



**INVESTOR
COMPENSATION
FUND**



**ANNUAL
REPORT**

2023

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I. MISSION AND STATUTE

MISSION OF ICF

To contribute to the stability and credibility of 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 the Investment Firms Resolution Fund. The main purpose of IFRF is to fund the implementation of resolution tools for investment intermediaries that fall within the scope of the law.

INVESTOR COMPENSATION FUND

MANAGEMENT BOARD

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

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

* In office from February 14th 2023 according to Decision of the FSC № 192-ICF from February 14th 2023

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;

ECB – European Central Bank;

POSA – Public Offering of Securities Act;

MFIA – Markets of Financial Instruments Act;

II – Investment Intermediaries;

FSC – Financial Supervision Commission;

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 2023

1. KEY MOMENTS IN THE ACTIVITY OF THE FUND IN 2023

The Investor Compensation Fund is part of the financial safety net of the capital market and protects the assets of small (non-professional) investors in financial instruments up to a certain amount by providing compensation if the investment intermediary with whom they have a contractual relationship is unable to recover the client's monetary funds or financial instruments. The compensation, provided by the Fund is 90% of the value of the assets belonging to the investor, but not more than 40 000 BGN.

To carry out its functions, the Fund collects annual contributions from the investment intermediaries and invests them in compliance with liquidity and security requirements, in order to ensure possible future compensations. The amount of contribution that the investment intermediaries are required to make to the Fund is determined annually by the Management Board, taking into account the following factors: accumulated funds, the frequency of compensation cases, the amount of client assets eligible for compensation, the state of capital market, the Fund's exposure to potential compensation payments and the extent of coverage of the Fund's available resources in case of potential compensation payments to the clients of a Fund participant. At the end of 2023, the Management Board of the Fund took a decision to decrease the amount of the contribution on financial instruments (FI) for 2024 to 0,020% (at 0,025% in 2023), and the amount of the contribution on monetary funds (MF) for 2024 was kept at 0,20%. The main arguments for decreasing the amount of the contribution on FI is, 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 2023, the Fund did not have to pay compensations. Therefore, the activity of the Fund was predominantly focused on collecting the contributions due 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. Some changes in the internal acts were also adopted concerning the activity of the Fund.

International activity was an important focus of the Fund's work in 2023. As an associate member of the EFDI (European Forum of Deposit Insurers), the Fund hosted an international meeting of the Investor Compensation Schemes Working Group at the end of the year for the second time since its establishment. In addition, the representatives of the Fund took part in several more international meetings, some of which were held online. International activity was also conditioned by the exchange of experience and information with other Investor compensation schemes.

During the year, the Fund maintained effective communication with the participants, FSC, ABB, BALII, BAAMC and all interested parties.

2023 turned out to be another dynamic year, both domestically and internationally. Inflation continued to have a negative impact on public and economic life, despite its gradual slowdown compared to 2022, when it reached double-digit values. According to NSI data, the average annual inflation in Bulgaria for 2023 decreased to 9.5% compared to 15.3% in 2022. Data on inflation in December 2023 compared to December 2022 show that it decreased to less than 5%. The effects of controlling inflation cannot yet be felt by the majority of economic agents, as the goods and services that have the greatest weight in the consumer basket continue to increase in price and/or the decrease in them is minimal. For comparison, inflation in the Eurozone at the end of December 2023 compared to the same month of the previous year was 2.9%, which shows that inflation in Bulgaria exceeds the average for the Eurozone. This implies additional efforts to reduce it in view of Bulgaria's aspiration to join the Eurozone.

The geopolitical instability caused by the military conflict in Ukraine deepened further after another military conflict broke out during the year – the one in the Gaza Strip. These military

conflicts are a serious cause for concern, as they additionally create uncertainty and significantly affect supply chains, respectively commodity prices, which makes it difficult to combat inflation. Precisely in order to curb inflation, the ECB began to tighten monetary policy in mid-2022, which continued in 2023, this in turn led to an increase in market interest rates. All these factors, including the ECB's monetary policy and, in particular, the evolution of benchmark interest rates, are being monitored with caution as they can and do have a significant impact on the financial system and financial markets.

As of the date of the report, the military conflicts in Ukraine and the Middle East continue, and inflation is still above the understanding of price stability. In 2024, the management of the ICF will continue to monitor the geopolitical situation and inflation and their impact on the financial situation of the participants in the ICF, and in particular on the ICF.

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.¹ 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 FSC and the Bulgarian National Audit Office.

As of December 31st, 2023, the investment portfolio of the Fund is 22,231² million BGN., as compared to a year earlier it has increased by 1,3 million BGN. Since 2014, the Fund's investment portfolio has been increasing with a constant rate – on average about 7,3% on an annual basis,

¹ AMC do not pay initial contribution to the Fund

² The Fund's investment portfolio includes government securities at amortized cost (with the accrued interest), cash on hand and current deposit accounts. The amortized cost of government securities is as of December 31st, 2023.

while in the first few years of the Fund's establishment the rate was much higher, but then the contributions were set at the highest allowable level.

The expenses for the maintenance of the Fund for 2023 are 569.5 thousand BGN. Savings of 6% of the budgeted expenditures have been realized.

2.1. CONTRIBUTIONS

The participants in the Fund (II, B-II and AMC) who hold, administer or manage client assets eligible for compensation make annual contributions. The amount of the annual contribution is determined annually by the Management Board and is payable in 4 equal parts.

The annual contribution for 2023, determined by a decision of the MB, is as follows:

- ◆ 0,20 % of the average monthly amount of the monetary funds eligible for compensation for 2022 and
- ◆ 0,025 % of the average monthly amount of the rest of the client's assets, eligible for compensation in 2022.

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.³ 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).

The proceeds from annual and initial contributions of participants in the Fund in 2023⁴ amounted to 1,610 million BGN, of which 12 169 BGN⁵ are from initial contribution. For comparison, in 2022, the proceeds from contributions amounted at 1,567 million BGN.

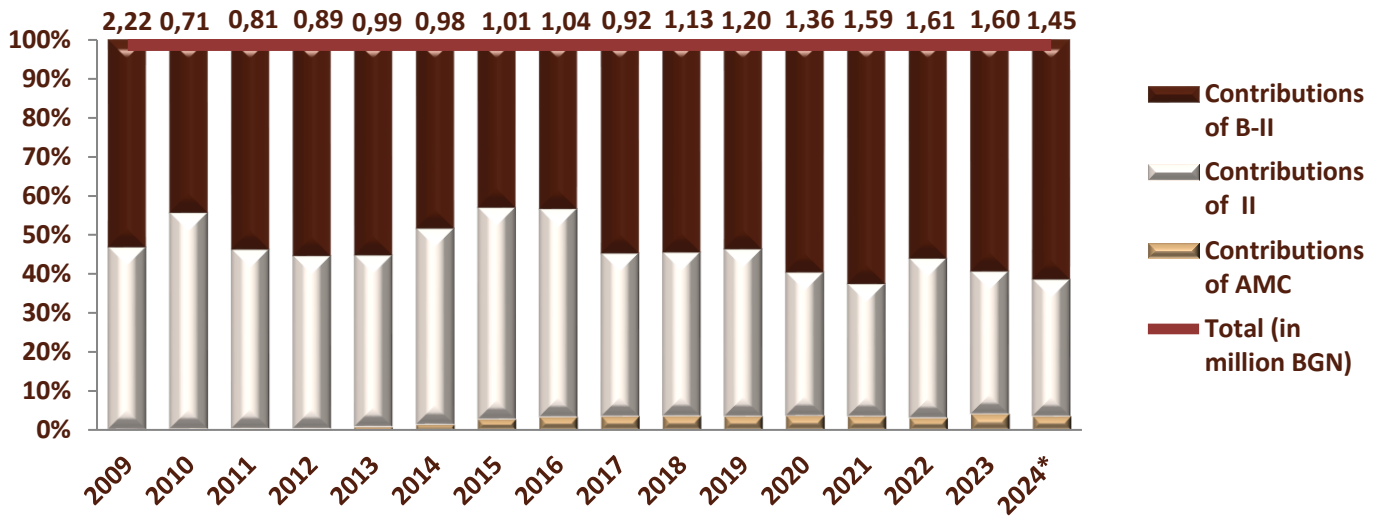
³ II whose license does not include holding of client money or financial instruments and which do not perform investment services and activities under art. 6, para. 2, items 3, 6, 8 and 9 of MFIA, do not participate in the Fund. AMC do not pay initial contribution to the Fund.

⁴ In 2023, one-quarter of the due annual contribution for 2022, which is payable until 30.01.2023 and three-quarters of the due contributions for 2023 has been received into the Fund's account.

⁵ The initial contribution has been paid by a participant in the Fund, who in the middle of 2023, expanded its license from partial to full, correspondingly increased its the minimum capital to EUR 750 000.

Fig. 1 presents the annual contributions of B-II, II and AMC for the period 2009- 2024. It is based on the average monthly values of eligible for compensation FI and MF, declared by the participants for the previous year.

Fig. 1
Distribution of contributions of II, B-II and AMC



*Data for 2024 are preliminary

Source: ICF

The annual contributions in 2023 of II, B-II and AMC is 1,6 million BGN⁶ versus 1,61 million BGN in 2022. The approximate contribution values for 2023 and 2022 are due only to the lower contribution amount in 2023, both for FI and MF. As the Fig. 1 shows, the share of B-II in the formation of the contribution for 2023 is the largest – about 59% of the total amount of contributions.

The annual contribution for 2024 is expected to be 1,45 million BGN or about 143 thousand BGN less than the annual contribution for 2023. The decrease is only due to the lower amount of

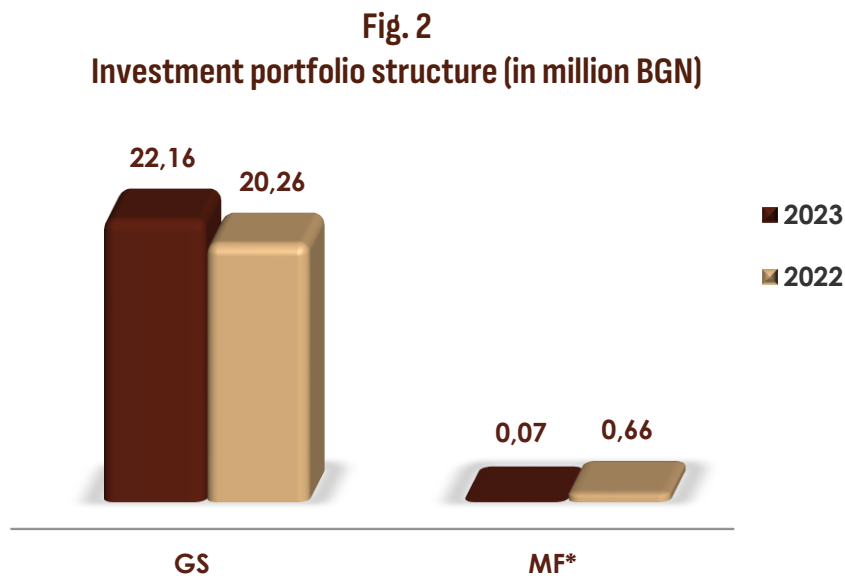
⁶ The shown amount includes four quarters of the annual contribution for 2023 and differs from the actually received income from contributions, because in 2023 on the Fund's current account were received one quarter of the annual contribution due for 2022 which is payable until 30.01.2023, and three quarters of the contribution due for 2023.

the FI contribution, while the average monthly value of customer assets subject to compensation continues to increase.

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. 2 shows the structure of the investment portfolio ⁷ of the Fund as of the end of 2022 and 2023.



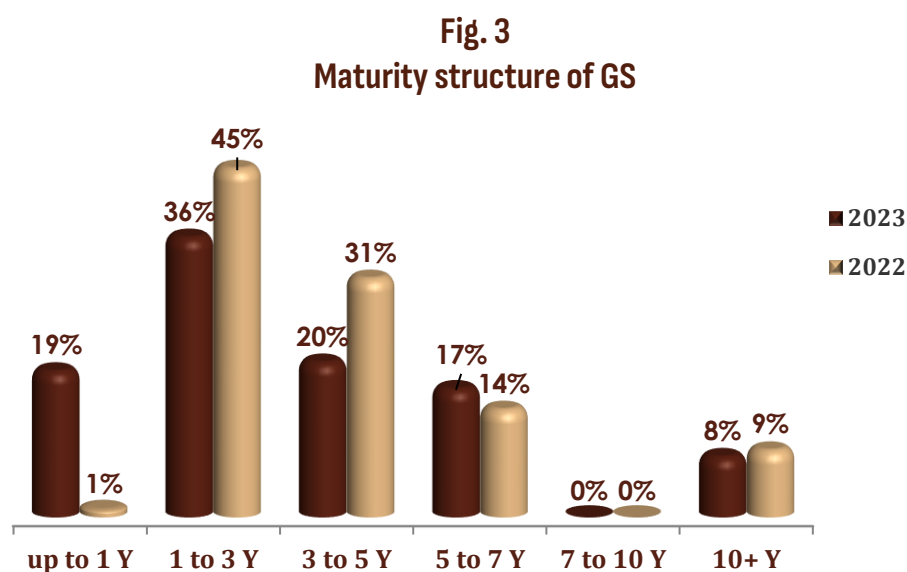
* MF – cash in hand and on current accounts

Investments in government securities represent a major part of the Fund's portfolio, with their share increasing from 97% as of 31.12.2022 to 99.7% at the end of 2023. This increase is at the expense of the current account funds, which decreased from 664 thousand BGN as of

⁷ The value of government securities includes accrued interest.

31.12.2022 to 74 thousand BGN by the end of 2023. The ICF's funds held in an account in the BNB during the year were accrued interest at an average annual interest rate of approximately 2.78%. The annual interest rate for current accounts in the BNB has become positive since September 2022, after a long period of negative values. Since then, this rate has been on a steady upward trend, following the increase in the reference interest rates of the ECB. For comparison, at the beginning of 2023, its value was 1.75%, reaching 3.34% in the last months of the year. As of the date of the report, the Fund has no investments in deposits due to the low interest rates on deposits offered by commercial banks. With the proceeds collected during the year from contributions and maturities of issues, several issues of government securities were purchased at an average yield of about 3.7%.

Fig. 3 presents the maturity structure of GS and deposits as of 31.12.2023 and as of 31.12.2022

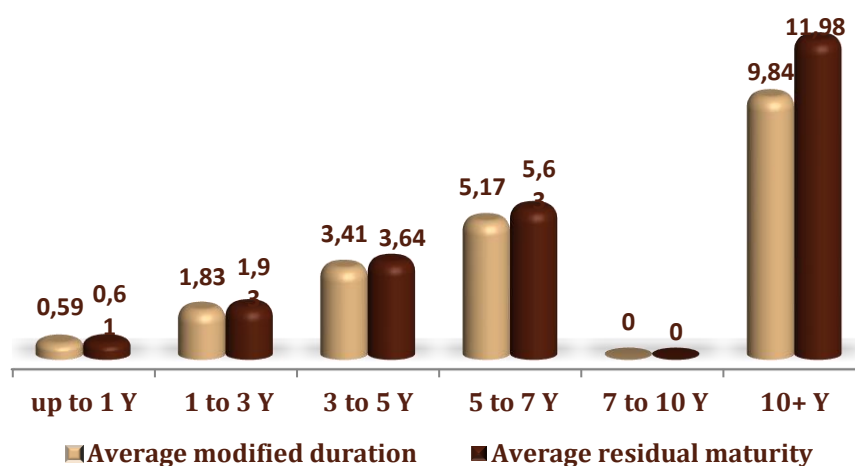


In 2024, 19% of the GS portfolio is expected to mature, and the funds received from the issues maturing in 2024 will be invested in accordance with the investment policy and regulatory provisions.

The largest share is of investments with a maturity of 1 to 3 years (36%), which will mature in 2025 and 2026. During the year, new issues were purchased with maturities within the range from 5 to 7 years and up to 1 year.

The modified duration and the average residual maturity on the investments in GS, according to their maturity structure as of 31.12.2023, are presented in Fig. 4.

Fig. 4
Modified duration and average residual maturity of GS



The weighted average modified duration of the GS portfolio as of 31.12.2023 is 3.10 years versus 3.79 years at the end of 2022. The average remaining term of the investments in GS also decreases slightly: from 4.21 years as of 31.12.2022 to 3.43 years at the end of 2023.⁸

3. PARTICIPANTS

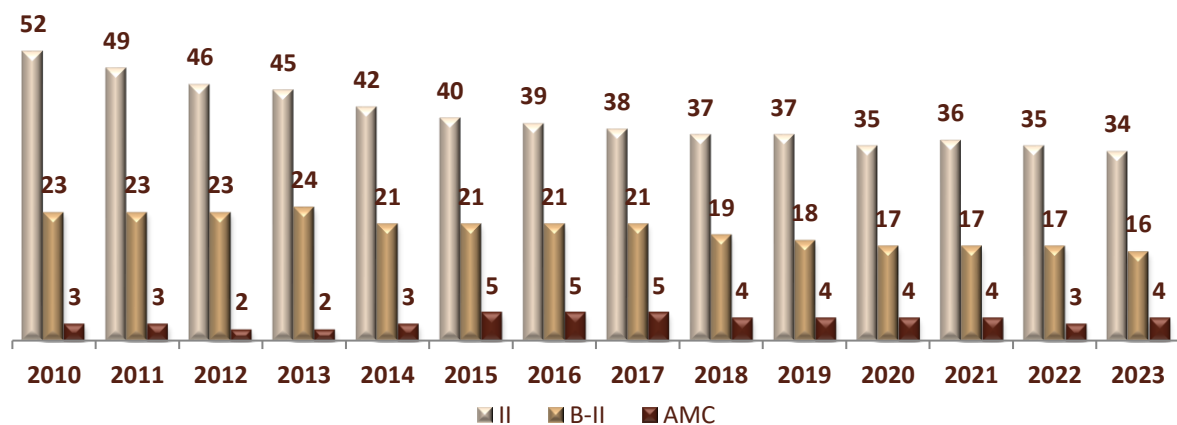
In 2023, two participants dropped out of the investor compensation scheme – „Aval In“ AD, which voluntarily returned its license for investment intermediary (as of 29.06.2023), and KBC Bank Bulgaria EAD, which was transformed and merged into United Bulgarian Bank AD (as of 10.04.2023), as a result of which the assets of the two banks were merged. Thus, as of 31.12.2023, there are a total of 54 active participants in the Fund, including 34 Investment Intermediaries (II),

⁸ 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 31.12.2023.

16 Bank-Investment Intermediaries (B-II), and 4 Asset Management Companies (AMC – out of a total of 32) holding client assets, protected by the Fund.⁹ A list of participants in the Fund is given in Appendix 1.

Fig. 5 presents the total number of II, B-II and AMC in the Fund for the period 2010 – 2023. As shown on the figure, over the years there has been a significant decline in the number of licensed II's – from 52 at the end of 2010 to 34 at the end of 2023. 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. 5
Number of participants in the ICF



As of 31.12.2023 the Bulgarian Investment Intermediaries that have the right to perform services and activities in the territory of Member states under the conditions of free provision of services are 19 in total.¹⁰ One II operates through an established branch in Poland.

⁹ One AMC declares only client assets noneligible for compensation.

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.

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 for compensation and for those that are not eligible for compensation.

According to data submitted by the participants in the Fund, the total amount of client assets eligible for compensation as of 31.12.2023, is 6.66 billion BGN, and of those non-eligible for compensation – 50.3 billion BGN.

Table 1 presents client assets eligible and non-eligible for compensation of all participants (II, B-II and AMC) as of 31.12.2023 and as of 31.12.2022.

Table 1 Client assets managed by the participants as of December 31st of the respective year /in BGN/

By groups:	Client assets eligible for compensation as of 31.12.2023	Client assets eligible for compensation as of 31.12.2022	Change on an annual basis	Client assets non-eligible for compensation as of 31.12.2023	Client assets non-eligible for compensation as of 31.12.2022	Change on an annual basis
	(1)	(2)	[3=(1-2)/2]	(4)	(5)	[6=(4-5)/5]
FI-B-II	4 944 931 002	3 669 742 442	34,75%	41 709 671 389	32 307 034 859	29,10%
FI-II	1 443 695 335	1 201 342 597	20,17%	7 998 038 253	6 690 450 343	19,54%
MF-II	121 791 936	98 217 527	24,00%	77 560 713	52 736 176	47,07%
FI-AMC	144 603 309	125 907 722	14,85%	542 701 343	82 908 912	554,58%
MF-AMC	7 486 412	15 087 855	-50,38%	4 381 700	4 107 991	6,66%
TOTAL:	6 662 507 994	5 110 298 142	30,37%	50 332 353 398	39 137 238 282	28,60%

Source: ICF

¹¹ A list of EU member states' IIs that have the right to perform investment services on Bulgarian territory is visible on the FSC website, menu "Supervised entities", submenu „Notifications“.

The total amount of client assets eligible for compensation marked a significant increase of 30.37 % compared to the end of 2022. During the period, there is an increase in the amount of client's assets eligible for compensation in all groups of participants, except MF held by AMC. On an annual basis MF, held by AMC, decreased by about half - from 15.1 million BGN to 7.5 million BGN. Client assets non-eligible for compensation also reported a significant growth – from 39.1 billion BGN as of 31.12.2022 to 50.3 billion BGN as of 31.12.2023, or 28.60%. For all groups participants on an annual basis, there is an increase in the amount of client's assets non-eligible for compensation. In absolute terms, the largest increase is in FI held by B-II, which are about 9.4 billion BGN more on an annual basis. The increase in FI held by II is also significant – by about 1.3 billion BGN. The value of FI, held by AMC, is also increasing.

In 2023, 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 46.6 billion BGN¹², of which 4.9 billion BGN are eligible for compensation from the Fund and 41.7 billion BGN are non-eligible for compensation. Investment intermediaries manage significantly fewer client assets eligible for compensation compared to B-II, or a total of 1.6 billion BGN. Regarding client assets non-eligible for compensation, the difference is even more significant, with II holding about 8 billion BGN compared to 42 billion BGN held by B-II.

The total client assets held by AMC amount to 699 million BGN. About 152 million BGN of these are eligible for compensation and 547 million BGN are non-eligible for compensation.

The resources of the Fund as of 31.12.2023, formed by an initial and annual contributions of the II, B-II and AMC, as well as from investments income, amount to 22.231 million BGN.¹³ and they represent 0.33% of the amount of client assets eligible to compensation (6.66 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 31.12.2023, 5% of the client assets eligible for compensation amount to nearly

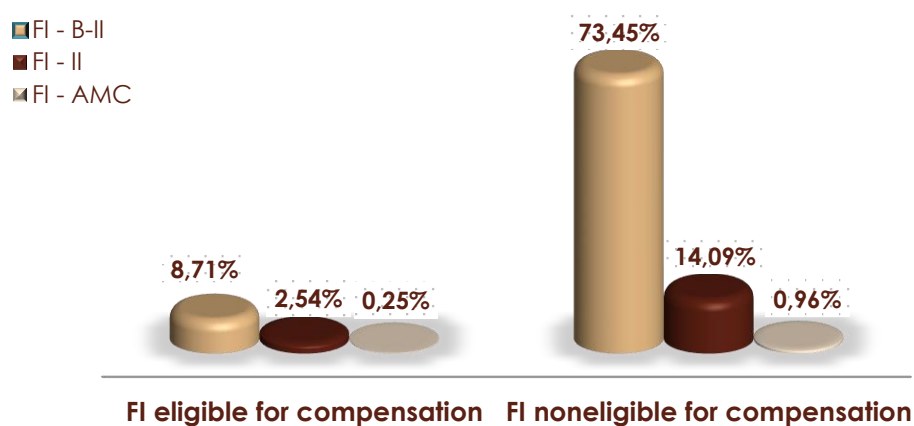
¹² Banks do not report MF to the Fund, as they are considered as deposits and fall within the scope of protection from the BDIF.

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

333 million BGN (5% of 6.66 billion BGN).

Fig. 6 represents the distribution of eligible and non-eligible for compensation FI by groups of intermediaries as of 31.12.2023. The total amount of all FI is 56.8 billion BGN, of which the share of the eligible for compensation is around 11.5% compared to 10.4% at the end of 2022.

Fig. 6
Distribution of FI by groups of intermediaries, as of 31.12.2023



B-II hold the greatest amount of FI eligible for compensation – 8.71% of all FI, at the same time they continue to hold the largest share of FI non-eligible for compensation – 73.45%.

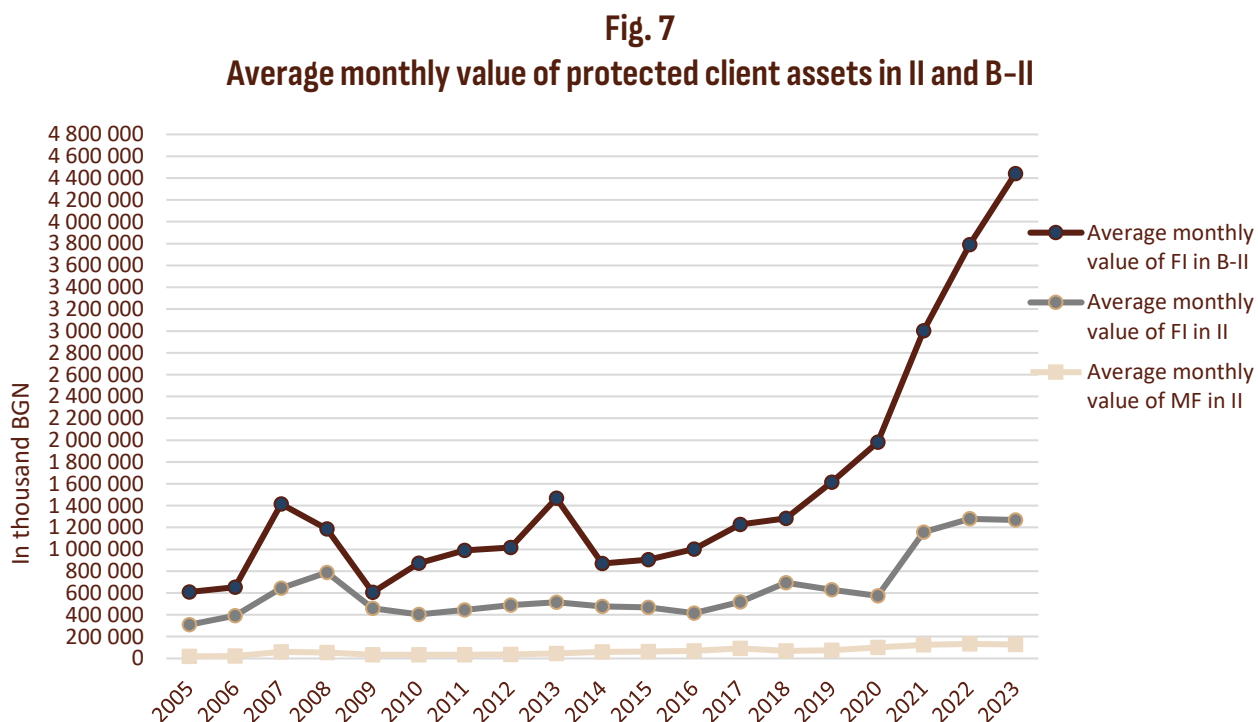
In 2023 the Fund's participants reported the highest value of the eligible for compensation FI since the establishment of the Fund – 6.5 billion BGN in December. At the same time, the lowest value of eligible for compensation FI since the establishment of the Fund was reported in February 2009 – 917.67 million BGN, which is equal to only 14% of the maximal value. (Table 2)

Table 2. Financial instruments eligible for compensation

FI of clients	Date	Peak value	Minimum	Peak value in 2023
	December 2023	6 533 229 646		
	February 2009		917 667 292	
	December 2023			6 533 229 646
% of the peak value		100%	14%	100%

Source: ICF

Fig. 7 presents the average monthly values of the client assets eligible for compensation, by years and by groups of participants. The annual contribution that the participants pay into the Fund is determined based on the average monthly values of the client assets eligible for compensation.



As can be seen from the figure, after 2016 there has been a steady trend of growth in the average monthly value of the FI eligible for compensation and in recent years the increase has been significant – for three years the average monthly value has more than doubled – from 2.556 billion BGN by the end of 2020 to 5.7 billion BGN by the end of 2023. On average per month in 2023, B -II manage FI eligible for compensation, amounting 4.44 billion BGN or by 650 million BGN more on an annual basis. The average monthly value of FI managed by II in 2023 is 1.27 billion BGN, which is 10 million BGN less than in 2022. Regarding MF eligible to compensation there is no significant change in their average monthly value, which is 128 million BGN in 2023 or about 5 million BGN less than in 2022.

The client assets eligible for compensation and held by AMC are not included in Fig. 7. In 2023, on average per month, AMC held FI eligible for compensation in the amount of 130.5 million

BGN versus 127.5 million BGN in 2022. The average monthly amount of the MF eligible for compensation managed by AMC decreased from 15.7 million BGN in 2022 to 14.3 million BGN in 2023.

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

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
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	6 662
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	15 501
Ratio client assets/stock exchange capitalization	12%	13%	21%	23%	16%	17%	17%	8%	9%	8%	12%	16%	17%	43%
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	167 809	186 943
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%	17,98%	8,29%

Sources: web page of BSE, ICF

In 2023 there is a significant increase in the share of client assets eligible for compensation – by more than 2 times in the amount of stock exchange capitalization from 17% as of 31.12.2022 to 43% as of 31.12.2023. The increase is due to the double decline of market capitalization of the BSE and at the same time the increase in the amount of client assets eligible for compensation. The double decline in market capitalization is largely due to the decrease in the capitalization of the BaSE Alternative Market, and in particular to the termination of the registration of the issue of shares issued by Capital Concept Limited AD (CCL) to the Shares Segment.¹⁴ The proportion of stock exchange capitalization to GDP¹⁵ decreases from 18% to 8.29%, a little over 10 percentage points on an annual basis. The decrease is due, on the one hand, to the reported double decline in stock market capitalization, and on the other hand, to the reported nominal growth in GDP.

¹⁴ BSE Annual report for 2023.

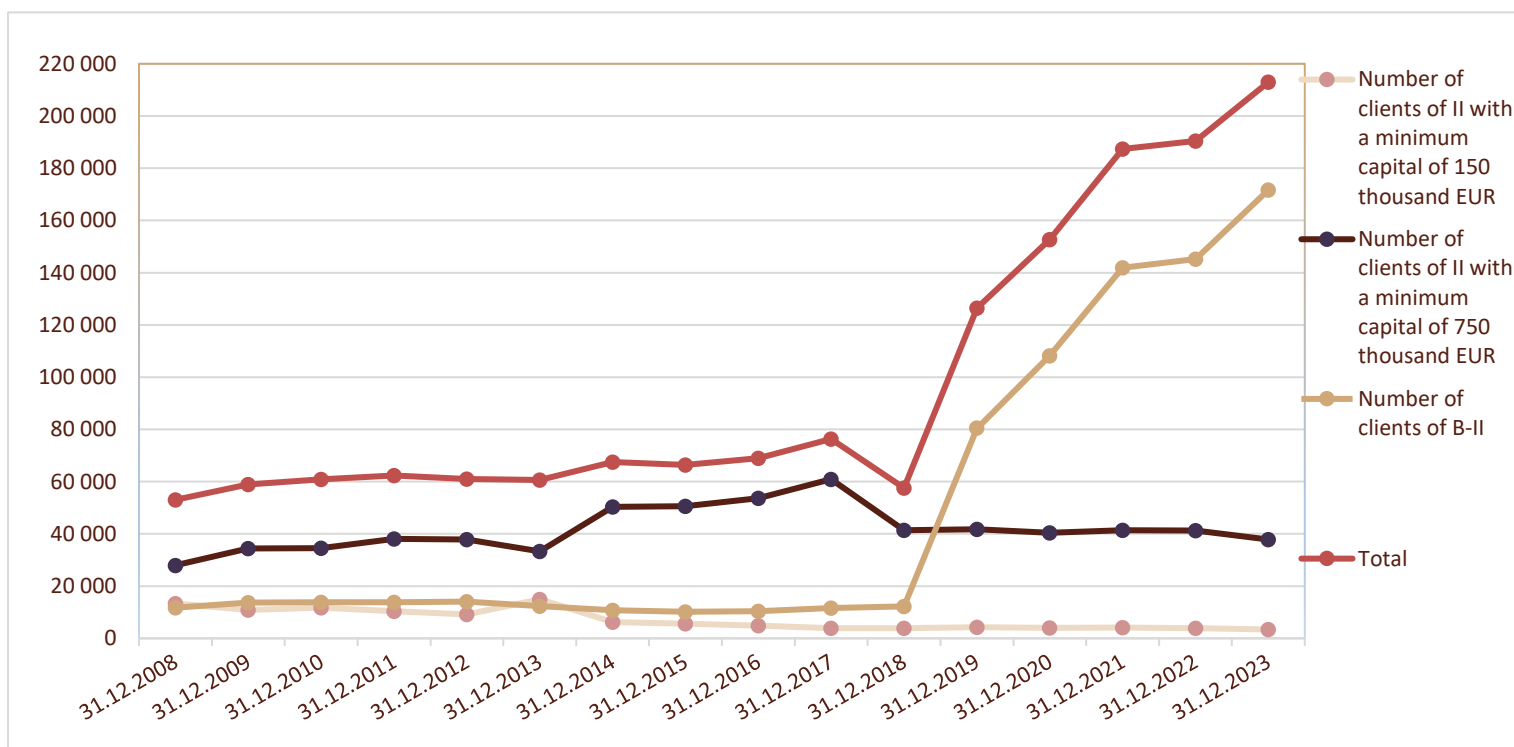
¹⁵ GDP data for 2023 have been revised compared to those used in the Annual Report for 2022.

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 for compensation, distributed by intervals based on the assets they own.

Based on this information, the Fund's exposure to the participants is assessed as well as the extent to which the funds available in the Fund will be sufficient for payment of compensations in case of triggering the procedure for payment of compensations. Fig. 8 represents the number of clients, that held assets eligible for compensation, by groups of participants as of December 31, for the period from 2008 to 2023 inclusive.

Fig. 8
Number of protected clients by groups of intermediaries



As of 31.12.2023, the total number of clients that are eligible for compensation for all participants in the Fund (II, B-II, AMC) is 224 052, i.e., their number increased by 22 557 compared

to 31.12.2022. The increase is mainly due to the clients that are eligible for compensation in the group of B-II, which as of the end of 2023 are 171 657. It is noteworthy that up to 2018 inclusive, B-II reported significantly fewer clients than II after which the trend reversed and B-II began to declare more clients compared to II. For the current period, B-II report four times more clients compared to II. The clients of II that held assets eligible for compensation as of the end of the year are 41 293 or 3 948 clients less than the previous year.

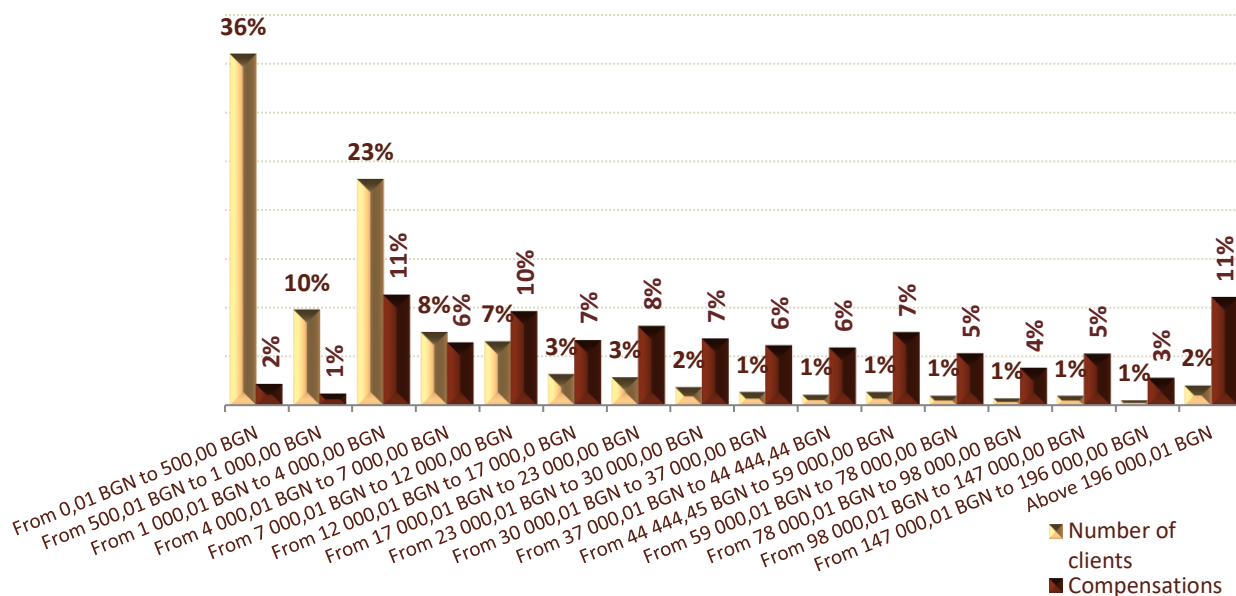
AMC declare the lowest number of clients with assets, eligible for compensation (a total of 1 102 clients) therefore they are not included in Fig. 8.

As of 31.12.2023, the Fund's exposure to its participants is **1.58 billion BGN¹⁶** versus **1,34 billion BGN** as of 31.12.2022. The increase is due to the larger number of clients holding assets eligible for compensation, declared by B-II. Due to the significant increase of clients in the B-II group and considering that B-II hold four times more clients than II, the calculated real compensation for them is the highest - 1.29 billion BGN. The maximum compensation, calculated for the clients of II, is 265.8 million BGN, and for the clients of AMC – 21 million BGN.

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

¹⁶ The Fund's exposure is calculated based on the potential compensation to the clients of one intermediary, which is calculated as 90% of the amount of the client's assets, but not more than BGN 40 000 per investor. The calculations are based on the information on the number of clients by intervals of client assets provided by intermediaries as of 31.12.2022. 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.

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

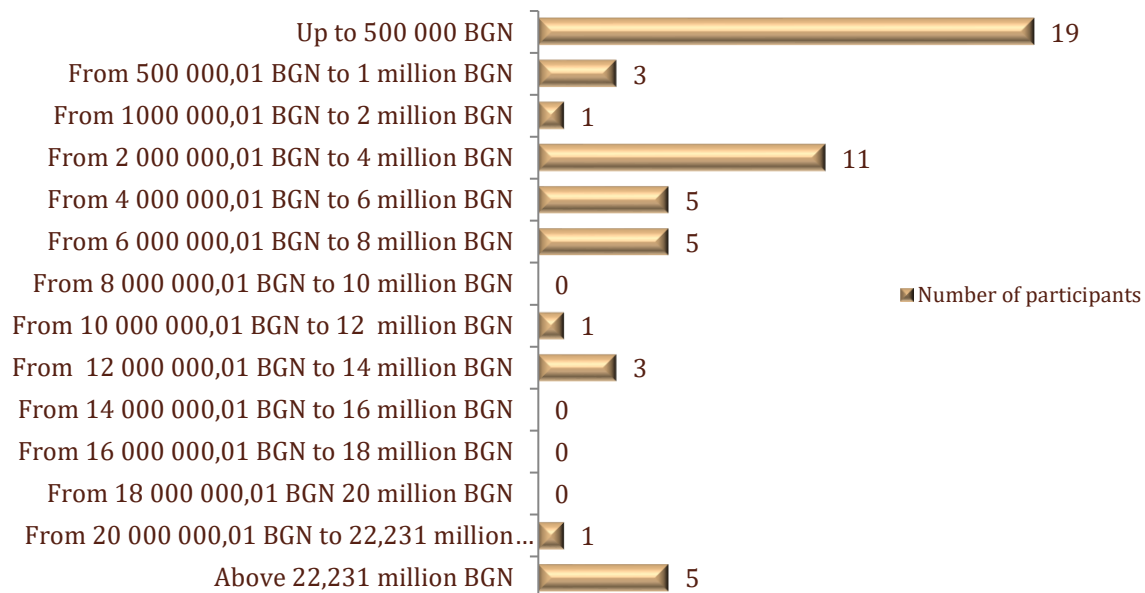


From a total of 214 052 clients of II, B-II and AMC, 76 974 or 36% hold assets up to 500 BGN. The maximum compensation, calculated for these clients, is 34.6 million BGN or 2% of all compensations. The largest compensation that the Fund would pay is for the clients who hold assets up to 4 thousand BGN, they are 23% of all clients, and the compensation for them is 11% of all compensations, which in absolute value is 178.4 million BGN. The investors who hold assets over 44 thousand BGN are 14 111 (they represent 7% of all clients), and the maximum compensation calculated for them amounts 564 million BGN, which is 35% of all compensations.

As of 31.12.2023 the accumulated resources of the Fund amount 22.23 million BGN, and the total amount of the calculated potential compensation for all participants is 1.58 billion BGN, i.e., the Fund has 1.4% coverage of the potential compensations (22.23 million BGN/1.58 billion BGN).

Fig. 10 presents the distribution of the participants by the amount of compensation and by intervals up to the value of the Fund's resources (22.23 million BGN) as of 31.12.2023.

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



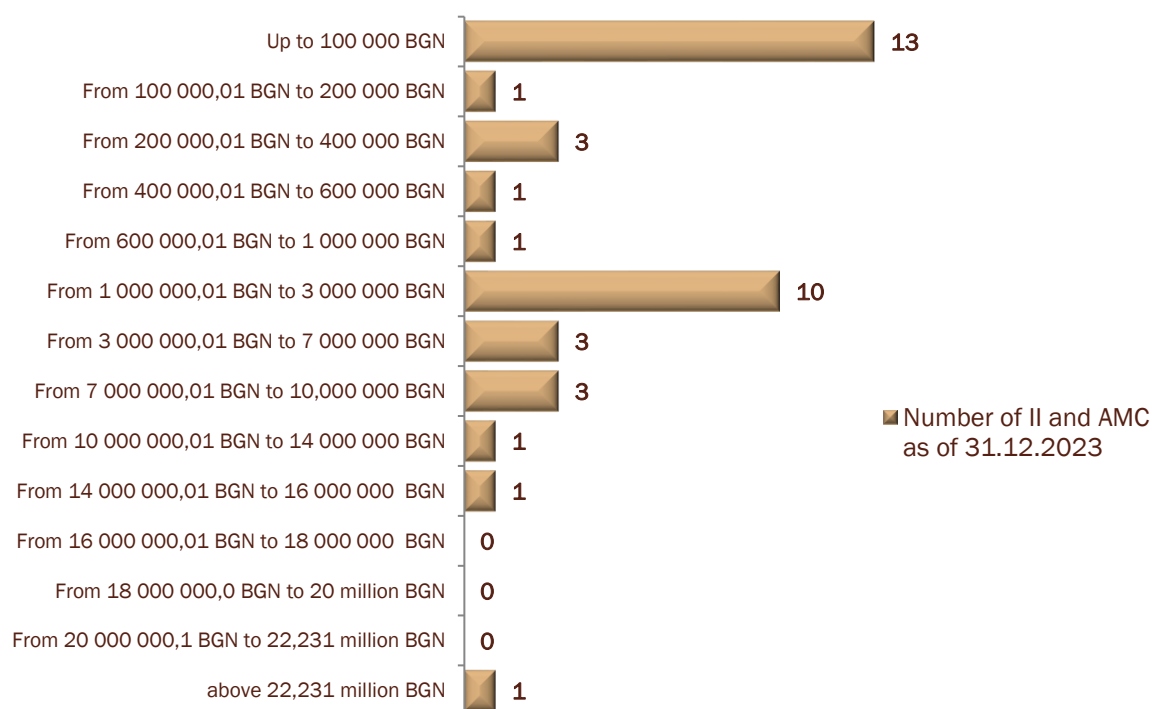
For the largest number of participants, a total of 19, the calculated compensation is in the range of up to 500 thousand BGN, of which 13 are II, 5 are B-II and 1 is AMC. For five participants, the calculated compensation is above the Fund's resources, of which 2 are II and 3 are B-II. In case of the occurrence of circumstances for payment of compensation by the Fund to clients of any of these five 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.

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

Fig. 11 represents the distribution of II and AMC according to the amount of MF eligible to compensation, held by them. The greatest number of participants hold clients' MF up to 100

thousand BGN (13 participants) and up to 3 million BGN (10 participants). One participant holds MF of clients worth more than the Fund's resources.

Fig. 11
Amount of MF of II and AMC as of 31.12.2023



6. INTERNATIONAL ACTIVITY

In 2023, despite the dynamic geopolitical situation, the ICF continued to develop international activities that are mainly through the associate membership of the European Forum of Deposit Insurers (EFDI) and its various working groups. The international activity was expressed, on the one hand, in the participation of its representatives in international meetings, working groups, and conferences and on the other hand, in the exchange of information and experience with European schemes on various issues concerning the payment of compensations.

The EFDI Annual Meeting, Investor Compensation Schemes Working Group Meeting and the EFDI Annual International Conference took place in Budapest, Hungary in May. The Fund was represented by the Chairperson of the Management Board and the Head of Information and Analyses Department. During the annual conference, issues related to the Crises Management and Deposit Insurance Framework Review Package (CMDI) were mainly discussed, which included proposals for amendments and additions to four legislative acts. An International Meeting of Investor Compensation Schemes was also held within the framework of the Forum, and it is envisaged that these meetings will become an integral part of the events held within the framework of the EFDI Annual Conference. The main focus of this meeting was the treatment of crypto-assets by individual investor compensation schemes. The representatives of the Fund also participate in the working groups on Stress tests, Risk Control, etc.

In connection with the associate membership in EFDI, the Fund hosted the meeting of the Working Group on Investor Compensation Schemes for the second time since its establishment, which took place in Sofia at the end of November 2023.¹⁷ During the meeting, issues concerning the activity of the schemes on a national and international scale and the future tasks of the group were discussed. The Chairperson of the MB of the ICF participated with a presentation on the

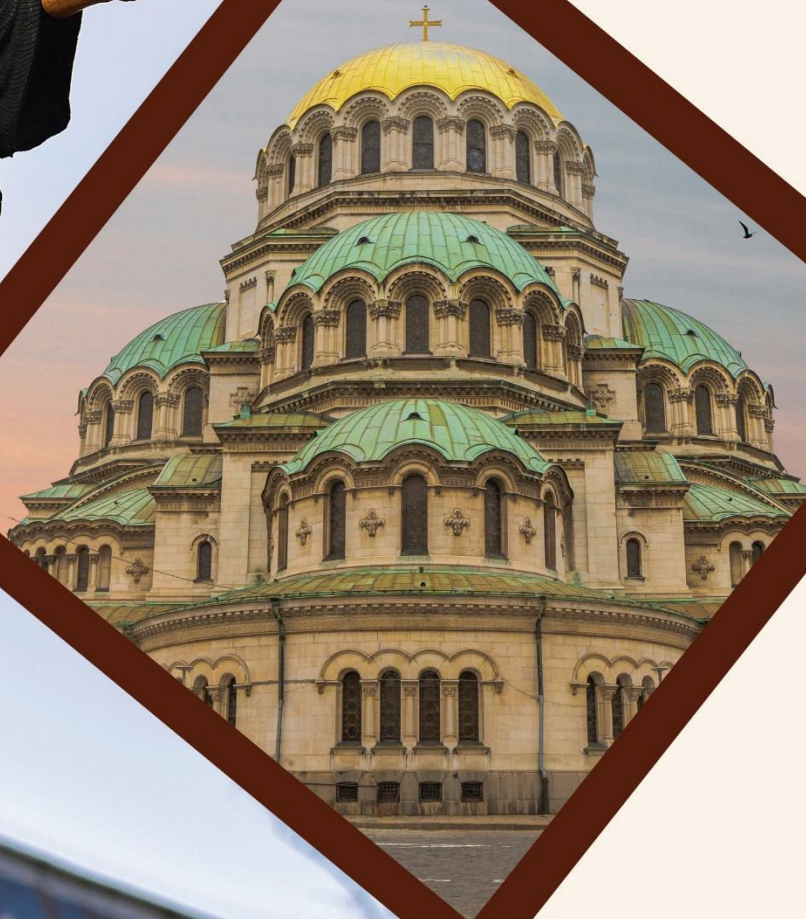
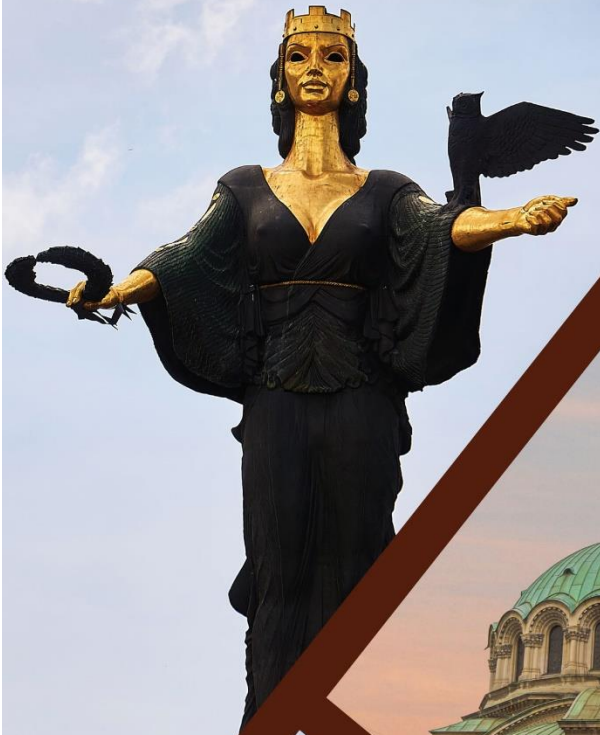
¹⁷ For the first time since its establishment, the Fund hosted the meeting of the EFDI Investor Compensation Schemes Working Group in 2011.

impact of inflation on investor protection, with data showing that markets compensate for inflation, but the compensation limit in most countries remains unchanged.

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

2023

INVESTMENT INTERMEDIARIES

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

BANKS-INVESTMENT INTERMEDIARIES

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

ASSET MANAGEMENT COMPANIES

- | | |
|--------------------------------|---------------------------|
| 1 ACTIVA ASSET MANAGEMENT AD | 4 COMPASS INVEST AD |
| 2 EXPAT ASSET MANAGEMENT EAD | 5 SKY ASSET MANAGEMENT AD |
| 3 KAROL CAPITAL MANAGEMENT EAD | |

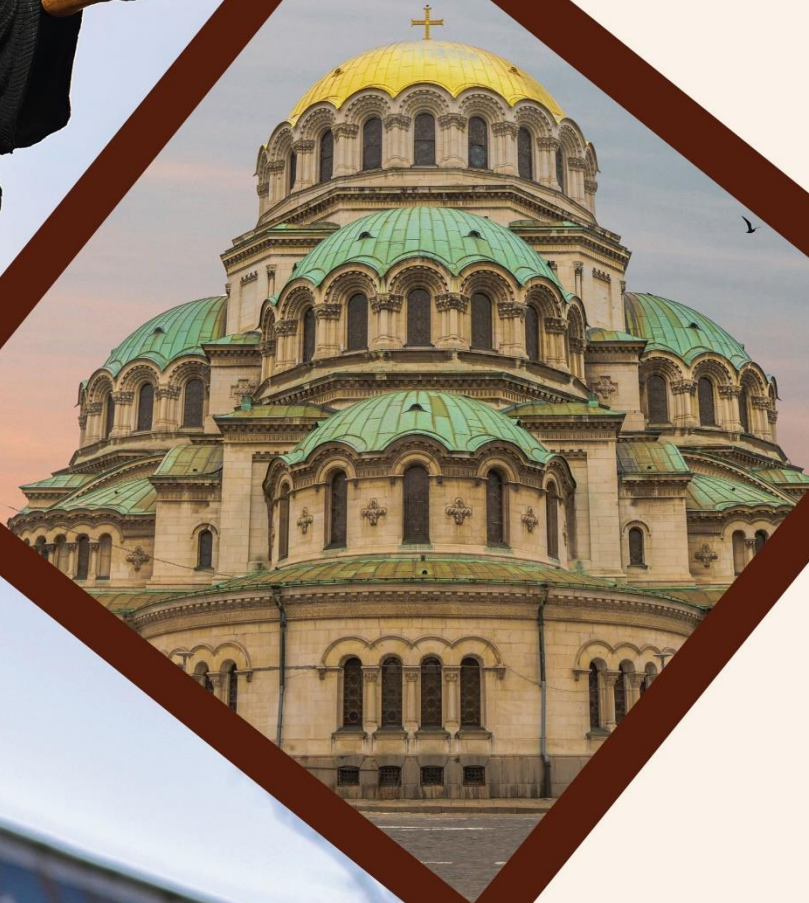
Appendix 2

**DISTRIBUTION OF THE NUMBER OF CLIENTS HOLDING ASSETS ELIGIBLE FOR COMPENSATION AND THE POTENTIAL COMPENSATION BY GROUPS
OF CLIENT ASSETS AS OF 31.12.2023**

Client assets groups	Clients of II with min. equity 150 thousand EUR		Compensation for II with min. equity 150 (in BGN)		Clients of II with min. equity 750 thousand EUR		Compensation for II with min. equity 750 thousand EUR (in BGN)		Clients of Banks-II		Compensation for Banks-II (in BGN)		Total number of clients		Total compensation (in BGN)	
From 0,01 BGN to 500,00 BGN	1 689	50%	760 050	2%	22 501	59%	10 125 450	4%	52 451	31%	23 602 950	2%	76 641	36%	34 488 450	2,21%
From 500,01 BGN to 1 000,00 BGN	206	6%	185 400	1%	2 825	7%	2 542 500	1%	17 895	10%	16 105 500	1%	20 926	10%	18 833 400	1,21%
From 1 000,01 BGN to 4 000,00 BGN	410	12%	1 476 000	4%	4 091	11%	14 727 600	6%	44 953	26%	161 830 800	13%	49 454	23%	178 034 400	11,41%
From 4 000,01 BGN to 7 000,00 BGN	143	4%	900 900	3%	1 505	4%	9 481 500	4%	14 392	8%	90 669 600	7%	16 040	8%	101 052 000	6,48%
From 7 000,01 BGN to 12 000,00 BGN	163	5%	1 760 400	5%	1 388	4%	14 990 400	6%	12 457	7%	134 535 600	10%	14 008	7%	151 286 400	9,70%
From 12 000,01 BGN to 17 000,0 BGN	68	2%	1 040 400	3%	779	2%	11 918 700	5%	6 005	3%	91 876 500	7%	6 852	3%	104 835 600	6,72%
From 17 000,01 BGN to 23 000,00 BGN	59	2%	1 221 300	4%	665	2%	13 765 500	6%	5 446	3%	112 732 200	9%	6 170	3%	127 719 000	8,19%
From 23 000,01 BGN to 30 000,00 BGN	46	1%	1 242 000	4%	564	1%	15 228 000	7%	3 351	2%	90 477 000	7%	3 961	2%	106 947 000	6,86%
From 30 000,01 BGN to 37 000,00 BGN	52	2%	1 731 600	5%	425	1,1%	14 152 500	6%	2 415	1%	80 419 500	6%	2 892	1%	96 303 600	6,17%
From 37 000,01 BGN to 44 444,44 BGN	37	1%	1 480 000	4%	349	0,9%	13 959 999	6%	1 916	1%	76 639 992	6%	2 302	1,1%	92 079 991	5,90%
From 44 444,45 BGN to 59 000,00 BGN	53	2%	2 120 000	6%	459	1,2%	18 359 998	8%	2 375	1%	94 999 991	7%	2 887	1%	115 479 989	7,40%
From 59 000,01 BGN to 78 000,00 BGN	53	2%	2 120 000	6%	401	1,1%	16 039 998	7%	1 597	1%	63 879 994	5%	2 051	1,0%	82 039 992	5,26%
From 78 000,01 BGN to 98 000,00 BGN	41	1%	1 640 000	5%	296	0,8%	11 839 999	5%	1 126	1%	45 039 996	3%	1 463	0,7%	58 519 995	3,75%
From 98 000,01 BGN to 147 000,00 BGN	69	2%	2 760 000	8%	487	1,3%	19 479 998	8%	1 471	1%	58 839 994	5%	2 027	1,0%	81 079 992	5,20%
From 147 000,01 BGN to 196 000,00 BGN	48	1,4%	1 920 000	6%	235	0,6%	9 399 999	4%	784	0%	31 359 997	2%	1 067	0,5%	42 679 996	2,74%
Above 196 000,01 BGN.	265	8%	10 599 999	32%	921	2%	36 839 996	16%	3 023	2%	120 919 988	9%	4 209	2%	168 359 983	10,79%
TOTAL:	3 402	100%	32 958 049	100%	37 891	100%	232 852 137	100%	171 657	100%	1 293 929 601	100%	212 950	100%	1 559 739 787	100%



**INVESTOR
COMPENSATION
FUND**



**FINANCIAL
STATEMENT**

2023

REPORT OF INDEPENDENT AUDITOR

To: The Management Board of the INVESTOR COMPENSATION FUND

Report on the financial statements

Opinion

We have audited the financial statements of INVESTOR COMPENSATION FUND (Fund), which comprise of the statement of financial position as of 31.12.2023 and the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year ended at that date, as well as the explanatory notes to the financial statements, including the summary disclosure of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of 31.12.2023, its financial performance and cash flows for the year that ended, in accordance with International Accounting Standards, as adopted by the European Union.

Basis for Opinion

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

Report on other legal and regulatory requirements – Annual activity report

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

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

Based on the procedures performed, our opinion is that:

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

Information Other than the Financial Statements and Auditor's Report Thereon

The management is responsible for the other information. The other information comprises an Activity Report prepared by the management following Chapter Seven of the Accountancy Act, but it does not include the financial statements and our audit report.

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

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

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

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

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

Auditor`s Responsibilities for the Audit of the Financial Statements

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

Registered auditor:

Nikolay Polinchev

Date: April 30, 2024.

ANNEX to the Independent Auditor`s Report on the Financial Statements of the INVESTOR COMPENSATION FUND for 2023

Auditor`s Responsibilities for the Audit of the Financial Statements

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

We also:

- identify and evaluate the risks of material misstatements in the financial statements, whether due to fraud or error, develop and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not disclosing a material misstatement resulting from fraud is higher than the risk of a material misstatement resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund`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 on the appropriateness of Management`s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubts on the Fund`s ability to continue to operate as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our auditor`s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor`s report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements present the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any 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 2023

thousand BGN

	Explanatory appendices	31.12.2023	31.12.2022
Assets			
Non-current assets			
Non-current tangible assets	3	3	4
Non-current GS, measured at amortized cost	5	17 753	19 845
Total non-current assets:		17 756	19 849
Current assets			
Receivables	6	379	381
Short-term part of long-term GS, measured at amortized cost	5	4 404	414
Cash and cash equivalents	7	74	664
Total current assets:		4 857	1 459
Total assets:		22 613	21 308
RESERVES AND LIABILITIES			
Reserves			
Reserves	9.1, 9.2	22 902	21 616
Result for the period		(310)	(323)
Total reserves:		22 592	21 293
Liabilities	10		
Liabilities to staff		12	12
Liabilities to social security funds		2	2
Tax liabilities		1	1
Liabilities to suppliers		6	
Total liabilities:		21	15
TOTAL RESERVES AND LIABILITIES:		22 613	21 308

II. PROFIT OR LOSS STATEMENT AND OTHER COMPREHENSIVE INCOME

for the year, ended on 31st of December 2023

thousand BGN

	Explanatory appendices	31.12.2023	31.12.2022
Other income		-	8
Interest income, calculated under the effective interest rate method	11	260	192
Financial expenses	12	(6)	(8)
Expenses on materials	13	(3)	(2)
Expenses on external services	14	(136)	(111)
Depreciation cost	3,4	(1)	(3)
Staff expenses	15	(405)	(385)
Other expenses	16	(19)	(14)
Pre-tax result:		(310)	(323)
Result for the period:		(310)	(323)
Other comprehensive income			
Total other comprehensive income for the year, net of taxes		-	-
Total comprehensive income for the year: зогинама:		(310)	(323)

III. STATEMENT OF CHANGES IN RESERVES

For the year, ended on 31st of December 2023

thousand BGN

	Compensation reserve	Reserve from income of investment of resources	Result for the period	Total reserves
Balance as of 1st of January 2022	19 828	465	(298)	19 995
Initial and annual contributions for 2022	1 620			1 620
Transfer of accumulated loss from 2021 to the reserve from income of investment of resources		(298)	298	-
Corrections at the expense of reserves	-	1	-	1
Result for the period			(323)	(323)
Total other comprehensive income in 2022			(323)	(323)
Balance as of 31st of December 2022	21 448	168	(323)	21 293
Changes in reserves in 2023				
Initial and annual contributions for 2023	1 609			1 609
Transfer of accumulated profit/(loss) from past years	(155)	(168)	323	
Result for the period			(310)	(310)
Total comprehensive income in 2023			(310)	(310)
Balance as of 31st of December 2023	22 902	-	(310)	22 592

IV. CASH FLOW STATEMENT

for the year, ended on 31st of December 2023

thousand BGN

	Explanatory appendices	31.12.2023	31.12.2022
Cash flows from operating activities:			
Proceeds of initial and annual contributions of investment intermediaries		1 610	1 567
Recovered court expenses		-	8
Payments to suppliers		(149)	(114)
Payments to staff		(408)	(397)
Net cash flow from operating activity:		1 053	1 064
Cash flows from investment activity:			
Payment for acquisition of fixed assets		(1)	(2)
Net cash flow from investment activity:		(1)	(2)
Cash flows from financial activities:			
Proceeds from maturity/sales of GS		190	185
Payments related to GS		(2 456)	(1 419)
Payments for bank fees, commissions and interests		9	(8)
Proceeds for coupons of GS		615	543
Net cash flow from financial activity:		(1 642)	(699)
Net increase/(decrease) of cash and cash equivalents:		(590)	363
Cash and cash equivalents as of 1 st of January		664	301
Cash as of 31st of December:	7	74	664

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 the cases when the investment intermediary is not able to fulfill its obligations to the clients due to reasons directly related with its financial state.

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

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

The accumulated funds may be invested in financial instruments, issued or guaranteed by the state, short-term deposits in banks and BNB. Pursuant to art. 77p of POSA the Fund's resources can be used for payment of compensations, coverage of principals 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 headquarters: Sofia, 1000, 31 Tzar Shishman str., fl. 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 the MB members are fixed and 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 the deputy chairperson of the MB are elected according to the provisions of art. 77f, para. 1 and para. 2 of POSA.

The other three MB members are proposed according to the provisions of art. 77f, 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 MB meetings, concludes and terminates contracts with the administrative staff of the Fund, organizes and carries out 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 the new members take office. The MB members can be re-elected for unlimited number of mandates.

AS of 31.12.2023 the MB of ICF has the following members:

- Diyana Miteva – chairperson according to FSC Resolution № 462-ICF dated 09.06.2022
- Gergana Mihaylova-Borisova – deputy chairperson according to FSC Resolution № 192-ICF dated 14.02.2023
- 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. IFRF is managed by the MB of ICF. The IFRF's resources are kept separately from the ICF's resources, and the expenses related to the management of that Fund are part of the total administrative expenses of ICF. The MB 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 publish and prepare 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, without controlling it under 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 applied consistently for all represented periods, unless otherwise specifically stated. 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 Bulgarian leva, with the values rounded to the nearest thousand Bulgarian leva (thousand BGN), unless otherwise stated.

2.2. Responsibility of the management

The MB of ICF confirms that for the reporting period adequate accounting policies were applied consistently 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 the confidence of the participants in the investor compensation system.

2.3. Declaration of conformity

The Financial statement of ICF is prepared in accordance 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.

In 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 assumptions and estimations are essential for the financial statement, are explicitly declared.

2.4. Principle of the going concern

The ICF's financial statements were prepared on the going concern principle. The assessment of the MB of ICF regarding the applicability of the going concern principle covers 12-month period from the date of the report. The MB of ICF has reached the conclusion that there is no essential uncertainty, which could raise significant doubts regarding the capability of ICF to continue to function as a going concern and respectively, it is appropriate to prepare financial statement based on the going concern assumption. The intentions of the MB regarding the future existence of ICF are that it will continue to perform all its activities.

There is no change in the regulatory framework concerning the activity of ICF, which would lead to essential limitation on the scope of activity and/or to transformations in 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 values 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 in 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 ICF accounting policies are consistent with those applied in the previous reporting period.

New standards, amendments and clarifications to IFRS, in effect from 1st of January 2023

The ICF accounting policies are consistent with those applied in the previous reporting

period, except for the following amended IFRS, adopted from 1st of January 2023:

For the first time in 2023 some amendments and clarifications are applied, but they do not affect the financial statement of ICF. The Fund has not adopted standards, clarifications or amendments, which have been published but not yet entered into force.

IFRS 17 Insurance contracts

In May 2017, the IASB published IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation, and disclosure. Upon its effective date, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4), which was published in 2005. IFRS 17 applies to all types of insurance contracts (i. e. life insurance, general insurance, direct insurance, and reinsurance), regardless of the type of entities issuing them, as well as to certain guarantees and financial instruments with additional, non-guaranteed income (discretionary participation).

There are a few exceptions to its scope. The main goal of IFRS 17 is to provide an accounting model for insurance contracts which is more useful and consistent for insurers. Unlike the requirements of IFRS 4, which are largely based on established, previous, local accounting policies, IFRS 17 establishes a comprehensive model for insurance contracts that covers all relevant accounting aspects. At the core of IFRS 17 lies the general model, supplemented by:

Specific adaptation for contracts with direct participation features (variable fee approach).

Simplified approach (premium allocation approach) primarily used for short-term contracts.

IFRS 17 is effective for reporting periods beginning on or after 1st of January 2023, with comparative information required. Earlier application is permitted provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The standard is not applicable to ICF.

IFRS 17: Insurance contracts (Amendments), IFRS 4: Insurance contracts (Amendments)

The amendments in IFRS 17 are effective retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted. The amendments aim to assist entities in applying the standard. Specifically, the amendments are intended to reduce costs by simplifying certain requirements in the standard, facilitate the explanation of the company's financial position and performance, and ease the transition by delaying the effective date of the standard until 2023 and providing additional relief to reduce the effort required when first applying IFRS 17. The amendments to IFRS 4 change the fixed expiry date of the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, this means that entities will need to apply IFRS 9 for annual periods beginning on or after January 1, 2023. The adoption of these amendments has not affected the financial position or results of ICF.

Amendments to IAS 1: Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies

In February 2021 the IASB published amendments to IAS 1 and IFRS Practice Statement 2: Making Materiality Judgments, providing guidance and examples to assist entities in making materiality judgments when disclosing accounting policies. The amendments aim to support entities in providing disclosures of accounting policies that are more useful by:

Replacement of the requirement for an entity to disclose its material accounting policy with a requirement to disclose their significant accounting policies;

Adding guidance on how entities apply the materiality concept when making decisions about disclosing accounting policies.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early application of the amendments to IAS 1 is permitted, provided that this fact is disclosed. The adoption of these amendments has not affected the financial position or results of ICF.

Amendments in IAS 8 Accounting policy, changes in accounting estimations and errors: Definition for accounting estimates

In February 2021 the IASB published amendments in IAS 8, introducing a new definition for „accounting estimates“. These amendments clarify the difference between changes in accounting estimates, changes in accounting policies, and corrections of errors. They also explain how entities utilize estimation techniques and input data in developing accounting estimates.

The amended standard clarifies that the effects on an accounting estimate resulting from a change in inputs or a change in measurement technique are changes in accounting estimates if they are not the result of a correction of prior period errors. The Board retains the aspect of the definition of accounting estimates that changes in accounting estimates may result from new information or new developments.

The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments have not affected the financial statement of ICF.

Amendments to IAS 12: Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In May 2021 IASB published amendments to IAS 12 that narrowed the scope of permitted exceptions from initial recognition under IAS 12 so that they no longer apply to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgment whether such deductions are attributable for tax purposes to the liability recognized in the financial statements or to the related asset component. This judgment is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

According to the amendments the exemptions to initial recognition are not applicable to transactions that upon initial recognition give rise to equal taxable and deductible temporary

differences. It is applicable only if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. An entity should apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, the entity should recognize deferred tax asset (provided that taxable profit is available) and deferred tax liabilities for all deductible and taxable temporary differences related to leases and discontinuation of operations. These amendments have not affected the financial statement of ICF.

Amendments to IAS 12 Income taxes: International tax reform – Pillar 2 model rules

The amendments to IAS 12 have been adopted on 23rd of May 2023 in response to OECD rules on Base Erosion and Profit Shifting (BEPS) Action 2. These amendments include:

A mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the Jurisdiction's Application of the Pillar Two model rules; and

Disclosure requirements for affected entities to assist users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023. These amendments have not affected the financial statement of ICF.

2.7. Published standards, which are not yet in effect and have not been previously adopted

As of the approval date of this financial statement new standards, amendments and clarifications to the existing standards have been published, but have not entered into force or

have not been adopted by the EU for the financial period, beginning on 1st of January 2023 and they have not been applied earlier date by the ICF. They are not expected to have a material effect on the financial statements of ICF. The management expects all standards and amendments to be adopted in the accounting policy of ICF in the first period beginning after their effective date.

The amendments are related to the following standards:

- Amendments in IAS 1: Classification of liabilities as current and non-current
- Amendments to IFRS 16: Lease liability on sale with leaseback
- Amendments to IAS 7 and IFRS 7: Financing agreements with suppliers
- Amendment to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture. These amendments have not been adopted yet by the EU.

2.8. Currency conversation

The financial statement is presented in BGN, which is the official currency and the presentation currency of ICF. 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 report date using the closing exchange rate of BNB for the last business day of the relevant 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 euro. The exchange rate of BGN is fixed to EUR and is: 1 EUR = 1.95583 BGN.

2.9. Recognition of income

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

2.10. Recognition of financial income

The interest income, calculated by using the method of effective interest rate, is recognized in the profit or 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 flows 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 5 and Explanation 11.

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 2023 the Fund did not provide tangible assets as collateral and there are no restrictions on its ownership right on them.

In 2023 the Fund classified 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 that 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 acquisition price decreased by the accumulated depreciation and accrued impairment costs.

The Fund recognizes the subsequent expenses for current maintenance of the tangible assets in the "Profit or loss statement and other comprehensive income" in the period of their execution. 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 calculate depreciation of tangible assets under a 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 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.

2.12. Intangible assets

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

In 2023 the Fund has not classified intangible assets. 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 separate asset.

2.12.1. Initial evaluation of intangible assets

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

2.12.2. Subsequent evaluation of intangible assets

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

The Fund recognizes the expenses for on-going 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 actual useful life may differ from the estimate due to technical and moral wear and tear.

2.13. 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 assets may not be recovered. In these cases, the book value of assets corrects to their recoverable value.

For the purposes of valuation, the assets of the Fund are grouped at the lowest level, on 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.

2.14. 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 recognize 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 transactions.

The classification of the financial instruments of the Fund depends on the business model for management of the financial assets as of their acquisition date and 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 Fund's financial assets is made after a 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 of amortized cost requires application of the effective interest rate method. The amortized cost of a financial asset is the value at which the financial asset was initially measured, decreased by principal payment plus or minus accumulated depreciation using the effective interest rate method of 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 ICF applies "Policy for recognition of expected credit losses of ICF and IFRF". According to that policy the amount of the expected credit losses, recognized as impairment correction, depends on the credit risk of the financial asset at the 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 without indication of increase in credit risk versus initial value are classified here. For financial instruments for which there had not been significant increase of the 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 versus initial evaluation, but without objective evidence for 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 classified 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. Interest is charged on basis of the amortization value of the asset.

The methodologies and assumptions, used in the basic calculation 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 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 calculation of the expected credit losses where an impairment for expected credit 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 impairment profit or loss, the amount of expected credit losses (or their reverse recovery).

The ICF MB 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 receivables may be charged based on the market interest rates, when the repayment period exceeds six months. Usually, the collateral is not received.

Derecognition of financial assets

ICF derecognizes a financial asset when the contractual right on the cash flows from that asset expire or when ICF had transferred those rights through transaction after which all essential risks and benefits, arising from the ownership of the asset are transferred to the buyer. Any participation in already transferred financial asset that the Fund retains or creates, is accounted as 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 separately as asset or liability. In transactions where ICF retains control on 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.

2.15. Financial liabilities

Financial liabilities measured at amortized cost

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

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

Derecognition of financial liability

The Fund derecognizes financial liability when the contractual obligations under it are paid, expired or are cancelled. The difference between the book value of the derecognized financial 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 the net amount when:

- there is a right of offsetting in relation to these 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.

2.16. 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 contract where the underlying asset has low value. On the date of entering in force of the contract ICF 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 lease 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 assets 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 lease term, then ICF again makes assessment of the categorization and accounting of the contract.

2.17. Equity

The Equity is formed of the accumulated reserves in ICF. 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.

2.18. Cash and cash equivalents

The cash funds and short-term deposits in the balance include funds on banks accounts, cash in 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. The owned by the Fund "Cash and cash equivalents" are more detailed in Explanation 7.

2.19. 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 2023 ICF has no profit taxable according to CITA. According to CITA ICF is taxable entity for the tax on expenses.

2.20. Pension and other liabilities to staff

ICF as an employer is obliged to pay the due social insurance contributions to the Public social insurance funds pursuant to the provisions of Law on the budget of PSI and the Law on the budget of NHIF. The percentage ratio of the contributions that ICF pays is in accordance with the provisions of the Social Insurance Code.

Short-term income of employees

ICF pays remunerations to its employees and to the MB members. The remunerations are recognized as expenses at „Profit or loss statement and 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 makes an assessment 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.

2.21. 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.

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

2.21.1. Determination of expected credit losses

In relation to impairment requirements, specified in IFRS 9, the MB of ICF, in estimating the probability of default (PD - probability of default) of the issuer, has taken into account factors related to the economic situation in the country. The factors that MB of ICF has taken into account are: country credit rating, amount and the way of managing of 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 credit rating of Bulgaria is an assessment for the quality and the security of the bond debt, formed on the basis of an analysis of its financial position. Table № 4 “Credit rating of Bulgaria” presents the credit rating of Bulgaria assigned by two international agencies.

Table № 4 Credit rating of Bulgaria

Credit agency	31.12.2023			31.12.2022		
	Long-term	Short-term	Outlook	Long-term	Short-term	Outlook
	Standard & Poor’s (S&P)					
in foreign currency	BBB	A - 2	positive	BBB	A - 2	stable
in domestic currency	BBB	A - 2	positive	BBB	A - 2	stable
	Fitch					
in foreign currency	BBB	F2	positive	BBB	F2	positive
in domestic currency	BBB	F2	positive	BBB	F2	positive

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

Determination of expected credit losses on deposits and cash

As of 31.12.2023 ICF has no deposits in commercial banks.

ICF does not consider risk regarding the cash because most of it is on current accounts in BNB, and small amounts are on current accounts in commercial banks supervised by ECB.

2.22. 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, yield and maturity structure of the Fund's portfolio. During the period no repurchase agreements contracts or repo transactions were concluded and no such agreements were terminated. The Fund has no purchased and sold financial instruments on repo transactions. As of 31.12.2023 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 in the expected term the contributions from the participants in investor compensation scheme, as well as from the possibility that Bulgaria would not makes payments on GS held by the Fund.

MB of ICF applies "Policy for recognition of expected credit losses if 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 regarding the collection of the Fund's resources 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 is as follows:

Assets exposed to credit risk versus the total amount of assets ¹	31.12.2023	31.12.2022
Share of GS and accrued coupons	97.98%	95.08%
Share of cash and cash equivalents	0.33%	3.12%
Receivables from II regarding 4 th quarter of the annual contribution for the respective year	1.68%	1.79%

The credit risk which would arise from the share of GS in the portfolio, is estimated to be minimal, because the Bulgarian state regularly services the payments on its liabilities.

Liquidity risk

Liquidity risk would arise if the Fund were required to pay compensation in excess of the available funds or if, in the event of the insolvency of a scheme participant, the Fund does not recover its "Cash and cash equivalents".

Detailed information for clients' assets and potential compensations is presented

¹ The total percentage does not make 100% because the long-term tangible and intangible 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 0.02% of the total amount of the assets as of 31.12.2022 and 0.01% as of 31.12.2023.

in the annual activity report.

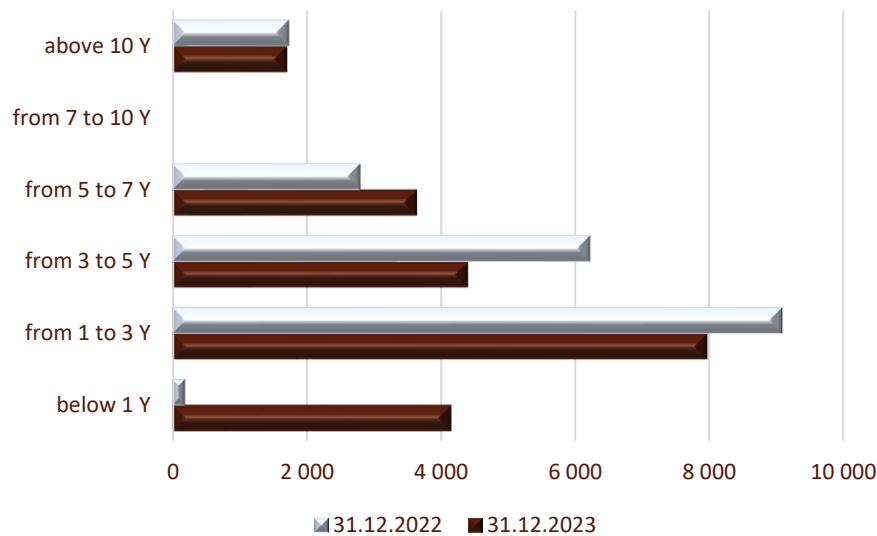
According to the legislation the Fund pays compensations to the clients of an investment intermediary upon occurrence of the circumstances under art. 77b, para. 1 related to art. 77a para. 5 and art. 77c, para. 1 of POSA. Considering the procedure for payment of compensations, defined in POSA and Ordinance № 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. 77q 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 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 2022 and 2023 (in thousand BGN).

Maturity structure of GS portfolio (thousand BGN)



Market risk

The 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 currency other than the euro and 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 rate:

1 EUR = 1.95583 BGN.

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

	31.12.2023				31.12.2022			
	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	2 084	2 135	8 402	9 536	194		10 548	9 513
incl. interest receivables	37	20	39	146	4	-	75	141
Total financial assets, measured at amortised cost	4 219		17 938		198		20 061	
incl. interest receivables	57		185		4		216	
Receivables on 4th quarter from the annual contribution	379				381			
Cash	74				664			
Total cash and cash equivalents	74				664			

Price risk

The amortization of GS held to maturity, is not influenced by the market price levels. The changes in the market prices of GS held by the Fund would have influence in case that an urgent sale of GS is needed in order to ensure 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“ in which the control procedures for minimizing this type of risk are listed.

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

The Fund's portfolio 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 2023 was dynamic as a result of which there was a sharp decrease in the GS prices. The years before 2023 on the other hand were characterized by non-dynamic permanent high prices and low interest rates. In such cases the Fund has adopted maximally conservative trading policy, according to 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 for such liquidity risk at the moment and in the near future, and the assets with 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 rates 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, that are held as monetary fund at BNB, are exposed to interest rate risk. But from September 2022 interest rates have become positive. In 2023, positive interest rates have been charged on the Fund's resources on a current account in BNB, which is in line with the general trend of increasing interest rates as a result of the restrictive monetary policy undertaken by the leading central banks, including ECB in order to curbing inflation. This eliminates the interest rate risk related to the negative interest rates, which are not expected to be brought back in the near future.

The Fund's portfolio mainly consists from investments in GS, that provide interest income. Because the interest income on GS is fixed on purchase date (the GS held by the Fund are with fixed coupon payments), the interest rate risk on the cash flows is limited. The amortization of the premium of GS held to maturity is included in the amount of interest rate income from GS as a correction of the interest rate 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 that have had a change in the agreed interest rates.

As of 31.12.2023 the interest income amounts to 260 thousand BGN, which is 100% from the total income of 260 thousand BGN /in 2022 the interest income amounts to 192 thousand BGN, which is 95.95% of the total income of 200 thousand BGN/.

As of 31.12.2023 the Fund has no investments in deposits. The Fund does not use loans, for which interest are 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 st of December 2022:	
Value	12
Accumulated amortization	(7)
Depreciation expenses	(3)
Acquisitions	2
Derecognised assets	-
Depreciation on derecognized assets	-
Net book value on 31.12.2022	4
Value	14
Accumulated depreciation	(10)
For the year ended on 31 st of December 2023:	
Value	14
Accumulated depreciation	(10)
Depreciation expenses	(1)
Acquisitions	-
Derecognized assets	-
Depreciation of derecognized assets	-
Net book value on 31.12.2023	3
Value	14
Accumulated depreciation	(11)

In 2023 the Fund has used tangible assets that are fully amortized or below materiality level at the amount of 20 thousand BGN.

4. Intangible assets

In 2023 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 31.12.2023	As of 31.12.2022
Value at the beginning of the period:	20 259	19 378
incl. short-term part of GS	414	414
Acquisitions:	2 456	1 418
Incl. non-current GS	2 396	1 408
Sold/matured:	(190)	(185)
Received interests	(615)	(543)
incl. in EUR	(424)	(343)
Accrued interests	578	533
incl. in EUR	450	337
Amortization of premium and currency revaluation	(331)	(342)
Value at the end of the period:	22 157	20 259
incl. short-term part of long-term GS	4 404	414
incl. accrued interest on GS, measured at amortized	242	220

As of 31.12.2023 GS measured at amortized cost and the accrued interests on them amount to 22 157 thousand BGN. The long-term GS amount to 17 753 thousand BGN and the accrued interest on them amount to 185 thousand BGN. The short-term GS with a remaining term to maturity of less than a year amount to 4 162 thousand BGN and the accrued interests on them are at the amount of 57 thousand BGN.

The management of the Fund monitors on ongoing basis and on an annual basis the changes in the market prices of the financial instruments held by the Fund. As of 31.12.2023

an impairment test of the available investments in GS, was made, based on the collected market offers. As a result of the increased interest rates in 2023, a significant decrease in the market value of longer-term issues, is observed. The test made includes all issues held by the Fund. A threshold has been applied for impairment of GS 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. The calculated impairment has no influence on the Fund's assets because 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

Issue GS 1	703 619,77	584 155,00	-119 464,77
Issue GS 2	702 840,66	584 155,00	-118 685,66
Issue GS 3	295 044,56	233 540,90	-61 503,66
Issue GS 4	861 547,97	636 691,12	-224 856,85
Issue GS 5	557 287,63	436 588,20	-120 699,43
Issue GS 6	297 144,86	162 533,60	-134 611,26
Total:	3 417 485,45	2 637 663,81	-779 821,64

In view of the impairment test made, 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 18 years the Fund has paid 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 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 31.12.2023 arise from accrued 4th quarter of the annual contribution of investment intermediaries. According to art. 77m, para. 4 of POSA the fourth contribution for the respective is payable until the end of January in the next year.

thousand BGN

Receivables:	31.12.2023	31.12.2022
Receivables on 4 th contribution of II for the respective year	379	381
Total receivables:	379	381

7. Cash and cash equivalents

The cash and cash equivalents of the Fund as of 31.12.2023 include cash in hand and in banks and are as follows:

thousand BGN

Cash and cash equivalents:	31.12.2023	31.12.2022
Cash in hand	1	1
Funds in banks	73	663
Total cash and cash equivalents:	74	664

As of 31.12.2023 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	31.12.2023	31.12.2022
Non-current tangible assets	3	4
Face value of GS measured at amortized cost incl. with remaining maturity below 1 year	21 915	20 039
Receivables	379	381

Accrued interests on GS measured at amortized cost	242	220
Cash on hand, in banks and deposits	74	664
Total resources of the Fund:	22 613	21 308

As can be seen from the table above in 2023 the Fund's resources increased by 1 305 thousand BGN or 6.12%.

9. Reserves

9.1 Total reserves

The total reserves of the Fund are presented below:

	thousand BGN	
Total reserves:	31.12.2023	31.12.2022
Total reserves at the beginning of the period:	21 293	19 995
Initial and annual contributions for the respective period	1 608	1 567
Net effect of non-received 4 th contribution between previous and current year	1	53
Total initial and annual contributions	1 609	1 620
Changes at the expense of reserves	-	1
Result for the period	(310)	(323)
Total reserves at disposal of the Fund	22 592	21 293

The accrued non-received contribution as of 31st of December of the respective year is included to the amount of reserves (See Explanation 6).

As can be seen from the table above the total reserves of the Fund increased by 1299 thousand BGN or increase by 6.1%, versus 2022.

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 for covering its administrative costs for 2005, 2006, 2007 and 2008. After 2009 the administrative expenses are covered by the income from investments.

The current financial result for 2023 is negative, at the amount of 310 thousand BGN. With State Gazette №. 84 go 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 income under art. 77l, para. 1, item 3,5,4,1 and 2 of POSA, in the sequence listed.

10. Liabilities

The liabilities of the Fund as of 31.12.2023 are presented below:

thousand BGN

Liabilities:	31.12.2023	31.12.2022
Liabilities to staff regarding provisioned holiday leaves	12	12
Liabilities to social insurance funds regarding provisioned holiday leaves	2	2
Liabilities to suppliers	6	-
Tax on expenses according CITA	1	1
Total liabilities:	21	15

11. 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:	31.12.2023	31.12.2022
Interest on GS	578	533
Interest on current accounts	13	1
Amortization of premium on GS	(331)	(342)
Total interest income, calculated under the effective interest method:	260	192

In 2023 the interest income, calculated under the effective interest method, increased by 68 thousand BGN versus 2022 or by 35.4%.

12. Financial expenses

The financial expenses are presented below:

thousand BGN

Financial expenses:	31.12.2023	31.12.2022
Interest expenses for holding of monetary funds	-	(1)
Other financial expenses	(6)	(7)
Total financial income/ (expenses):	(6)	(8)

In 2023 the amount of the financial expenses decreased by 2 thousand BGN versus 2022 up to 6 thousand BGN in the end of the year.

13. Expenses on materials

The expenses on materials are presented below:

thousand BGN

Expenses on materials	31.12.2023	31.12.2022
Expenses on materials for office renovation	-	-
Expenses on office consumables	(3)	(2)
Total expenses on materials:	(3)	(2)

In 2023 the amount of the expenses on materials increased by 1 thousand BGN versus 2022 or by 50%.

14. Expenses on external services

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

thousand BGN

Expenses on external services	31.12.2023	31.12.2022
Electricity, cold and hot water, heating and and committed electrical power fee	(14)	(10)
Rent of office	(37)	(37)
Maintenance and other services	(9)	(5)
Transport and postal services	(1)	(1)
Phoneservices	(4)	(3)
Paid remunerations on civil contracts	(29)	(29)
Expenses related to audit of the financial statements of ICF and IFRF	(6)	(6)
Subscriptions and subscribe services	(36)	(20)
Total:	(136)	(111)

In 2023 the amount of the expenses on external services increased by 25 thousand BGN versus 2022 or by 22.52%.

15. Staff expenses

As of 31st of December 2023 the number of full -time employees in the Fund is 3 (in 2022 – 4), and the MB of the Fund comprises 5 members (in 2022 - 4).

The staff expenses are presented below:

thousand BGN

Staff expenses:	31.12.2023	31.12.2022
Expenses on remunerations:	(363)	(342)
incl. expenses on remunerations of the MB members	(255)	(198)
Expenses on social insurance	(22)	(33)

incl. expenses on social insurance for MB members and on civil contracts	(1)	(4)
Provisions for unused holiday leaves and compensable social insurance on them	(20)	(9)
Social benefits	(1)	(1)
Total staff expenses:	(405)	(385)

In 2023 the amount of the expenses increased by 20 thousand BGN versus 2022 or increase by 5.19%.

16. Other expenses

The other expenses are presented below:

thousand BGN

Other expenses	31.12.2023	31.12.2022
Expenses for business trips	(5)	(4)
Expenses for representative purposes	(9)	(5)
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)	(1)
Total other expenses:	(19)	(14)

The amount of other expenses in 2023 increased by 5 thousand BGN versus 2022 or by 35.71%.

17. Government grants

The ICF did not received government grants in 2023.

18. Research & development and environment protection activities

In 2023 the Fund did not perform research and development activity. The activity of the Fund does not imply environment protection activities.

19. Events after the reporting period

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

20. Date of approval of the financial statement

This financial statement was approved by Resolution of MB on 23rd of April 2024.



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