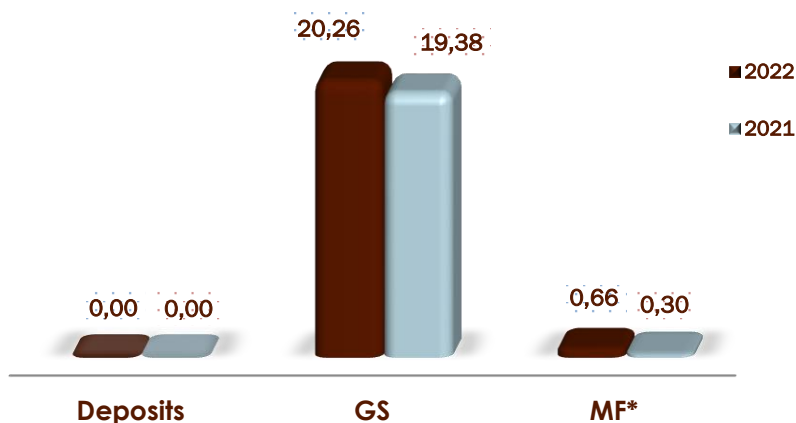
The annual contribution for 2023 is expected to be 1,598 million BGN. The similar amounts of the contribution for 2023 and 2022 are solely due to the lower contribution rate set in 2023, both on FI and MF, while the average monthly amount of clients assets eligible to compensation increases significantly in 2022 .

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“. Security and liquidity requirements have a priority in taking of investment decisions and the Fund can hold its resources in financial instruments issued or guaranteed by the state, short-term deposits in commercial banks and deposits in BNB.

Fig. 3 shows the structure of the investment portfolio⁸ of the Fund as of the end of 2021 and 2022.

Fig. 3. Investment portfolio structure (in million BGN)



*MF – cash in hand and on current accounts

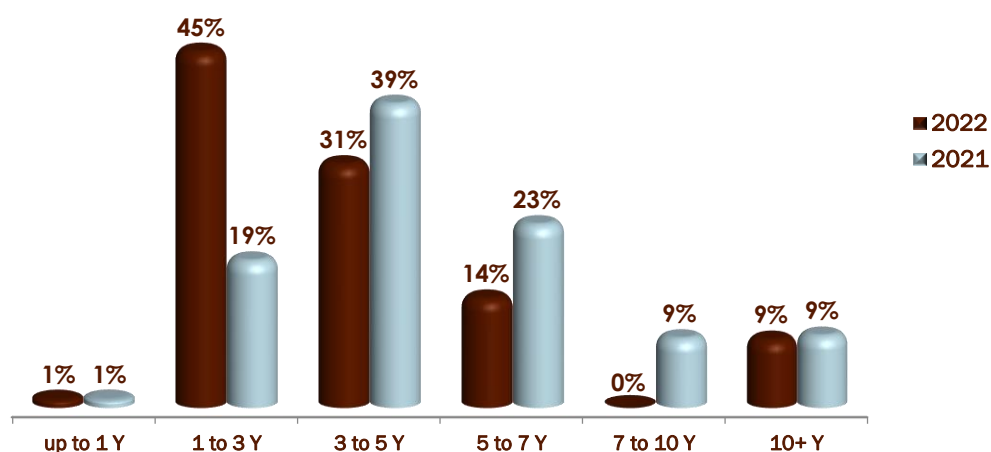
Investments in government securities represent a major part of the Fund`s portfolio, and as of 31.12.2022 their share is 97% versus 99.6% at the end of 2021. An increase in current accounts and cash in hand is reported – from 301 thousand BGN as of

⁸ The value of government securities includes accrued interest.

31.12.2021 to 664 thousand BGN as of 31.12.2022. As of the date of the report, the Fund has no investments in deposits.

Fig. 4 presents the maturity structure of GS and deposits as of 31.12.2022 and as of 31.12.2021.

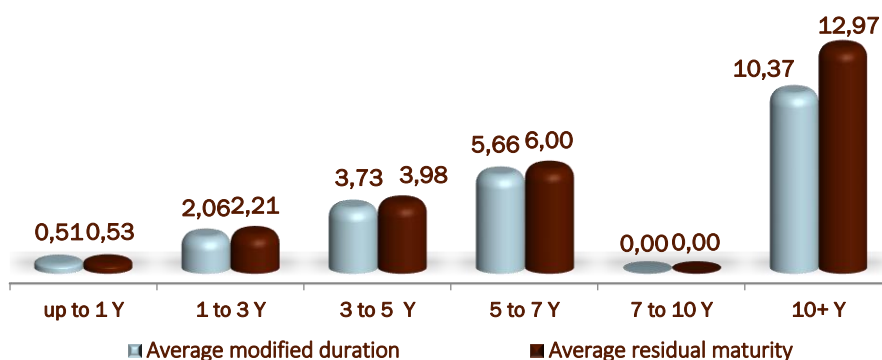
Fig. 4. Maturity structure of GS



The shifts between the intervals are due to a decrease of the maturity of the GS held. New issues with maturity ranging from 1 to 3 years were also purchased during the year.

The modified duration and the average residual maturity on the investments in GS, according to their maturity structure as of 31.12.2022, are presented in Fig. 5.

Fig. 5. Modified duration and average residual maturity of GS



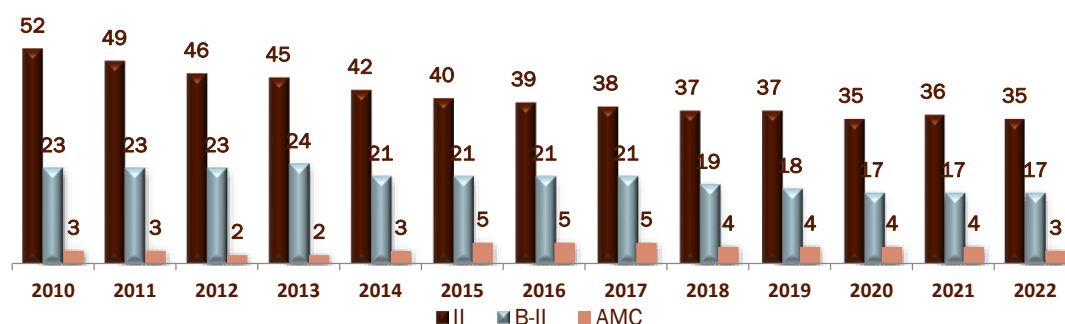
The weighted average modified duration of the GS portfolio as of 31.12.2022 is 3.79 years versus 4.88 years at the end of 2021. The average remaining term of the investments in GS also decreases slightly: from 5.30 years as of 31.12.2021 to 4.21 years at the end of 2022.⁹

3. PARTICIPANTS

In the last year, one participant ("Capital Markets" AD) dropped out of the investor compensation scheme, which voluntarily returned its license to perform activity as an investment intermediary. Thus, as of 31.12.2022, there are a total of 55 active participants in the Fund, including 35 investment intermediaries (II), 17 bank-investment intermediaries (B-II), and 3 asset management companies (AMC - out of a total of 31) holding client assets, protected by the Fund. A list of participants in the Fund is given in Appendice 1.

Fig. 6 presents the total number of II, B-II and AMC in the Fund for the period 2010 – 2022. As shown on the figure, over the years there has been a significant decline 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.

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



As of 31.12.2022 the Bulgarian investment intermediaries that have the right to perform services and activities in the territory of Member states under the conditions of

⁹ The weighted average maturity of the portfolio is calculated as a sum of the terms of all investments weighted by the share of each investment in the total amount of investments in GS as of 31.12.2022.

free provision of services are 19 in total.¹⁰ 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.¹¹

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 eligible to compensation.

According to data submitted by the participants in the Fund, the total amount of client assets eligible to compensation as of 31.12.2022, is 5.11 billion BGN, and of those noneligible to compensation - 39.1 billion BGN.

Table 2 presents client assets eligible and noneligible to compensation of all participants (II, B-II and AMC) as of 31.12.2022 and as of 31.12.2021.

Table № 2. 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 31.12.2022	Client assets eligible to compensation as of 31.12.2021	Change on an annual basis	Client assets noneligible to compensation as of 31.12.2022	Client assets noneligible to compensation as of 31.12.2021	Change on an annual basis
	(1)	(2)	[3=(1-2)/2]	(4)	(5)	[6=(4-5)/5]
FI-B-II	3 669 742 442	3 646 407 866	0,64%	32 307 034 859	32 044 121 102	0,82%
FI-II	1 201 342 597	1 178 525 211	1,94%	6 690 450 343	5 982 828 132	11,83%
MF-II	98 217 527	135 514 233	-27,52%	52 736 176	118 529 235	-55,51%
FI-AMC	125 907 722	102 275 810	23,11%	82 908 912	75 131 361	10,35%
MF-AMC	15 087 855	12 292 677	22,74%	4 107 991	7 602 868	-45,97%
TOTAL:	5 110 298 142	5 075 015 797	0,70%	39 137 238 282	38 228 212 699	2,38%

Sources: ICF

The total amount of client assets eligible to compensation increased minimally by 0.70% compared to the end of 2021. In all groups of participants there is an increase in

¹⁰ According to an II's list published on the FSC website (menu Supervised entities, submenu Notifications) that have the right to perform investment services and activities on EU territory.

¹¹ 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”.

the amount of client's assets eligible to compensation, except MF held by II. On an annual basis MF, held by II's decreased from 135.5 million BGN to 98 million BGN.

Client assets noneligible to compensation increased by 2.38% on annual basis – from 38.2 billion BGN as of 31.12.2021 to 39.1 billion BGN as of 31.12.2022. The increase is mainly due to FI, held by II and B-II that are respectively 707 million BGN and 263 million BGN more on an annual basis. FI held by AMC also increased, but in absolute terms this increase is not significant – about 7.8 million BGN. In contrast to FI, there is a considerable decline in MF in both II and AMC. The value of MF, held by II decreased by 55.5% on an annual basis, and for AMC they are 46% less on an annual basis.

In 2022, the trend of B-II managing the highest amount of client assets continues, even though they only declare FI of their client. The total amount of client assets held by B-II is 36 billion BGN¹², of which 3.67 billion BGN are eligible to compensation from the Fund and 32.3 billion BGN are not eligible to compensation.

Investment intermediaries manage three times less client assets eligible to compensation compared to B-II, or a total of 1.3 billion BGN. Regarding client assets noneligible to compensation, the difference is even more significant, with II holding about 6.7 billion BGN, which is approximately five times less than B-II.

The total client assets held by AMC amount to 228 million BGN. About 141 million BGN of these are eligible to compensation and 87 million BGN are noneligible to compensation.

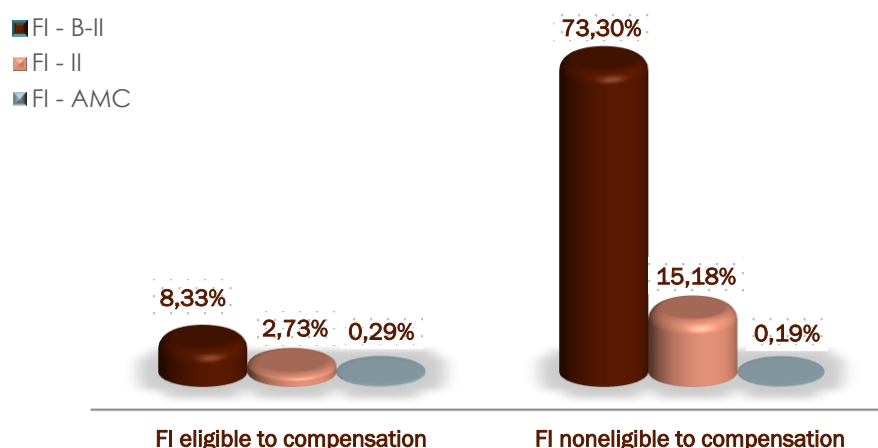
The resources of the Fund as of 31.12.2022, formed by initial and annual contributions of the II, B-II and the AMC, as well as from investments income, amount to 20.92 million BGN.¹³ and they represent 0.4% of the amount of client assets eligible to compensation (5.11 billion BGN). When the accumulated 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 31.12.2022, 5% of the client assets eligible to compensation amount to nearly 255.5 million BGN (5% of 5.11 billion BGN).

¹² Banks do not report MF to the Fund, as they are considered as deposits and fall within the scope of protection from the BDIF.

¹³ The amount comprises GS at amortized amount (with accrued interest), cash on hand and on current and deposit accounts.

Fig. 7 represents the distribution of eligible and noneligible to compensation FI by groups of intermediaries as of 31.12.2022. The total amount of all FI is 44 billion BGN, of which the share of the eligible to compensation is around 11.3%, the same as the end of 2021.

Fig. 7. Distribution of FI by groups of intermediaries, as of 31.12.2022



B-II hold the greatest amount of FI eligible to compensation – 8.3% of all FI, and they continue to hold the largest share of FI noneligible to compensation – 73.3%.

In 2022 the Fund's participants reported the highest value of the eligible to compensation FI since the establishment of the Fund – 5.6 billion BGN in May. At the same time, the lowest value of eligible to compensation FI since the establishment of the Fund was reported in February 2009 - 917.68 million BGN, which is equal to only 16% of the maximal value.

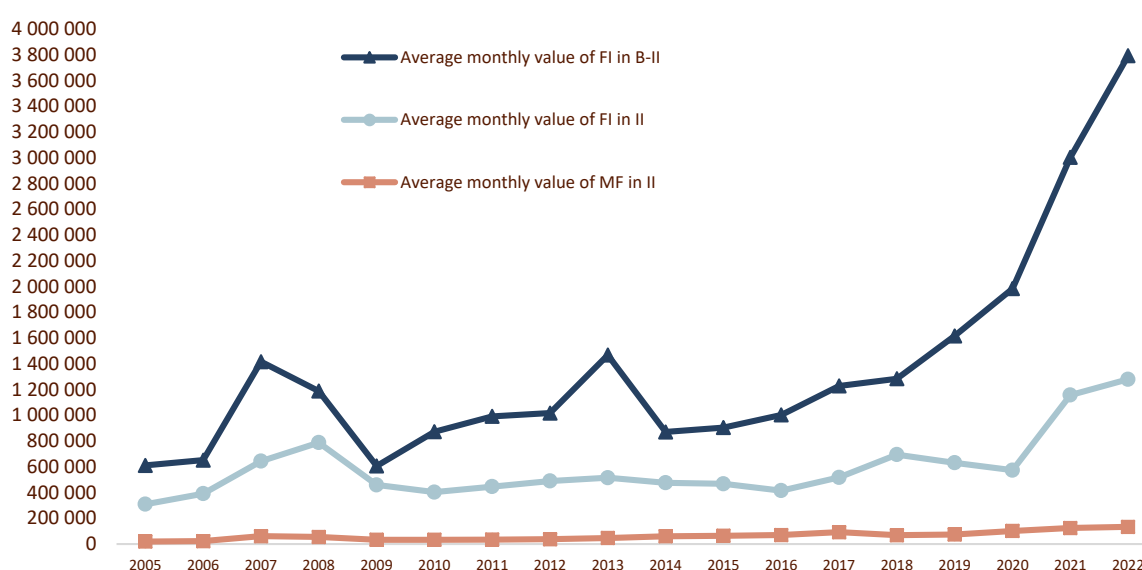
Table № 2. Financial instruments eligible to compensation /BGN/

FI of clients	Date	Peak value	Minimum	Peak value in 2022
	May, 2022	5 625 038 332		
	February, 2009		917 667 292	
	May, 2022			5 625 038 332
% of the peak value		100%	16%	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



As can be seen from the figure, for the last two years the average monthly value of FI, eligible to compensation has increased double – from 2.56 billion BGN in 2020 to 5.07 billion BGN in 2022. On average per month in 2022 B-II manage FI eligible to compensation in the amount of 3.79 billion BGN, or 789 million BGN more on an annual basis. The average monthly value of FI managed by II in 2022 is 1.28 billion BGN, which is 123 million BGN higher than in 2021. As for MF eligible to compensation there is no significant change in their average monthly value, which reached 133 million BGN in 2022.

The client assets eligible to compensation and held by AMC are not included in Fig. 8, as they are of small value. In 2022, on average per month, AMC held FI eligible to compensation at the amount of 127.5 million BGN versus 84.2 million BGN in 2021. The

average monthly amount of the MF eligible to compensation in AMC in 2022 is 15.7 million BGN which is nearly twice as large compared to 2021.

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Client assets eligible to compensation (million BGN)	1 322	1 612	2 091	2 325	1 579	1 435	1 677	1 964	2 416	2 263	3 275	5 075	5 110
Stock exchange capitalization (million BGN)	10 754	12 436	9 828	9 961	9 756	8 587	9 683	23 621	26 765	27 905	28 355	30 781	30 176
Ratio client assets/stock exchange capitalization	12%	13%	21%	23%	16%	17%	17%	8%	9%	8%	12%	16%	17%
GDP (million BGN)	70 474	75 265	77 323	79 454	78 722	84 236	88 939	101 043	107 925	119 772	119 951	139 012	154 550
Ratio stock exchange capitalization/GDP	15,00%	16,52%	12,71%	12,54%	12,39%	10,19%	10,89%	23,38%	24,80%	23,30%	23,64%	22,14%	19,53%

Source: web page of BSE, ICF

In 2022 there is a minimal increase in the share of client assets eligible to compensation in the sum of stock exchange capitalization from 16% as of 31.12.2021 to 17% as of 31.12.2022. The increase is due to the decline of market capitalization of the BSE and at the same time the slight increase in the amount of client assets eligible to compensation. The proportion of stock exchange capitalization to GDP¹⁴ decreases by about 3 percentage points on an annual basis. The decrease is due, on the one hand, to the reported nominal growth in GDP and on the other hand, to the reported slight decline in market capitalization.

5. EXPOSURE TO THE PARTICIPANTS

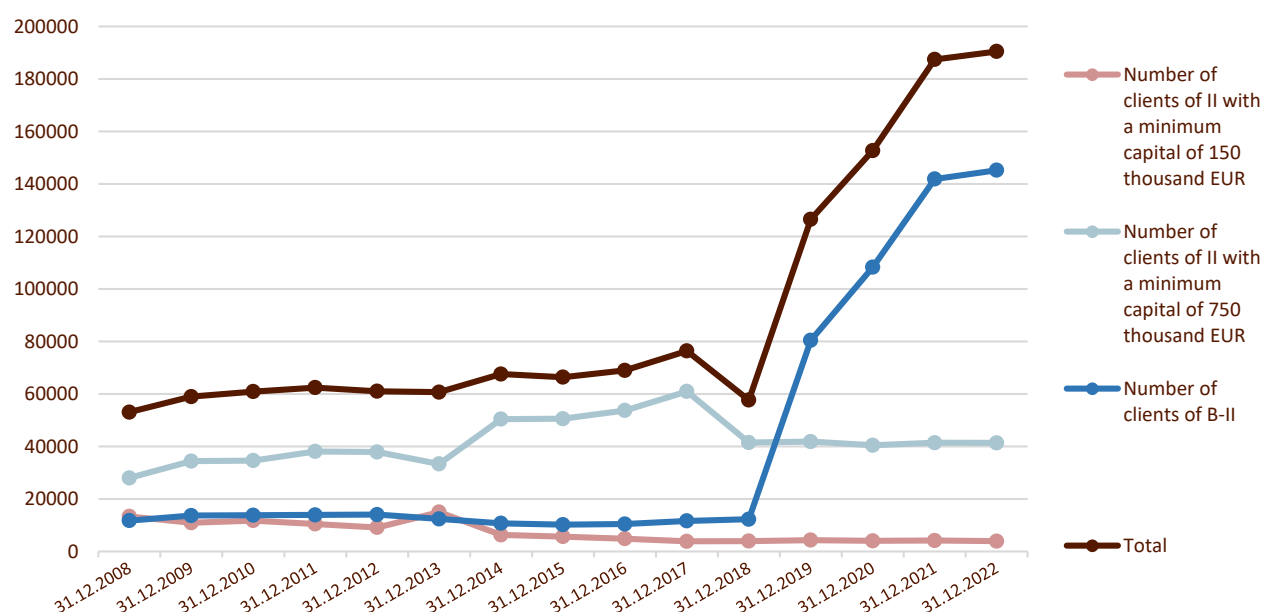
Every six months the participants in the Fund submit information on the number of their clients that possess assets eligible to compensation, distributed by intervals based on the assets they own.

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

¹⁴ The data for GDP in 2021 has been revised from those used in the 2021 Annual Report..

of compensations in case of triggering the procedure for payment of compensations. Fig. 9 represents the number of clients, that held assets eligible to compensation, by groups of participants as of December 31, for the period from 2008 to 2022 inclusive.

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



As of 31.12.2022, the total number of clients that are eligible to compensation for all participants in the Fund (II, B-II, AMC) is 191 495, i.e., their number increased by 3 318 compared to 31.12.2021. The increase is mainly due to the clients that are eligible to compensation in the group of B-II, which as of the end of 2022 are 145 209 versus 141 857 a year before. Until 2018, inclusive, B-II reported significantly less clients than II after which the clients of B-II increased significantly - in just one year (from 2018 to 2019) their number grew by more than six times. For the current period B-II report three times more clients compared to II. The clients of II that held assets eligible to compensation as of the end of the year are 45 241 or 294 clients less than the previous year.

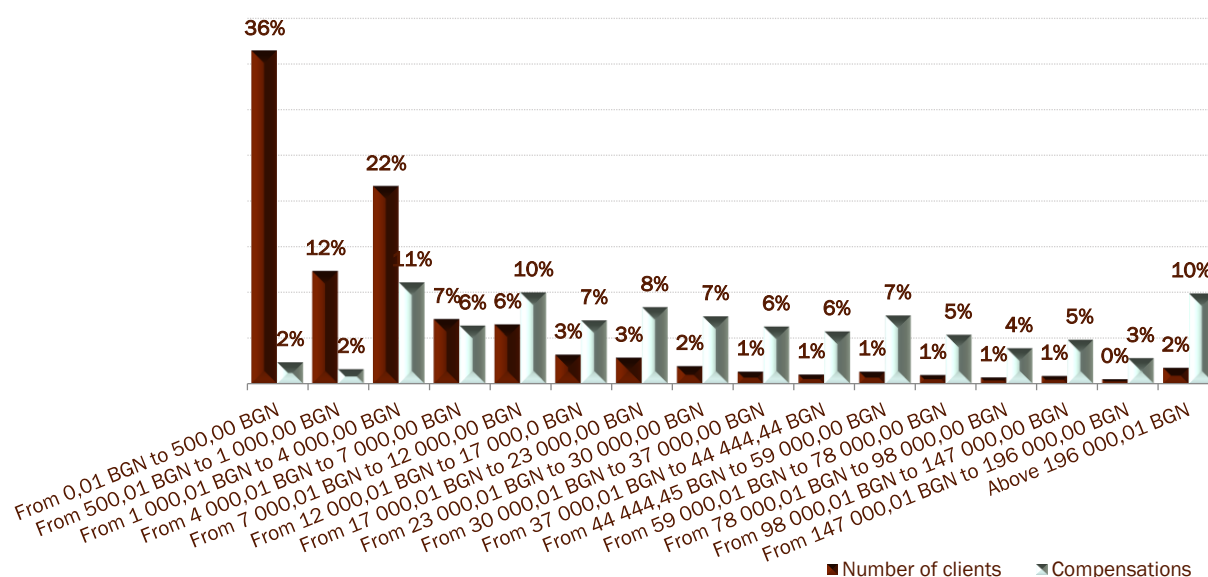
AMC declare the lowest number of clients with assets, eligible to compensation (a total of 1 045 clients) therefore they are not included in Fig. 9.

As of 31.12.2022, the Fund's exposure to its participants is **1.34 billion BGN** versus

1.32 billion BGN as of 31.12.2021.¹⁵ 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 and considering that B-II hold three times more clients than II, the calculated real compensation for them is the highest - 1.07 billion BGN. The maximum compensation, calculated for the clients of II is 253.2 million BGN, and for the clients of AMC – 19 million BGN.

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 191 495 clients of II, B-II and AMC, 69 668 or 36% hold assets up to 500 BGN. The maximum compensation calculated for these clients is 31.4 million BGN or 2% 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 22% of all clients, and the

¹⁵ 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 31.12.2022. 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.

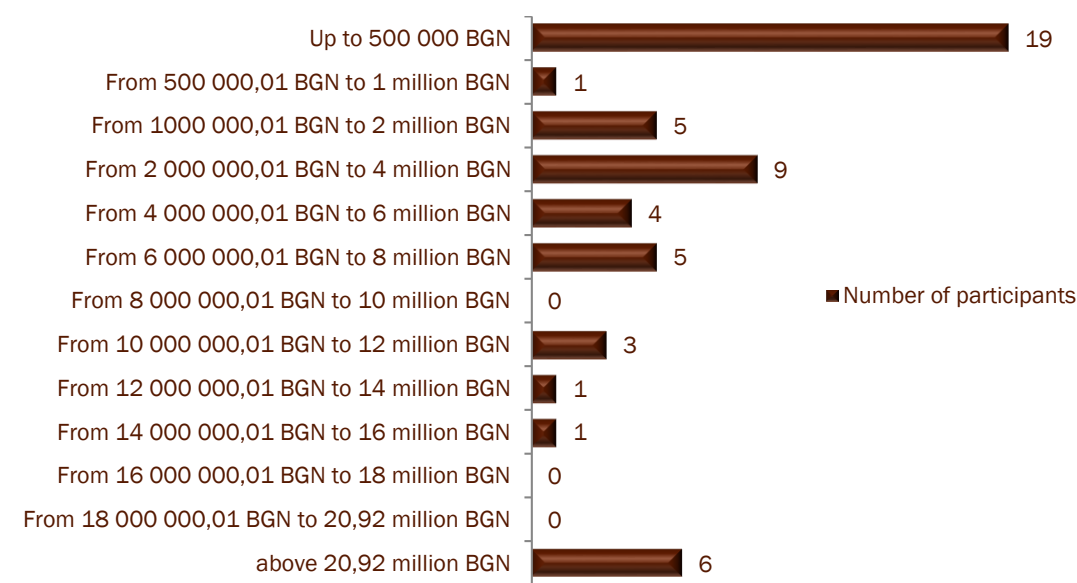
compensation for them is 11% of all compensations, which in absolute value is 148.7 million BGN. The investors who hold assets over 44 thousand BGN are 11 448 (6% of all clients), and the maximum compensation calculated for them amounts at 458 million BGN, which is 34% of all compensations.

As of 31.12.2022 the accumulated resources of the Fund amount at 20.92 million BGN, and the total amount of the calculated potential compensation for all participants is 1.34 billion BGN, i.e., the Fund has 1,5% coverage of the potential compensations (20.92 million BGN/1.34 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 (20.92 million BGN) as of 31.12.2022.

Fig. 11.

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



For the largest number of participants, a total of 19, the calculated compensation is in the range of up to 500 thousand BGN, of which 14 are II and 5 are B-II. For six participants, the calculated compensation is above the Fund's resources, of which 3 are II and 3 are B-II. In case of occurrence of circumstances for payment of compensation by the Fund to clients of any of these six participants, the FCI may be required to collect additional funds in accordance with the provisions of Art. 77c of the POSA. At the same time, the Fund's resources would be enough to compensate the clients of several

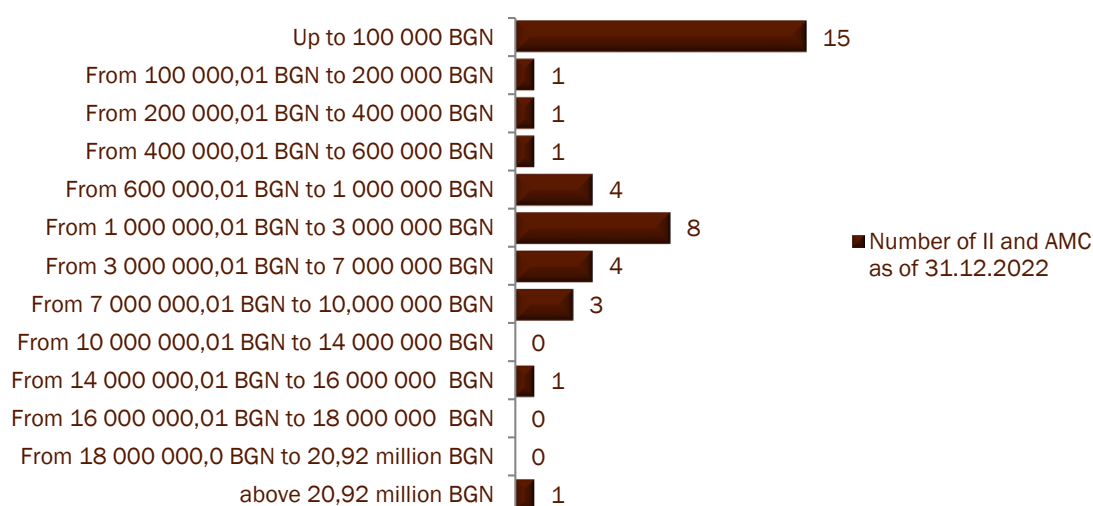
intermediaries at the same time, where the potential compensations are for smaller amounts.

Appendice 2 shows the distribution of the number of clients eligible to compensation by groups of client assets for II and B-II.

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 (15 participants) and up to 3 million BGN (8 participants). In the current reporting period, there is 1 participant holding MF exceeding the Fund's resources.

Fig. 12.

Amount of MF of II and AMC as of 31.12.2022



6. INTERNATIONAL ACTIVITY

International activity is an important aspect in the work of the Fund and in 2022 it was expressed on the one hand through 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, regarding the payment of compensations. The participation of the Fund's representatives in international activity is mainly in line with associate membership of the Fund in the

European Forum of Deposit Insurers /EFDI/ and created various working groups.

EFDI organizes an annual meeting of the Investor Compensation Schemes Working Group and an international conference, both of which took place in Rhodes, Greece, in 2022. The Fund was represented by the Chairperson and the Deputy chairperson of the management board. The Fund's representatives participated with a presentation in the working group meeting on investor compensation schemes, focusing on the main difficulties and challenges facing the schemes' activities. The Fund's representatives also participate in working groups on Stress Tests, Risk Control, and other relevant topics.

The main highlights of the annual meeting include reports on the work of committees and working groups, changes to EFDI's internal rules, some of which concern the mandate of the board, the election of new members to replace those with expired mandates, as well as the appointment of a new Chairman and Treasurer. On the last day of the conference, there was a panel discussion on future changes in the regulatory framework of deposit guarantee schemes. The Deputy Chairperson of the MB of the ICF participated on the topic of challenges facing investor compensation schemes, specifically addressing issues related to digitization, cases with payment of compensation to foreign clients and etc.

Along with participation in various forums, during the year representatives of the Fund exchange experience and information with other schemes from the EU regarding their practice with the payment of compensations.

All of this contributes to enhancing the Fund`s activities in accordance with best practices.



**INVESTOR
COMPENSATION
FUND**

APPENDICES

Appendice №1

LIST OF PARTICIPANTS IN ICF AS OF 31.12.2022

INVESTMENT INTERMEDIARIES

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

BANKS – INVESTMENT INTERMEDIARIES

1. ALLIANZ BANK BULGARIA AD
2. DSK BANK EAD
3. BULGARIAN-AMERICAN CREDIT BANK AD
4. BULGARIAN DEVELOPMENT BANK AD
5. INTERNATIONAL ASSET BANK AD
6. UNITED BULGARIAN BANK AD
7. MUNICIPAL BANK AD
8. FIRST INVESTMENT BANK AD
9. RAIFFEISENBANK (BULGARIA) EAD
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 COMPANIES¹⁶

- | | | | |
|---|------------------------------|---|-------------------------|
| 1 | EXPAT ASSET MANAGEMENT EAD | 3 | COMPASS INVEST AD |
| 2 | KAROL CAPITAL MANAGEMENT EAD | 4 | SKY ASSET MANAGEMENT AD |

¹⁶ Three of the specified AMs declare client assets eligible to compensation from the Fund, and one AM holds only noneligible to compensation client assets.

Appendice №2

DISTRIBUTION OF THE NUMBER OF CLIENTS HOLDING ASSETS ELIGIBLE TO COMPENSATION AND THE POTENTIAL COMPENSATION BY GROUPS OF CLIENT ASSETS AS OF 31.12.2022

Client assets groups	Clients of II with min. equity 150 thousand EUR		Compensation for II with min. equity 150 thousand EUR		Clients of II with min. equity 750 thousand EUR		Compensation for II with min. equity 750 thousand EUR		Clients of Banks-II		Compensation for Banks-II		Total number of clients		Total compensation	
			(in BGN)				(in BGN)				(in BGN)				(in BGN)	
From 0,01 BGN to 500,00 BGN	2 053	53%	923 850	3%	25 850	63%	11 632 500	5%	41 497	29%	18 673 650	2%	69 400	36%	31 230 000	2,36%
From 500,01 BGN to 1 000,00 BGN	264	7%	237 600	1%	2 912	7%	2 620 800	1%	20 303	14%	18 272 700	2%	23 479	12%	21 131 100	1,60%
From 1 000,01 BGN to 4 000,00 BGN	517	13%	1 861 200	6%	4 403	11%	15 850 800	7%	36 280	25%	130 608 000	12%	41 200	22%	148 320 000	11,20%
From 4 000,01 BGN to 7 000,00 BGN	167	4%	1 052 100	3%	1 571	4%	9 897 300	4%	11 718	8%	73 823 400	7%	13 456	7%	84 772 800	6,40%
From 7 000,01 BGN to 12 000,00 BGN	159	4%	1 717 200	5%	1 361	3%	14 698 800	7%	10 836	7%	117 028 800	11%	12 356	6%	133 444 800	10,08%
From 12 000,01 BGN to 17 000,0 BGN	62	2%	948 600	3%	799	2%	12 224 700	6%	5 190	4%	79 407 000	7%	6 051	3%	92 580 300	6,99%
From 17 000,01 BGN to 23 000,00 BGN	53	1%	1 097 100	3%	695	2%	14 386 500	7%	4 643	3%	96 110 100	9%	5 391	3%	111 593 700	8,43%
From 23 000,01 BGN to 30 000,00 BGN	58	1%	1 566 000	5%	547	1%	14 769 000	7%	3 030	2%	81 810 000	8%	3 635	2%	98 145 000	7,41%
From 30 000,01 BGN to 37 000,00 BGN	33	1%	1 098 900	3%	423	1,0%	14 085 900	6%	2 040	1%	67 932 000	6%	2 496	1%	83 116 800	6,28%
From 37 000,01 BGN to 44 444,44 BGN	39	1%	1 560 000	5%	304	0,7%	12 159 999	6%	1 554	1%	62 159 994	6%	1 897	1,0%	75 879 992	5,73%
From 44 444,45 BGN to 59 000,00 BGN	58	1%	2 320 000	7%	458	1,1%	18 319 998	8%	1 904	1%	76 159 992	7%	2 420	1%	96 799 990	7,31%
From 59 000,01 BGN to 78 000,00 BGN	54	1%	2 160 000	7%	388	0,9%	15 519 998	7%	1 316	1%	52 639 995	5%	1 758	0,9%	70 319 993	5,31%
From 78 000,01 BGN to 98 000,00 BGN	44	1%	1 760 000	5%	294	0,7%	11 759 999	5%	911	1%	36 439 996	3%	1 249	0,7%	49 959 995	3,77%
From 98 000,01 BGN to 147 000,00 BGN	65	2%	2 600 000	8%	388	0,9%	15 519 998	7%	1 112	1%	44 479 996	4%	1 565	0,8%	62 599 994	4,73%
From 147 000,01 BGN to 196 000,00 BGN	45	1,2%	1 800 000	6%	212	0,5%	8 479 999	4%	637	0%	25 479 997	2%	894	0,5%	35 759 996	2,70%
Above 196 000,01 BGN	238	6%	9 519 999	30%	727	2%	29 079 997	13%	2 238	2%	89 519 991	8%	3 203	2%	128 119 987	9,68%
TOTAL:	3 909	100%	32 222 548	100%	41 332	100%	221 006 289	100%	145 209	100%	1 070 545 611	100%	190 450	100%	1 323 774 448	100%



**INVESTOR
COMPENSATION
FUND**

FINANCIAL STATEMENT 2022

REPORT OF THE INDEPENDENT AUDITOR

To: The Management Board of Investor Compensation Fund

Report on financial statement

Opinion

We have audited the financial statement of INVESTOR COMPENSATION FUND (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 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 present authentically, in all material aspects the financial state of the Fund as of 31.12.2022, its financial results of its activity and its cash flows for the year ended this date, in accordance with the international accounting standards adopted by the European Union.

Grounds for expressing an opinion

We have performed an audit in accordance with International standards of auditing (ISA). Our responsibilities 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 the INVESTOR COMPENSATION FUND in accordance with the International code of ethics for professional accountants (including International standards of independence) of the International Ethics Standards Board for Accountants (IESBA Code), together with ethical requirements of the Independent Financial Audit Law (IFAL), applicable regarding to our audit of the financial statement in Bulgaria, as we have fulfilled and our other ethical responsibilities in accordance with requirements of IFAL and the IESBA Code. We believe that the audit evidences we have obtained, are sufficient and appropriate to provide a basis for our audit opinion.

Report on other legal and regulatory requirements – Annual activity report

In addition to our responsibilities and reporting pursuant to ISA, regarding the activity report, we have also performed the procedures, added to those required by ISA. These procedures concern checks for 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 to 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.

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 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 in material inconsistency with the financial statement or 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.

Responsibilities of the management 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 a system for internal control 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 preparation of the financial statement 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 the management does not intend to liquidate 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.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable degree of assurance as to whether the financial statement as whole does not contain material misstatement, 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 it is not guarantee that an audit performed in accordance with IAS will always reveal material misstatement, where one exists. Misstatements 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 the users, 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 12 2023.

ANNEX to the Independent Auditor's Report on the Financial Statements of the INVESTOR COMPENSATION FUND for 2022

Auditor's responsibilities 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 the financial statement, whether due 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, because the fraud may involve collusion, falsification, intentional omissions, statements to mislead the auditor, as well as neglect or circumvention of internal control.
- Gain of understanding of internal control relevant to audit in order to develop audit procedures that are appropriate in the particular circumstances but not in order to express opinion on the effectiveness of the ICF's internal control.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by management.
- Conclude about the appropriateness of management's use of the accounting basis based on the going concern assumption and, based on audit evidence obtained, whether there is material uncertainty about events or conditions that could arise 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 statement or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the 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 the financial statement, including disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with persons charged with the general management, among other matters, the planned scope and timing of the audit, 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 2022

thousand BGN

	Explanatory appendices	31.12.2022	31.12.2021
ASSETS			
Non-current assets			
Non-current tangible assets	3	4	5
Non-current GS, measured at amortized cost	5	19 845	18 970
Total non-current assets:		19 849	18 975
Currents assets			
Receivables	6	381	327
Short-term part of long-term GS, measured at amortized cost	5	414	408
Cash and cash equivalents	7	664	301
Total current assets:		1 459	1 036
Total assets:		21 308	20 011
RESERVES AND LIABILITIES			
Reserves			
Reserves	9.1, 9.2	21 616	20 293
Result for the period		(323)	(298)
Total reserves:		21 293	19 995
Liabilities	10		
Liabilities to staff		12	13
Liabilities to social security funds		2	2
Tax liabilities		1	1
Total liabilities:		15	16
TOTAL RESERVES AND LIABILITIES:		21 308	20 011

II. PROFIT OR LOSS STATEMENT AND OTHER COMPREHENSIVE INCOME

for the year, ended on 31st of December 2022

thousand BGN

	Explanatory appendices	31.12.2022	31.12.2021
Other income	11	8	-
Interest income, calculated under the effective interest method	12	192	185
Profit from derecognition of GS, measured at amortized cost		-	33
Financial expenses	13	(8)	(11)
Expenses on materials	14	(2)	(3)
Expenses on external services	15	(111)	(106)
Depreciation cost	3,4	(3)	(4)
Staff expenses	16	(385)	(382)
Other expenses	17	(14)	(10)
Pre-tax result:		(323)	(298)
Result for the period:		(323)	(298)
Other comprehensive income			
Total comprehensive income for the year, net of taxes		-	-
Total comprehensive income for the year:		(323)	(298)

III.STATEMENT OF CHANGES IN RESERVES

for the year, ended on 31st of December 2022

thousand BGN

	Compensatin reserve	Reserve from income of investment of resources	Revaluation reserve	Reserve of coupon payments	Result for the period	Total reserves
Balance as of 1st of January 2021	18 280	950	(416)	555	(485)	18 884
Initial and annual contributions for 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)
Transferred accumulated loss from 2019 and 2020 to the reserve from income of investment of resources		(485)			485	-
Net effect from non-received/received contributions for 2020/2021	13					13
Result for the period					(298)	(298)
Other comprehensive income in 2021						
Fair value revaluation reserve transferred to profit/loss			416			416
Reserve of coupon payments transferred to profit/loss				(555)		(555)
Total comprehensive income in 2021	1 548	(485)	416	(555)	(298)	1 111
Balance as of 31st of December 2021	19 828	465	-	-	(298)	19 995
Changes in reserves in 2022			-			
Initial and annual contributions for 2022	1 567					1 567
Net effect from non-received/received contributions for 2021/2022	53					53
Transferred accumulated loss from 2021 to the reserve from income of investment of resources		(298)			298	
Result for the period					(323)	(323)
Other comprehensive income in 2022						
Corrections at the expense of reserves	-	1				1
Total other comprehensive income in 2022	1 620	(297)	-	-	(25)	1 298
Balance as of 31st of December 2022	21 448	168	-	-	(323)	21 293

IV. CASH FLOW STATEMENT

for the year, ended on 31st of December 2022

thousand BGN

	Explanatory appendices	31.12.2022	31.12.2021
Cash flows from operating activities:			
Proceeds from initial and annual contributions of investment intermediaries		1 567	1 575
Recovered court expenses		8	-
Compensations paid to clients of investment intermediary			(104)
Payments to suppliers		(114)	(107)
Payments to staff		(397)	(390)
Net cash flows from operating activities:		1064	974
Cash flows from investment activities:			
Payments for acquisition of fixed assets		(2)	(2)
Net flow used in investment activities:		(2)	(2)
Cash flows from financial activities:			
Proceeds from maturity/sales of GS		185	547
Payments related to GS		(1 419)	(2 295)
Payments for bank fees, commissions and interest		(8)	(11)
Proceeds for coupons of GS		543	535
Recovered amount from KTB AD (insolvent)			76
Net flow used in financial activities:		(699)	(1 148)
Net increase/(decrease) of cash and cash equivalents:		363	(176)
Cash and cash equivalents as of 1st of January		301	477
Cash as of 31st of December:	7	664	301

V. EXPLANATORY APPENDICES

1. General information

The Investor compensation fund aims at increasing the credibility in the Bulgarian capital market, by providing payment of compensations 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 from investment of the accumulated funds;
- received funds from property of investment intermediaries in cases under art. 77f, para. 6 of POSA;
- other sources as loans, grants and foreign aid.

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

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

The management of the Fund is carried out by Management board, which comprises five members: chairperson, deputy chairperson, and three members. The remunerations of MB members are fixed and they do not 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 31.12.2022 the MB of ICF has the following members:

- Diyana Miteva – chairperson according to FSC Resolution № 462-ICF dated 09.06.2022
- Petko Krastev – member according to FSC Resolution № 632-ICF dated 20.08.2020
- Radoslava Maslarska – member according to FSC Resolution № 204-ICF dated 17.03.2022
- Irina Petkova Kazanjieva-Yordanova – member according to FSC Resolution № 878-ICF dated 02.12.2021

Until 07.06.2022 the MB of ICF has the following members:

- Petya Hantova-Georgieva – chairperson according to FSC Resolution № 632-ICF dated 20.08.2020
- Diyana Miteva – deputy chairperson according to FSC Resolution № 204-ICF dated 17.03.2022
- Petko Krastev – member according to FSC Resolution № 632-ICF dated 20.08.2020
- Radoslava Maslarska – member according to FSC Resolution № 204-ICF dated 17.03.2022
- Irina Petkova Kazanjieva-Yordanova – member according to FSC Resolution № 878-ICF dated 02.12.2021

According to art. 135, para. 1 of RRCIIFA, Investment Firms Resolution Fund (IFRF) 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 RRCIIFA 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 purposes of statistical and tax authorities, the data submitted by the ICF are consolidated for both funds.

2. Main aspects of the ICF accounting policy

2.1. Basis for preparation

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

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 for clarification and of the Permanent committee for clarification, adopted by the European union.

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.Principle of the going concern

The ICF's financial statements were prepared on the principle of going

concern. The assessment of the MB of ICF regarding the applicability of the principle of the going concern covers 12-month period from the reporting date. 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.

2.5.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

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

For the first time in 2022 some amendments and interpretations are applied, but they do not affect the financial statement of ICF. ICF has not adopted standards, clarifications or amendments, which are published, but they are not yet effective.

Onerous contracts – costs to fulfill a contract – Amendments to IAS 37

In May 2020 IASB published amendments to IAS 37, specifying which costs the Company must include in the assessment of whether a contract is onerous or loss-making. 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 costs are not directly related to a given contract and are excluded, unless they are expressly billable to the counterparty under the contract. These amendments do not affect the financial statements of ICF.

Reference to Conceptual Framework – Amendments to ISFR 3

In May 2020 IASB published Amendments to International Standards for financial Reporting (ISFR) 3 Business Combinations – Reference to the Conceptual Framework. The amendments are intended to replace the reference to the Framework for preparation and presentation of financial statements, published in 1989 with a reference to the Conceptual framework for financial reporting, published in March 2018 without substantial changes to the requirements.

The Board also added an exception to the recognition principle in ISFR 3 to avoid potential profits or losses from “day 2” 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 ISFR 3 on contingent assets, which will not be affected by the replacement of the reference to Framework for preparation and presentation of financial statements. These amendments do not affect the financial statements of ICF.

Property, plant and equipment: proceeds before intended use – Amendment to IAS 16

In May 2020 IASB published Property, plant and equipment – proceeds before intended use prohibiting entities to deduct from the acquisition cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to location and condition necessary for it to be capable

of operating in the manner intended by management. Instead, an entity recognizes the proceeds from the sale of such items, and the cost of their production, in profit or loss. These amendments do not affect the financial statement of ICF.

Annual improvements to ISFR 2018-2020

ISFR 9 Financial Instruments – Fees included in the “10 per cent” test for derecognition of financial liabilities

As a part of the process for annual improvements of ISFR - 2018-2020, IASB published amendment to ISFR 9. The amendment clarifies the fees which an entity includes, when measures whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on behalf of the other. An entity applies the amendment to financial liabilities that are modified or replaced on or after the beginning of the annual accounting period in which the entity first applies the amendment. The amendment is effective for annual accounting periods beginning on or after January 1, 2022 whereas earlier application is allowed. These amendments do not affect the financial statement of ICF.

ISFR 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter.

As a part of the process for annual improvements of ISFR - 2018-2020, IASB published amendment to ISFR 1 First-time adoption of International financial reporting standards. The amendment allows a subsidiary, which chooses to apply paragraph D16(a) of ISFR 1 for assessment of cumulative differences of conversion of foreign currency, to use the amounts reported by the parent based on the parent's ISFR transition date. This amendment also applies to associates or joint ventures that choose to apply paragraph D16(a) of ISFR 1. The amendment is effective for annual accounting periods beginning on or after January 1, 2022. Earlier application is allowed. These amendments do

not affect the financial statement of ICF.

IAS 41 Agriculture – Fair value taxation

As part of the process for annual improvements of *ISFR* - 2018-2020, IASB published amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41, pursuant to which the 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 accounting period, beginning on or after January 1, 2022. Earlier application is allowed. These amendments do not affect the financial statement of ICF.

2.7. Published new standards, amendments and clarifications to existing standards, that have not entered into force or haven't been adopted by the EU.

As of the date of approval of this financial statement new standards, amendments and clarifications to existing standards have been published, but they haven't entered into force or haven't been adopted by the EU for the fiscal period beginning on 1st of January 2022 and they haven't been applied earlier by the Fund. They are not expected to have a significant effect on the financial statements of ICF. The management expects all standards and amendments to be adopted in the accounting policy of the Fund in the first period beginning after their effective date.

The amendments are related to the following standards:

- ISFR 17 “Insurance contracts” in force on 1st 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 ISFR 2: Disclosure of Accounting Policies - effective from January 1, 2023;
- Amendments to IAS 8 Accounting policy, changes in accounting estimates and errors: Definition of accounting estimates - effective

January 1, 2023;

- Amendments to IAS 12 Income taxes: Deferred tax related to assets and liabilities, arising as a result of a single transaction effective January 1, 2023;
- Amendments to ISFR 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.

2.8. 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. Financial 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 rate of BGN is fixed to EUR and is: 1 EUR = 1.95583 BGN.

2.9. Recognition of income

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

2.10. 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 which 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 effective interest rate method, are presented in detail in Explanation 12 and Explanation 5.

2.11. Tangible assets

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

In 2022 the Fund did not offer as collateral tangible assets and there are no restrictions its ownership on them.

In 2022 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 recognizes as tangible assets the assets which have an acquisition value above 500 BGN. The assets below that value are recognized in „Profit or loss statement and other comprehensive income“.

2.11.1. Initial evaluation of tangible assets

At the initial acquisition ICF evaluates the tangible assets at acquisition price (cost price), which includes the purchase price and all direct expenses needed to bring the asset in to working condition according to its purpose.

2.11.2. Subsequent evaluation of tangible assets

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

The Fund recognizes the subsequent expenses for current maintenance of the tangible assets in the “Profit and loss statement and 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 depreciation of 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 it is 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 2022 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. When the subsequent expenses can be reliably evaluated and it is probable that the Fund will receive future economic benefits from the asset, then the subsequent expenses are included in the book value of the asset or are recognized as a separate asset.

2.13.1. Initial evaluation of intangible assets

At the initial acquisition ICF evaluates the intangible assets at acquisition

price (cost price) which includes the 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 expenses for current maintenance of the intangible assets in the „Profit or loss statement 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 from the asset, then the subsequent expenses are included in the book value of the asset.

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

Assets	Rate	Years
Software	15%	6.67

As of each 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 intangible 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 tangible and intangible assets for impairment, when events or changes in 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 Fund classifies financial assets at initial recognition as assets measured at amortized cost. Investment in financial assets is carried out according to the “Investment policy and model for management of GS of ICF”, complying to the security and liquidity requirements, at yields within the market rates, corresponding to those requirements.

Recognition and valuation

The Fund recognizes a financial asset as such only when it becomes a party of the contract for the purchase of the asset. Initially, the financial assets are recognized at the settlement date, 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 Fund's financial assets as of the date of their initial recognition in the statement of financial position. The change in the classification of the financial assets of the Fund is done after decision of MB.

Subsequent valuation of financial assets

Financial assets measured at amortized cost

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

The valuation at amortized cost requires the application of the effective interest rates 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 depreciation using the effective interest rate method for each difference between the initial value and maturity

value and decreased by the impairment.

Impairment of financial assets

ICF recognizes impairment for expected credit losses for 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 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 with no indication of increase in credit risk versus the initial value are classified here. For financial instruments, on which there had not been significant increase of credit risk relative to 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)** – financial assets with a significant increase of credit risk relative to the initial assessment but without objective evidence of impairment, are classified here. For those credit exposures for 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 exposure is required. Interests are charged on basis of the gross book value of the instrument.
- **Stage 3 (exposures with credit impairment)** – financial assets with

significant increase of credit risk and for which are present objective evidence for impairment are categorized here. 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. Interests are charged on basis of the amortization value of the asset.

The methodologies and assumptions, used in the basic calculations of the expected credit losses, remain unchanged versus those, applied in the previous fiscal year. Estimates, assumptions and assessments specific to the impact of the pandemic are included, taking into account factors related to the issuer of the debt securities in which the ICF's resources are invested. At the assessment the probability of default and the losses due to default by issuer of the securities held by ICF was taken into account.

Impairment of receivables

ICF applies the simplified approach of ISFR 9 "Financial instruments" for the calculation of expected credit losses, where an impairment for expected losses over the life span of all receivables is accounted.

To calculate expected credit losses receivables are grouped based on shared credit risk characteristics and the days in overdue.

ICF recognizes in profit or loss — as an impairment profit or loss, the amount of expected credit losses (or their reverse recovery).

The Management Board of ICF assesses the possibility the receivables of the Fund to be collected. It determines the amount of provision on receivable based on age analysis, historical experience of the level of bad debt derecognitions, as well as an analysis of the solvency of the respective customer, changes in the agreed payment terms, etc. On this basis and considering the impact of the pandemic on business, the MB of ICF makes an assessment regarding the receivables collectability. See also Explanation 6.

Other receivables

These amounts usually arise from receivables related to the ordinary operating activity of the Fund. Interests on the other receivable may be charged

based on the market interest rates, when the repayment period exceeds sixth months. Usually, the collateral is not received.

Derecognition of financial assets

ICF derecognized a financial asset when the contractual rights on the cash flows from that asset expire or when ICF had transferred those rights through transaction after which all substantial risks and benefits, arising 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 had kept all or the most of the risks and benefits, related to the assets, those assets are not derecognized from the statement of financial position. In transactions where ICF neither retains, nor transfers risks and benefits associated with a financial asset, that asset is derecognized from the statement of financial position, when ICF has lost control over it. The rights and obligations which ICF retains in these cases are accounted for separately as asset or liability. In transactions where 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 has retained its share in the asset and bears the risk from changes in its value.

2.16. Financial liabilities

Financial liabilities measured at amortized cost

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

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

Derecognition of financial liabilities

The Fund derecognizes a financial liability when the contractual obligations

under it are paid, expired or are canceled. The difference between the book value of the derecognized liability and the benefit paid is recognized in profit or loss.

Compensation of financial asset and financial liability

Financial assets and financial liabilities are offset and the statement of financial position presents net value, when:

- there is a right of offsetting regarding to those amounts; and
- there is an intention to either settle the set-off on a net basis or to realize an asset and simultaneously settle a liability.

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

2.17. Accounting of leases

The Fund applies ISFR 16 „Leases“ in respect to all leases including short-term ones (i. e. with term of the leases up to 12 months) and contracts where the underlying assets has a low value. On the date of entering in force of the contract the Fund makes an assessment whether the contract is or contains lease. Namely, whether the contract transfers the right to control the use of the identified asset for specified period. ICF recognizes liabilities under leases and right-of-use assets on contracts granting right of use of assets.

Determination of lease term on contracts with options to extend and terminate

The Fund makes an assessment regarding the duration of the non-termination period and the leases term. The Fund does not treat it as leases if both the lessee and the lessor have the right to terminate it without permission by the other party against minimal penalty.

ICF accounts the lease payments on short-term leases and leases where the underlying asset is of low value as an expense under linear method for the term of the lease.

If ICF has decided to not treat a contract as a lease 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. The 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 and result for the period.

2.19. Cash and cash equivalents

The cash funds and short-term deposits in the balance include funds on bank accounts, cash on hands and short-term deposits with initial maturity up to three months or less. For the purposes of the cash flow statement, cash and cash equivalents include cash and cash equivalents as they are defined above. ICF recognizes as cash equivalents the owned GS with remaining maturity 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 payment of corporate tax on the activities for compensation of investors and for recovery and resolution of investment intermediaries. In 2022 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 liabilities to staff

As an employer ICF is obliged to pay the due the social insurance contributions to the Public social insurance funds pursuant to provisions of 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. The remunerations are recognized as expenses at "Profit or loss statement and the other comprehensive income" in the period when work was performed or the requirements for their receipt are met, and as a current liability (after deduction of all already paid amounts and applicable deductions) at the amount of the non-discounted value. Amounts owed by the Fund are recognized as a current expense and liability in non-discounted amount together and in the accrual period of the respective incomes to which they are related.

As of the date of the financial statement, the Fund assesses and reports as current its liabilities to staff, related to accrued compensable holiday leaves. The assessment includes approximate estimate of the expenses for remunerations and of the expenses for social insurance and healthcare contributions which ICF pays on those amounts. The Fund does not develop and does not apply programs for income after resignation of staff.

2.22. Uncertainty of the accounting approximate estimates

In preparing the financial statement the management makes a number of estimations, assessments and assumptions regarding the recognition and valuation of assets, liabilities, income and expenses.

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

2.22.1. Determination of the expected credit losses

In relation to impairment requirements, specified in ISFR 9, MB of ICF in

estimating the probability of default (PD - probability of default) 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 rate, government fiscal policy and its compliance, the fiscal reserve size, the GDP, the servicing of payments on issued GS, etc.

The country credit rating is an assessment of the quality and security of the bond debt, formed on the basis of an analysis of its financial position. Table №3 presents the credit rating of Bulgaria assigned by 2 international agencies.

Table № 3. Credit rating of Bulgaria

Credit agency	31.12.2022		31.12.2021	
	Long-term	Short-term	Long-term	Short-term
Standard & Poor's (S&P)				
in foreign currency	BBB	A - 2	BBB	A - 2
in domestic currency	BBB	A - 2	BBB	A - 2
Fitch				
in foreign currency	BBB	F2	BBB	F2
in domestic currency	BBB	F2	BBB	F2

After having reviewed and assessed the above presented quantitative and qualitative factors, MB of ICF considers that in short run (up to 12 months), losses due to default for ICF can and should to 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 31.12.2022 ICF has no deposits in commercial banks.

ISC does not estimate risk regarding the monetary funds because most of them are on current accounts in 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 monitoring on the types of risks, to which the Fund is exposed are described below.

The management of the Fund on ongoing basis monitors the changes in prices, yields and maturity structure of the Fund's portfolio. During the period no repurchase agreement contracts or repo transaction were concluded, and no such agreements were terminated. The Fund has not purchased and sold financial instruments on repo transactions. As of 31.12.2022 r. 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, as well as from the possibility that the Bulgarian state would not make payments on the 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 credit exposures and the provisions according to the

applicable accounting framework.

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

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

The Fund may invest the accumulated resources in deposits and GS. The ratio between GS, receivables by type, 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 amount of assets ¹¹	31.12.2022	31.12.2021
Share of GS and accrued coupons	95.08%	96.83 %
Share of cash and cash equivalents	3.12%	1.50%
Receivables from II regarding 4th quarter of the annual contribution for the respective year	1.79%	1.63%

The credit risk, which would arise from the share of GS in the portfolio, is estimated as minimal, because the Bulgarian state 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

¹ The total percentage does not make 100% because tangible and intangible fixed assets and prepaid expenses are not exposed to credit risk and are therefore not included in the table. Their share versus the total amount of assets is 0.04% of the total amount of the assets as of 31.12.2021 and 0.02% as of 31.12.2022.

scheme when the Fund does not recover its “Cash and cash equivalents”.

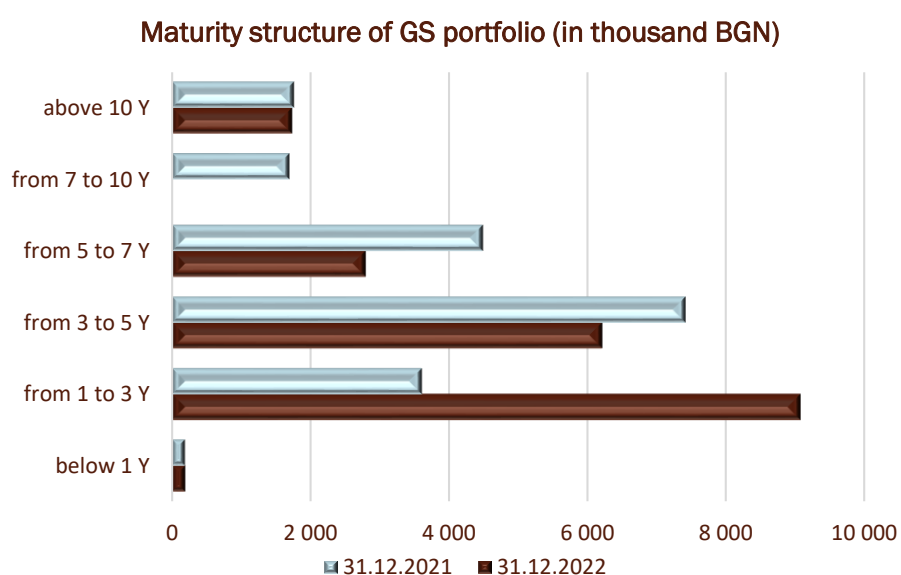
Detailed information for clients’ assets and the potential compensations is presented in the annual activity report.

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 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.

In order to minimize the liquidity risk, MB of the Fund monitors and makes 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 causing 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 as of the end of 2021 and 2022 (in thousand BGN).



Market risk

Market risk comprises currency, price and interest rate risk.

Currency risk

The Fund is not exposed to currency risk, because there are no investments, denominated in a currency, other than the euro or the Bulgarian lev. For its investments in euro the Fund is not exposed to currency risk because after the introduction of the euro, the Bulgarian lev is fixed to it at a rate:

$$1 \text{ EUR} = 1.95583 \text{ BGN.}$$

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

	31.12.2022				31.12.2021			
	current		non-current		current		non-current	
	BGN	EUR	BGN	EUR	BGN	EUR	BGN	EUR
	thousand BGN	thousand BGN	thousand BGN	thousand BGN	thousand BGN	thousand BGN	thousand BGN	thousand BGN
Financial assets, measured at amortized cost	194	-	10 548	9 513	192	-	9 910	9 276
incl. interest receivables	4		75	141	4	-	80	136
Total financial assets, measured at amortized cost	198		20 061		192		19 186	
incl. interest receivables	4		216		4		216	
Receivables on 4 th quarter from the annual contribution	381				327			
Cash	664				301			
Total cash and cash equivalents	664				301			

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.

The ICF does not use credit resources, that are directly dependent from the change in interest rates.

The Fund's portfolio in GS is held to maturity. With this adopted policy, the risk of changes in the trading prices of government securities as a result of changes in market interest rates is eliminated.

The market situation in 2022 was dynamic, as a result of which there was a sharp decline in the prices of GS. The years before 2022 on the other hand were characterized with non-dynamic constant high prices and low interest rates. In such cases the Fund has adopted maximally conservative trading policy, in which the release of financial assets is minimized and only in case of liquidity need, trading of the issues with the best market prices, will be undertaken. According to the review, there are no indicators of such liquidity risk at the moment and in the near future, and the assets with a short term to maturity and, respectively, with a high market level of trading are an essential part of the portfolio.

EBA GUIDELINES, EBA/GL/2018/2, have been considered in setting the policy.

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 2022 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 monetary funds held on current accounts in BNB but it is limited within the range from 0% to –1%. Since September, the interest rates charged by BNB have become positive, which eliminates the interest rate risk along this line, and as of the report date there is no perspective that the interest rates of the Central bank will become negative again in the near future.

The Fund's portfolio mainly consists of investments in GS, which provide interest income. Because the interest income on GS is fixed on the purchase date (the GS held by the Fund are with fixed coupon payments), the interest rate risk on the cash flow 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 31.12.2022 the interest income amounts to 192 thousand BGN, which is 95.95% from total income - 200 thousand BGN /in 2021 the interest income amounted at 185 thousand BGN, which is 84.86% of the total income - 218 thousand BGN/.

As of 31.12.2022 the Fund has no investments in deposits. The Fund does not use loans, for which interest is charged.

3. Tangible assets

The tangible assets are presented below:

thousand BGN

Non-current tangible assets	Office equipment and computers
For the year ended on 31 December 2021:	
Value	14
Accumulated depreciation	(7)
Depreciation expenses	(4)
Acquisitions	2
Derecognized assets	(4)
Depreciation on derecognized assets	(4)
Net book value on 31.12.2021	5
Value	12
Accumulated depreciation	(7)
For the year ended on 31 December 2022:	
Value	12
Accumulated depreciation	(7)
Depreciation expenses	(3)
Acquisitions	2
Derecognized assets	-
Depreciation on derecognized assets	-
Net book value on 31.12.2022	4
Value	14
Accumulated depreciation	(10)

In 2022 the Fund has used tangible assets that are fully amortized or below materiality level at the amount of 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 2021:	
Value	4
Accumulated depreciation	(4)
Depreciation expenses	-
Derecognized assets	(3)
Depreciation on derecognized assets	(3)
Net book value on 31.12.2021	-
For the year ended on 31 December 2022:	
Value	1
Accumulated depreciation	(1)
Depreciation expenses	-
Derecognized assets	
Depreciation on derecognized assets	
Net book value on 31.12.2022	-
Value	1
Accumulated depreciation	(1)

In 2022 the Fund has used intangible assets that are fully amortized or below materiality level at the amount of 30 thousand BGN.

5. GS, measured at amortized cost

thousand BGN

GS, measured at amortized cost	As of 31.12.2022	As of 31.12.2021
Value at the beginning of the period:	19 378	17 948
incl. short-term part of GS	414	408
Acquisitions:	1 418	2 295
incl. non-current GS	1 408	2 295
Sold/matured:	(185)	(514)
incl. non-current GS	-	(514)
Received interests	(543)	(535)
incl. in EUR	(343)	(329)
Accrued interests	533	534
incl. in EUR	337	328
Depreciation of premium and currency revaluation	(342)	(350)
Value at the end of the period:	20 259	19 378
incl. short-term part of long-term GS	414	408
incl. accrued interest on GS, measured at amortized cost	220	220

As of 31.12.2022 the GS, measured at amortized cost and the accrued interests on them amount to 20 259 thousand BGN. Of these, long-term GS amount to 20 061 thousand BGN, and the accrued interests on them amount to 216 thousand BGN. The short-term GS with a remaining term to maturity of less than a year amount at 198 thousand BGN and the accrued interests on them are at the amount of 4 thousand BGN.

The management of the Fund monitors on an ongoing basis and on annual basis the changes in the market prices of the financial instruments held by the Fund. As of 31.12.2022 an impairment test of the available investment in GS, was made, based on the collected market offers. As a result of the increased interest rates during the second half of 2022, it can be seen substantial decrease of the market value of the log-term issues. The test made includes all issues held by the Fund. A threshold has been applied for impairment of government securities with a difference of more than 15% compared to the amortized cost. Based on this, the following table presents information for the positions of the Fund, where impairment

above the set threshold is observed. The calculated impairment has no impact on the Fund's assets, as the securities are held in portfolio for collection of contractual flows, i. e. to their maturity, which is a reason not to expect losses on these positions, since there is no provision for early release of them.

The following table shows the emissions that came under monitoring.

thousand BGN

GS, measured at amortized cost	Book value	Market value	Impairment
Issue GS 1	296	210	(86)
Issue GS 2	298	144	(153)
Issue GS 3	702	535	(166)
Issue GS 4	701	535	(166)
Issue GS 5	427	361	(66)
Issue GS 6	564	412	(152)
Issue GS 7	877	601	(276)
Total:	3 864	2 798	(1 066)

In view of the impairment test performed, the management of the Fund will monitor these issues and their market prices, and upon a liquidity need in case of activation of the Fund and payment of compensations, the issues with the most-favorable market conditions and short maturity will be sold first. Historically speaking, over a period of 17 years, the Fund has paid out about 278 thousand BGN, which amount is small enough and is covered by the current annual contributions. If liquidity is needed, the Fund can manage risk by entering repo transactions in order to raise liquidity funds without having to sell GS from the Fund's portfolio at market prices.

6. Receivables

The receivables of the Fund as of 31.12.2022 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:	31.12.2022	31.12.2021
Receivables on 4 th contribution for the respective year	381	327
Total receivables:	381	327

In 2019 ICF received part of its receivable on deposits in KTB AD (insolvent) amounting at 168 559.59 BGN. In 2020 ICF received part of its receivable on deposits in KTB AD (insolvent) amounting at 129 169.57 BGN. In 2021 ICF received another part amounting at 76 174.24 BGN, and on 01.07.2022 received another part amounting at 8113,26 BGN.

7. Cash and cash equivalents

The Cash and cash equivalents of the Fund as of 31.12.2022 include cash in hand and in banks are as follows:

thousand BGN

Monetary funds:	31.12.2022	31.12.2021
Cash in hand	1	1
Funds in banks	663	300
Total monetary funds:	664	301

As of 31.12.2022 the Fund has no deposits in commercial banks.

8. Resources of the Fund

The resources of the Fund are presented below:

thousand BGN

Resources of ICF	31.12.2022	31.12.2021
Non-current tangible assets	4	5
GS, measured at amortized cost, incl. with remaining term below 1 year	20 039	19 158
Receivables	381	327
Accrued interests on GS measured at amortized cost	220	220
Cash on hand, in banks and deposits	664	301
Total resources of the Fund:	21 308	20 011

As can be seen from the table above in 2022 the Fund's resources increased by 1 297 thousand BGN or 6.5%.

9. Reserves

9.1 Total reserves

The total reserves of the Fund are presented below:

thousand BGN

Total reserves:	31.12.2022	31.12.2021
Total reserves at the begging of the period:	19 995	18 884
Initial and annual contributions	1 567	1 575
Paid compensation at the expense of annual contributions		(40)
Net effect of non-received forth part of contribution	53	13
Result for the period	(323)	(298)
Changes at the expense of reserves	1	
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)
Total reserves at disposal of the Fund:	21 293	19 995

Accrued non-received contribution as of 31st of December 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 total reserves of the Fund increased by 1298 thousand BGN or increase by 6.5%, versus 2021.

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 activity of the Fund, are covered from income of investment of the raised resources and from other sources.

According to para. 4 of the transitional and final provisions of ROOICF the Fund may use the resources, received from the collected contributions in the Fund, for covering the administrative costs for 2005, 2006, 2007 r. and 2008. After 2009 the administrative expenses of ICF are covered by the income from investment.

The current financial result for 2022 is negative, at the amount of 323 thousand BGN. With State Gazette № 84 of 21.10.2022, changes were made in Art. 21 of ROOICF, which defines the order and method of covering the administrative costs of the Fund. Pursuant to these changes the administrative costs of the Fund, are covered from the income under art. 77m, para. 1, item 3,5,4,1 and 2 of POSA, in the sequence listed.

10. Liabilities

The liabilities of the Fund as of 31.12.2022 are presented below:

thousand BGN

Liabilities:	31.12.2022	31.12.2021
Liabilities to staff regarding provisioned holiday leaves	12	13
Liabilities to social insurance funds regarding provisioned holiday leaves	2	2
Tax on expenses according to CITA	1	1
Total liabilities:	15	16

11. Other income

The other income is presented below:

thousand BGN

Other income:	31.12.2022	31.12.2021
Recovered impairments	8	-
Total other income:	8	-

In 2022 the MB of the ICF did not recover impairment and did not sell tangible fixed assets. On 07.07.2022 the Fund received the amount of 8 113.26 BGN from KTB AD (insolvent).

12. Interest income calculated under the effective interest method

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

thousand BGN

Interest income calculated under the effective interest method:	31.12.2022	31.12.2021
Interest of GS	534	535
Depreciation of premium on GS	(342)	(350)
Total interest income calculated under the effective interest method:	192	185

In 2022 the interest income on GS, calculated under the effective interest method, decreased by 7 thousand BGN versus 2021 or by 3.78%.

13. Financial expenses

The financial expenses are presented below:

thousand BGN

Financial expenses:	31.12.2022	31.12.2021
Interest expenses for holding of monetary funds	(1)	(2)
Other financial expenses	(7)	(9)
Total financial income/ (expenses):	(8)	(11)

In 2022 the amount of the financial expenses decreased by 3 thousand BGN versus 2021 or by 27.3%.

14. Expenses on materials

The expenses on materials are presented below:

thousand BGN

Expenses on materials	31.12.2022	31.12.2021
Expenses on materials for repairs of the office	-	(1)
Expenses on office consumables	(2)	(2)
Total expenses on materials:	(2)	(3)

In 2022 the amount of the expenses on materials decreased by 1 thousand BGN versus 2021 or by 33.33%

15. Expenses on external services

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

thousand BGN

Expenses on external services	31.12.2022	31.12.2021
Electricity, cold and hot water supply, heating and committed electrical power fee	(10)	(7)
Rent of office	(37)	(37)
Maintenance and other services	(5)	(8)
Transport and postal services	(1)	(1)
Phone services	(3)	(3)
Paid remunerations on civil contracts	(29)	(28)
Expenses related to audit of the financial statements of ICF and IFRF	(6)	(6)
Subscriptions and subscribe services	(20)	(16)
Total:	(111)	(106)

In 2022 the amount of the expenses on external services increased by 5 thousand BGN versus 2021 or by 4.7%.

16. Staff expenses

As of 31st of December 2022, the number of full-time employees in the Fund is 4 (in 2021 – 5), and the MB of the Fund comprises 4 members (in 2021 – 5).

The staff expenses are presented below:

thousand BGN

Staff expenses:	31.12.2022	31.12.2021
Expenses on remunerations:	(339)	(334)
incl. expenses on remunerations of the MB members	(198)	(208)
Expenses on social insurance	(33)	(34)
incl. expenses on social insurance for the MB members and on civil contracts	(4)	(8)
Provisions on unused holiday leaves and compensable social insurance on them	(9)	(10)
Social benefits	(4)	(4)
Total staff expenses:	(385)	(382)

In 2022 r. the amount of the expenses increased by 3 thousand BGN versus 2021 or increase by 0.78%.

17. Other expenses

The other expenses are presented below:

thousand BGN

Other expenses	31.12.2022	31.12.2021
Expenses for business trips	(4)	-
Expenses for representative purposes	(5)	(4)
Fees for general financial supervision of ICF and IFRF	(4)	(4)
Expenses according to the Law on Healthy and Safe Working Conditions and related ordinances	(1)	(2)
Total other expenses:	(14)	(10)

The amount of other expenses in 2022 increased by 4 thousand BGN versus 2021 or by 40%

18. Government grants

ICF did not received government grants in 2022.

19. Research & development and environment protection activities

In 2022 the Fund did not perform research and development activity. The activity of the Fund does not imply environment protection activities.

20. Events after the reporting period

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

21. Date of approval of the financial statement

This financial statement was approved by a resolution of MB on 5th of May 2023.



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