



**INVESTOR  
COMPENSATION  
FUND**

# **ANNUAL REPORT**

## **2016**



## CONTENT:

1. KEY MOMENTS IN THE ACTIVITY OF THE FUND IN 2016	7
2. RESOURCES	8
2.1 CONTRIBUTIONS	10
2.2 INVESTMENTS	11
3. PARTICIPANTS	15
4. CLIENTS' ASSETS MANAGED BY THE PARTICIPANTS	16
5. EXPOSURE TO THE PARTICIPANTS	21
6. INTERNATIONAL ACTIVITY	24
FINANCIAL STATEMENTS FOR 2016	34



## APPENDICES:

1. ORGANIZATIONAL STRUCTURE OF THE FUND
2. LIST OF PARTICIPANTS IN THE FUND AS OF DECEMBER, 31<sup>ST</sup> 2016
3. REVIEW OF THE CAPITAL MARKET IN BULGARIA
4. DISTRIBUTION OF THE NUMBER OF THE PROTECTED CLIENTS AND THE POTENTIAL COMPENSATION BY GROUPS OF CLIENTS' ASSETS, AS OF DECEMBER, 31<sup>ST</sup> 2016



## ABBREVIATIONS:

**ABB** – Association of Banks in Bulgaria

**AMC** – Asset Management Companies

**BAAMC** – Bulgarian Association  
of Asset Management Companies

**BALII** – Bulgarian Association  
of Licensed Investment Intermediaries

**BDIF** - Bulgarian Deposit Insurance Fund

**BNAO** – Bulgarian National Audit Office

**BNB** – Bulgarian National Bank

**BSE** – Bulgarian Stock Exchange

**B-II** – Banks-Investment Intermediaries

**CA** – Current Account

**CCB (b)** - Corporate Commercial Bank  
(in bankruptcy)

**CD** – Central Depository

**DIF** – Deposit Insurance Fund

**EBRD** – European Bank for Reconstruction  
and Development

**EFDI** – European Forum of Deposit Insurers

**EU** – European Union

**FSC** – Financial Supervision Commission

**FI** – Financial Instruments

**GDP** – Gross Domestic Product

**GS** – Government Securities

**IADI** – International Association of  
Deposit Insurers

**ICF** – Investor Compensation Fund

**II** – Investment Intermediaries

**IFRF** – Investment Firms Resolution Fund

**LMFI** – Law on Markets in Financial  
Instruments

**LPOS** – Law on Public Offering of Securities

**LRRCIIF** - Law on the Recovery and Resolution  
of Credit Institutions and Investment Firms

**MB** – Management Board

**MFs** – Monetary Funds

**ROOICF** – Regulation of Operation and  
Organization of Investor Compensation Fund



**Management Board:**

Chair:	Teodora Yakimova – Drenska
Deputy Chair:	Diyana Miteva – Boncheva
Members:	Irina Martzeva
	Mihaela Koleva
	Radoslava Maslarska

**Management Board (until March 2017):**

Chair:	Teodora Yakimova - Drenska
Deputy Chair:	Diyana Miteva - Boncheva
Members:	Irina Martzeva
	Mihaela Koleva
	Pavlina Anachkova – Kantareva

**Headquarters:**

1000 Sofia, 31 Tsar Ivan Shishman Str., Floor 2



## MISSION OF THE INVESTOR COMPENSATION FUND

The Fund contributes to the stability and confidence in the capital market, by providing compensation to the investors' claims.

## MANDATE

The Investor Compensation Fund is an independent legal entity, established in 2005 due to transposing Directive 97/9/EU into the Law on Public Offering of Securities.

Pursuant to the Law on Public Offering of Securities, ICF provides compensation to the clients of investment intermediaries, determines and collects initial and annual contributions from all participants and invests collected resources according to the law.



## 1. KEY MOMENTS IN THE ACTIVITY OF THE FUND IN 2016

The main activity of the Fund is to protect investment intermediaries' clients in case the intermediary goes into insolvency and it is not able to recover assets to its clients. The Fund provides compensation of 90% of the amount of clients' assets, but not more than 40 thousand BGN. In 2016 the activity of the Fund was mainly focused on the collection of the contributions due by the participants within the legal deadlines; management of the ICF's resources; collection and analysis of the information on clients' assets, managed by the scheme participants; ICF's exposure assessment, etc. In 2016 there were no cases of compensation payments.

The Fund is managed by a Management Board (MB) which discusses and takes decisions on all matters within its competence.

The chair of the MB organizes, manages and controls the operational activities of the Fund. The Fund's activity is performed by administration which, as of December, 31<sup>st</sup> 2016, consists of five employees. (The organizational structure of the Fund is given in Appendix 1).

In the end of the year the MB took decision to decrease the contribution rate due on monetary funds (MFs) for 2017 to 0,25%, which is a half of the maximum level. The contribution rate due on the financial instruments (FI) was kept at the level of the past eight years, which is also a half of the maximum level. Thereby, in 2017 Fund's participants are going to pay a contribution at the rate of 0,05% of the protected financial instruments (where the maximum level is 0,1%) and 0,25% of monetary funds (MFs), calculated on average monthly basis for 2016. The grounds for decreasing the contribution rate of MFs are: substantial increase of the average monthly amount of the MFs during the past years; the legislative measures taken to reduce the risk of MFs; the high degree of coverage of the Fund's resources in case of compensation payments.

In 2016 the FSC carried out a check-up of the activity of the Fund. No violations in the management of the Fund's activity were found during the check-up. Some recommendations were made.

In 2016 the Fund submitted a proposal for an amendment to the Regulation of Organization and Operation of the ICF, which was published for public discussion. The proposed changes are due the entry into force of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF) and the creation of the Investment Firms Resolution Fund (IFRF) which will be part of the administration and management of ICF. IFRF's activity will start in 2017 when the first contributions will be collected.

During the year the MB adopted amendments to some of the Fund's internal normative acts.

## 2. RESOURCES

The accumulation, investment and spending of the Fund's resources is in accordance with the provisions of LPOS, ROOICF and Fund's internal rules, and the Bulgarian National Audit Office (BNAO) and the FSC supervise those

International activity was an important part of the Fund's work in 2016. In addition to the participation of Fund's representatives in meetings and working groups related with the Funds' associated membership in the European Forum of Deposit Insurers (EFDI), the Fund's international activity was also conditioned by its cooperation with investor compensation schemes from other EU countries.

In 2016 the ICF continued to cooperate successfully with national institutions and organizations such as FSC, BNB, ABB, BALII, BAAMC and others.

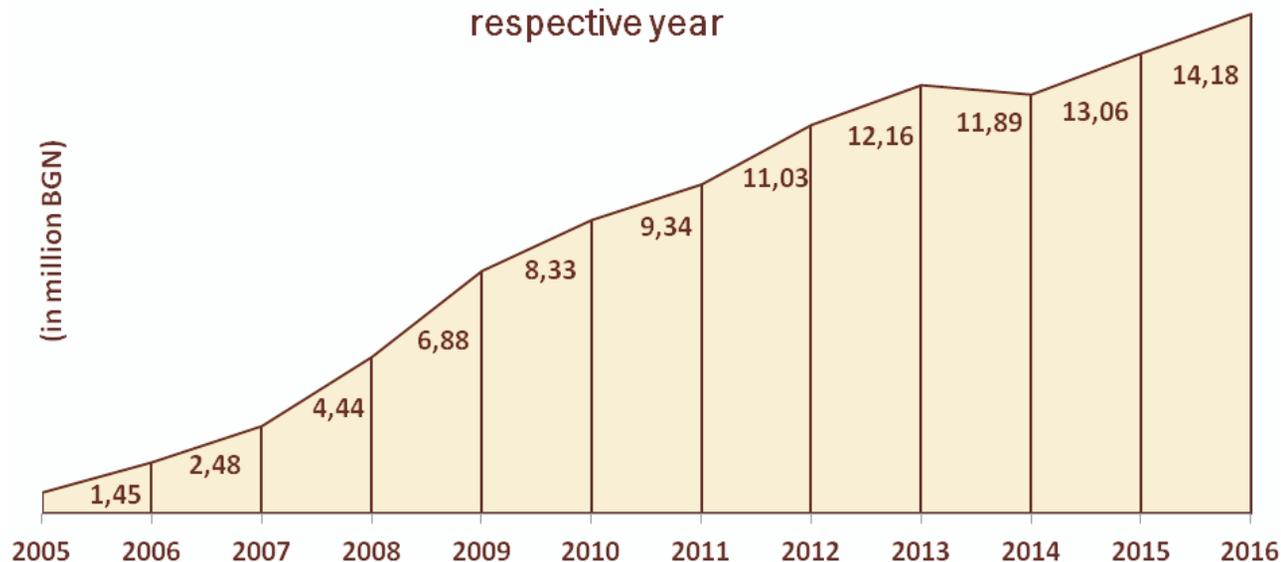
activities. The Fund's resources are accumulated mainly of annual and initial contributions from the participants<sup>1</sup>, as well as of investment's revenues.

Fig. 1 shows the investment portfolio of the Fund since its establishment as of December 31<sup>st</sup> of the respective year.

---

<sup>1</sup>AMCs do not pay initial contribution.

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



Source: ICF

As of December, 31<sup>st</sup> 2016 the investment portfolio of the Fund amounted at 14,18 million BGN<sup>2</sup> compared to 13,06 million BGN in 2015, which is an increase by 1,12 million BGN. After 2010 the Fund's resources increase more gradually compared to the period before the global financial crisis. In 2014, the ICF's resources decreased by 270 thousand BGN. The reason for that decrease is the reclassification of monetary funds blocked in Corporate Commercial Bank (in bankruptcy) as cash deposits were transferred in receivables. On 24.02.2017 a distribution of the funds

collected from the bank's bankruptcy mass was made, according to which, ICF has to receive 165,850 BGN, representing 11,05% of the claim.

ICF's administrative activity is financed by the revenues from investments of its resources. The budget of the Fund for administrative expenses for 2016, approved by a decision of the FSC, amounted to 394 thousand BGN. The administrative expenses of the Fund for 2016 were 377 thousand BGN, i. e. there was a saving of 5%.

The financial result of the Fund for 2016 is a profit of 93 thousand BGN<sup>3</sup>.

<sup>2</sup> The Fund's investment portfolio includes deposits, revaluated GS without accrued interest, cash and current accounts. Revaluated GS value is as of 31.12.2016.

<sup>3</sup> The financial result for the year is calculated on the basis of the financial revenues increased (decreased) by the profit (loss) from revaluation of the GS and decreased by the administrative and financial expenses of the Fund for the current year.

## 2.1. CONTRIBUTIONS

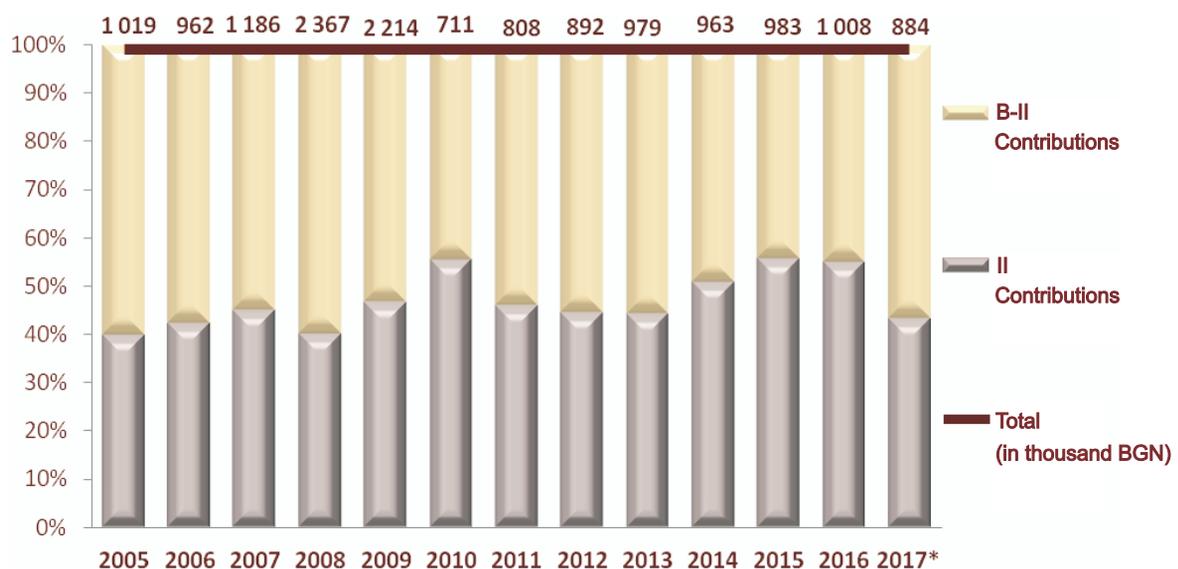
The participants' contributions to the Fund are initial and annual. The initial one is one percent of the minimum capital and is paid once by the investment intermediaries when a new member joins the scheme<sup>4</sup>. AMCs don't pay initial contributions.

The annual participants' contributions depend on the amount of the eligible to compensation clients' assets, managed by them. They are transferred in four equal instalments. The amount of the annual contribution is determined each year by ICF's MB and for 2016 it was as follows:

- 0,5% of the average monthly amount of the protected MFs for 2015 and
- 0,05% of the average monthly amount of the rest of the clients' assets, eligible to compensation in 2015.

The revenues from the participants' contributions in 2016 are at the amount of 1 024<sup>5</sup> million BGN, compared to 967 thousand BGN in 2015. On Figure 2 – the annual contribution of banks – investment intermediaries (B-II) and II is given, determined for each year. It is based on the average monthly amount of FI and MFs, reported by the participants for the previous year.

**Fig. 2**  
Distribution of contributions of II and B-II



\*The data for 2017 is preliminary

Source: ICF

<sup>4</sup> II with a limited license do not participate in the Fund.

<sup>5</sup> In 2016 one quarter of the annual contributions due for 2015 was paid until 30.01.2016 and three quarters for the annual contributions due for 2016.

The total amount of the annual contribution of II and B-II for 2016 is 1 008<sup>6</sup> million BGN, compared to 983 thousand BGN in 2015, i. e. there is a slight increase of approximately 3%. The increase is due to the slight growth of the basis on which contributions are calculated.

In 2016 the contributions paid by the II (55%) and the contributions paid by the B-II (45%) retained approximately the same level as in 2015. As shown on Figure 2, it is expected that the contributions paid by the B-II in 2017 will be higher than the contributions paid by the II.

## 2.2. INVESTMENTS

In accordance with the legal framework, the accumulated resources in the Fund can be invested in financial instruments issued or guaranteed by the state, short-term deposits in commercial banks and deposits in BNB. ICF's resources are invested in accordance with the provisions of LPOS and the "Investment Policy", adopted by the MB.

The calculated amount of contributions for 2017 is 884<sup>7</sup> thousand BGN, i. e. approximately 124 thousand BGN less compared to the contributions for 2016<sup>8</sup>. The decrease is due to the MB's decision to reduce contributions of MFs to half of the maximum level (0,25%). At the same time, the basis on which the contributions are calculated increases.

Principles of security and liquidity are of leading importance in taking investment decisions. Under the established internal procedures, the MB periodically reviews the Fund's investment status and, if it necessary, makes changes to the "Investment Policy". In 2016, such changes were made.

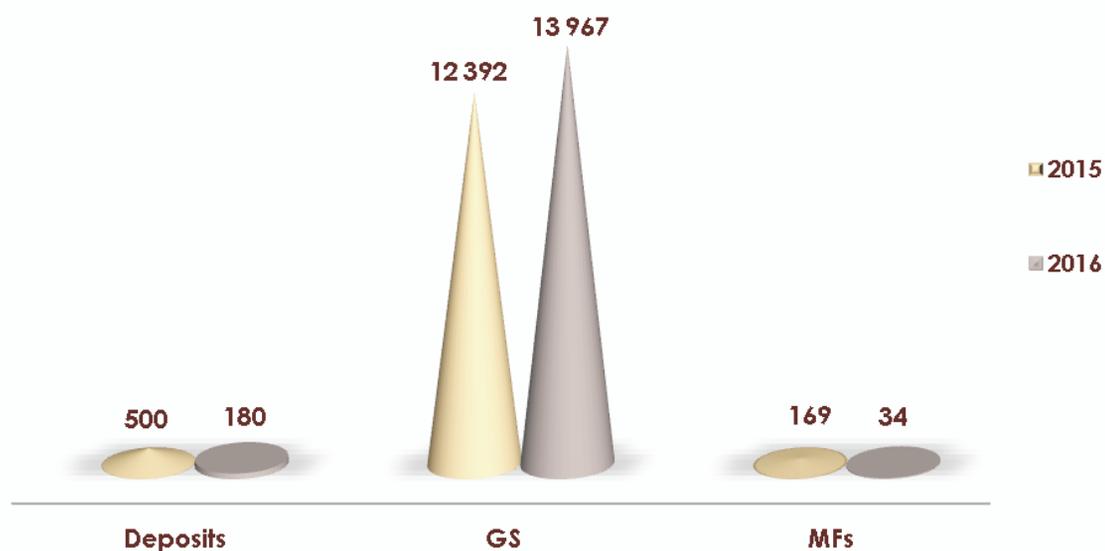
Figure 3 shows the Fund's investment portfolio structure, as of the end of 2015 and 2016.

<sup>6</sup> In 2016 one quarter of the annual contributions due for 2015 was paid until 30.01.2016 and three quarters of the annual contribution due for 2016, which explains the different amount to the real contribution payments, received in the Fund.

<sup>7</sup> The amount doesn't include the annual contribution of AMC, which is 3 thousand BGN for 2017.

<sup>8</sup> In 2017 only three quarters of the annual contributions due for 2017 are paid and the fourth quarter is due for the beginning of 2018

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



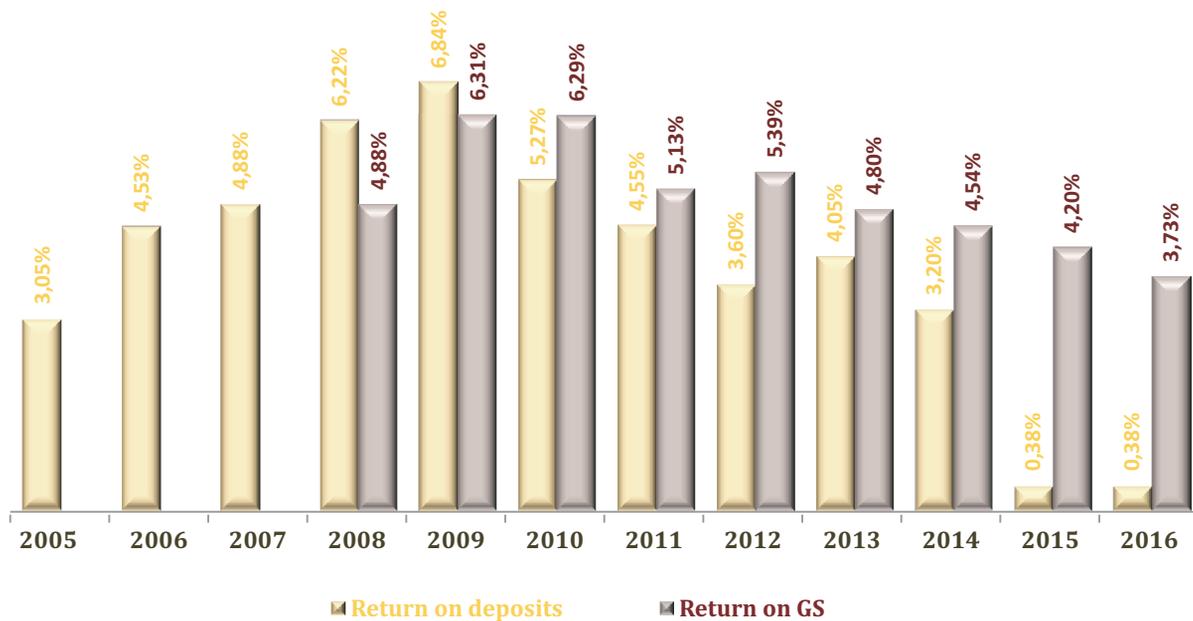
\*MFs – in cash and in current accounts

There is an increase in the share of investments in government securities (GS), which represent a major part of the Fund's portfolio - from 95% as of 31.12.2015 to 98% by the end of 2016. Funds in current accounts and in cash are 34 thousand BGN, i. e. they decreased by 135 thousand BGN compared to the end of 2015. The share of deposits in the portfolio is also decreasing. Both the low yield on deposits and the negative interest rates of the BNB reflected on the structure of the Fund's portfolio. The Fund's investment revenues includes interest on deposits, government securities coupons, profit (loss) from GS revaluation and amortization of premium on

GS and other financial revenues (expenses). In 2016 the Fund's net investment revenues is 474 thousand BGN against 570 thousand BGN in 2015. The reason for the decrease in net revenues in 2016 is the reported lower revenues from GS revaluation.

Figure 4 shows the accomplished average yield from deposit interests and GS for the period 2005 – 2016.

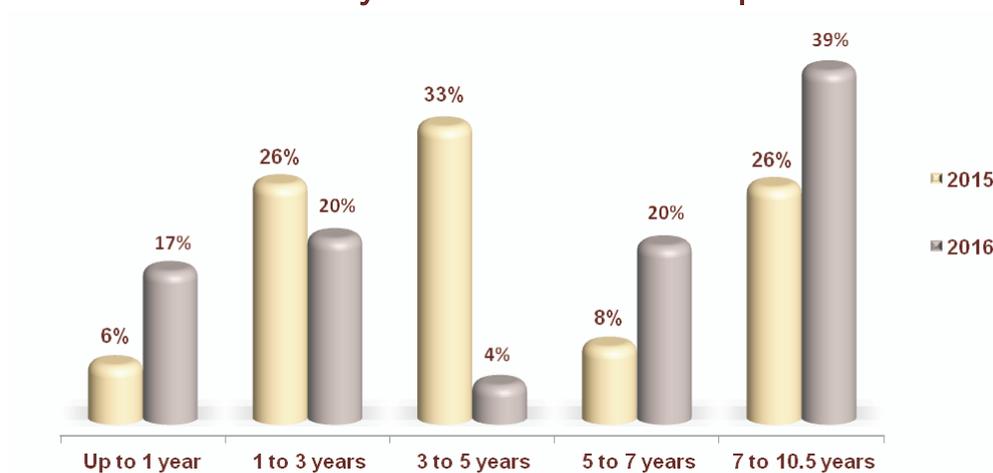
**Fig. 4**  
Average yield on investments



In 2016, the average yield of deposit interest was 0,38% and from GS's coupons – 3,73%.<sup>9</sup> There is a decrease in the average yield of GS's coupons on an annual basis due to lower coupon rates on newly purchased emissions.

Figure 5 shows the maturity structure of GS and deposits as of 31.12.2016 and 31.12.2015.

**Fig. 5**  
Maturity structure of GS and deposits



<sup>9</sup> The average yield on investment is calculated as a ratio of the sum of the yield gained from investments during the year (respectively the yield from interest on deposits and coupons on GS) and the average weighted amount of the portfolio in deposits and GS. The revenues from GS revaluation are not included.

Approximately 40% of the investments are with a maturity up to 5 years, and 60% - with a maturity from 5 to 10,5 years. There is a decrease in the share of investments with a maturity from 3 to 5 years<sup>10</sup> (from 33% as of 31.12.2015 to 4% as of the end of 2016), which is due to the increase of the share of investments in the rest of groups. There is also a slight decrease in the share of investments

with a maturity from 1 to 3 years. In 2017, 16% of the GS portfolio will mature.

Modified duration and average maturity of the investments in GS, according to their maturity structure, as of December 31<sup>st</sup> 2016, are presented on Figure 6.

**Fig. 6**  
**Modified duration and average maturity of GS**



The average weighted modified duration of the portfolio of GS increases from 4,18 years as of December, 31<sup>st</sup> 2015 to 4,57 years, as of

the end of 2016. The average residual maturity of the investments in GS is 5,1 years compared to 4,6 years, as of December, 31<sup>st</sup> 2015.<sup>11</sup>

<sup>10</sup> The yield on investment affects the maturity structure.

<sup>11</sup> The average weighted maturity of the GS portfolio is calculated as a sum of all investment maturities, weighted by the share of each investment in the total amount of resources invested in GS, as of 31.12.2016.

### 3. PARTICIPANTS

As of 31.12.2016, the Fund's participants are 91 in total, of which 39 investment intermediaries (II), 21 banks – investment intermediaries (B-II) and 31 asset management companies (only 3 of the AMC hold clients' assets, protected by the Fund). One participant dropped out of the investor compensation scheme during the past year. The II returned its license voluntarily. (A list of Fund's participants is given in Appendix 2).

Table 1 shows the number of dropped out II, B-II and AMC for the period 2009 – 2016. For the respective period 46 participants in total dropped out of the scheme, as only 9 joined it. The largest decline in the number of participants in ICF was in 2010, when 9 II and 6 AMC returned their licenses.

**Table 1** Number of participants that dropped out of the scheme

	2009	2010	2011	2012	2013	2014	2015	2016	Total:
II	3	9	5	4	3	3	4	1	32
AMC	-	6	1	4	0	0	0	0	11
B-II	0	0	0	0	0	3	0	0	3

Source: ICF

As of 31.12.2016, the number of Bulgarian II working on the principle of „free providing of service“ within the EU was 16, i. e. with one more compared to the same period in 2015. In 2016 two Bulgarian II have branches in Romania and Poland.<sup>12</sup>

As of the end of 2016 the total number of investment intermediaries from EU member states, that are eligible to provide investment services on the territory of the country either through a branch or through free providing of services, is over 1 700, 5 of which have established a branch.<sup>13</sup>

<sup>12</sup> According to a list of investment intermediaries that have the right to provide investment services on the territory of other EU member-states, published on the internet website of the FSC.

<sup>13</sup> According to FSC's data.

## 4. CLIENTS' ASSETS MANAGED BY THE PARTICIPANTS

According to Art. 77n, para. 12 of LPOS, the Fund's participants submit monthly information on the clients' assets, held, administered and managed by them. The information on client assets managed by the participants reflects the capital market situation, the intermediaries' activity and is also a basis for determining the amount of the annual contribution to the Fund. II submit information including data for both the Fund protected clients' assets and the unprotected ones<sup>1</sup>.

Table 2 presents data for protected and unprotected clients' assets by groups of participants (II, B-II and AMC), as of December, 31<sup>st</sup> of the respective year. According to the data provided by the Fund's participants, the total amount of clients' assets eligible to compensation, as of the end of 2016, is 1,68 billion BGN and the amount of unprotected assets is 24,4 billion BGN.

Table 2 Clients' assets managed by participants as of 31<sup>st</sup> of December of the respective year

By groups:	Protected clients' assets as of 31.12.2016	Protected clients' assets as of 31.12.2015	Change on an annual basis	Unprotected clients' assets as of 31.12.2016	Unprotected clients' assets as of 31.12.2015	Change on an annual basis
	(1)	(2)	[3=(1-2)/2]	(4)	(5)	[6=(4-5)/5]
<b>FI - B-II</b>	1 145 853 740	890 920 398	29%	18 086 276 060	16 719 535 431	8%
<b>FI - II</b>	435 687 065	433 159 164	1%	6 138 945 479	3 426 511 269	79%
<b>MFs - II</b>	85 450 665	61 812 953	38%	35 411 172	34 741 322	2%
<b>FI - AMC</b>	8 708 455	48 268 395	-82%	57 485 538	9 144 783	529%
<b>MFs-AMC</b>	930 358	634 238	47%	39 512 484	1 737 084	2175%
<b>TOTAL:</b>	1 676 630 284	1 434 795 147	17%	24 357 630 733	20 191 669 889	21%

As of December, 31<sup>st</sup> 2016 protected clients' assets increased by 17% compared to the end of 2015. There is an increase of protected clients' assets in all groups of participants, except the AMC<sup>14</sup> where the FI are with 82% less. The greatest increase of protected FI was reported by the B-II - 29% or 255 million BGN in absolute value. Regarding MFs, the biggest

increase was observed in the AMCs - by 47% more compared to 31.12.2015. In absolute value this increase is insignificant (approximately 296 thousand BGN). Protected MFs, reported by the II are with 38% more, which is around 23,6 million BGN.

<sup>14</sup> Only 3 AMC reported protected clients' assets.

Clients' assets that are not eligible to compensation increased by 21% on an annual basis. The increase is mainly due to the unprotected FI held by II - by 79% more (2,7 billion BGN in absolute value). There is also a significant increase in the unprotected FI, held by B-II - 8% or 1,37 billion BGN in absolute value.

Clients' assets held by B-II amount to 19,23<sup>15</sup> billion BGN, i. e. about 9% more on an annual basis. This is mainly due to the increase in the amount of unprotected FI - from 16,7 billion BGN as of 31.12.2015 to 18,09 billion BGN as of 31.12.2016. For banks, the share of protected FI in the total amount of eligible and non-eligible to compensation FI is 6% versus 5% as of 31.12.2015.

II hold around 6,69 billion BGN of protected and unprotected clients' assets, of which 6,57 billion BGN in FI and about 120,9 million BGN in MFs. On an annual basis, FI (protected and unprotected), held by II increased by 70% and MFs by 25%.

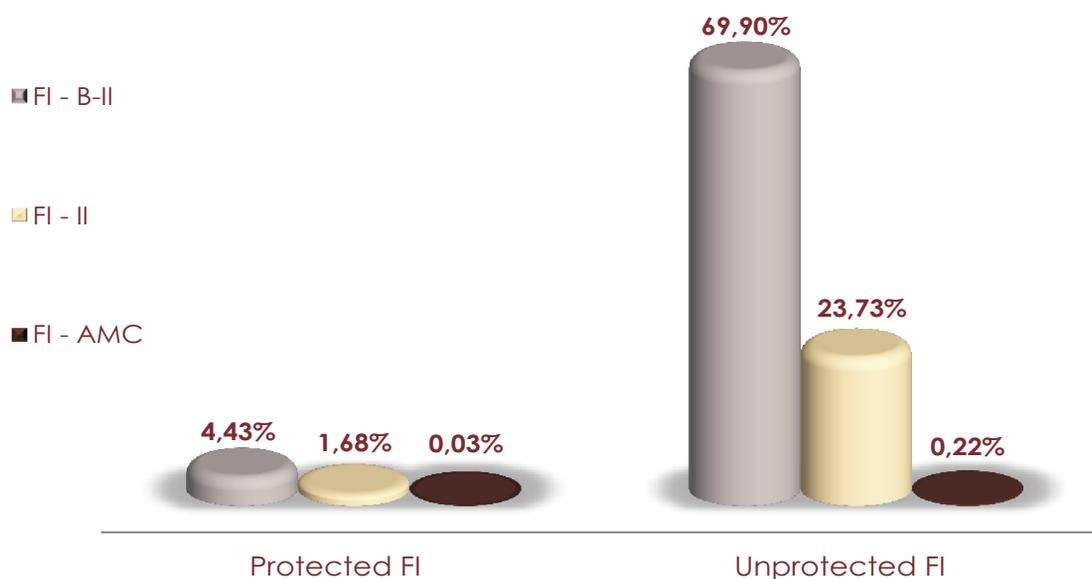
The total amount of all client assets (protected and unprotected) held by AMC is 106 million BGN. The protected ones are 9,6 million BGN and the unprotected ones - 97 million BGN. Protected assets declined from 82% as of 31 December 2015 to 9% by the end of 2016.

According to Art. 77t, para. 1 of LPOS, when the Fund's resources exceed 5% of the total amount of clients' assets in all intermediaries, the ICF MB may decide to temporarily cease contributions from the participants. As of December, 31<sup>st</sup> 2016, 5% of the clients' assets are 84 million BGN (5% of 1,68 billion BGN), and the collected contributions are 14,18 million BGN (0,8% of the protected assets). ICF's resources are formed by initial and annual contributions from II, B-II and AMC as well as investment income.

Fig. 7 shows the distribution of protected and unprotected FI, by groups of intermediaries. The total amount of all FI (eligible and not eligible to compensation) is 25,87 billion BGN. The share of the protected FI in the total amount of protected and unprotected FI is 6,15%, as of December, 31<sup>st</sup> 2016 compared to 6,4% in the previous year.

<sup>15</sup> Banks do not report MFs to the Fund, as they are counted as deposits and thus are part of the scope of the DIF.

**Fig. 7**  
**Distribution of FI by groups of intermediaries,**  
**as of December 31<sup>st</sup> 2016**



The biggest share of protected FI is held by B-II – 4,43% of all FI, compared to 4,14%, as of December, 31<sup>st</sup> 2015. There is a slight decrease in the share of protected FI held by II – from 2,01% as of 31.12.2015 to 1,68% as of the end of 2016. B-II hold the biggest share of unprotected FI – 69,9% of all FI managed by participants. The share of unprotected FI held by II increased from 15,92% in the previous year to 23,73% as of 31.12.2016. AMC held 0,03% of protected and 0,22% of unprotected FI.

Table 3 provides information on the protected by the Fund FI for three specific periods. As of December, 31<sup>st</sup> 2016 the total amount of protected FI is 1,59 billion BGN. Despite the fact that in this year the value of FI increased compared to 2015 (1,37 billion BGN), it is well below the highest one reported in February 2014 – 2,62 billion BGN. The lowest value was declared in February 2009 – 918 million BGN.

**Table 3 Secured Clients' Assets**

Clients' FI	Date	Highest Value	Lowest value	Current Value
	February, 2014	2 624 521 486		
	February, 2009		917 667 292	
	December, 2016			1 590 249 261
% of the highest value		100%	-65%	-39%

Source: ICF

In 2016, the lowest value of protected FI was declared in February – 1 272 million BGN, then the value increases at slow pace and the highest amount was recorded in October – 1 593 million BGN.

The average monthly amount of protected clients' assets by years and by groups of participants is presented on Figure 8. The average monthly amounts of FI and MFs are basis for calculation of the annual contribution of Fund's participants. In 2016 the average monthly amount of FI held by all participants is 1,42 billion BGN, and MFs -70,66 million BGN. The average monthly amount of protected FI held by B-II increases from 904 million BGN in 2015 to 1 002 million BGN in 2016. In contrast

with B-II, the average monthly amount of protected FI held by II decreases by 52 million BGN, reaching 415 million BGN. The average monthly amount of MFs held by II continued to increase and as of the end of 2016 it amounted to 70,3 million BGN. This is the highest reported value since the establishment of the Fund.

The calculations for AMC are not included on the figure, because of the small amount of the clients' assets managed by them. In 2016 there is a decrease in the average monthly amount of protected FI held by AMC - from 47,1 million BGN in 2015 to 3,9 million BGN in 2016. The average monthly amount of MFs also decreases - from 1,98 million BGN to 404 thousand BGN.

**Fig. 8**  
Average monthly amount for protected clients' assets

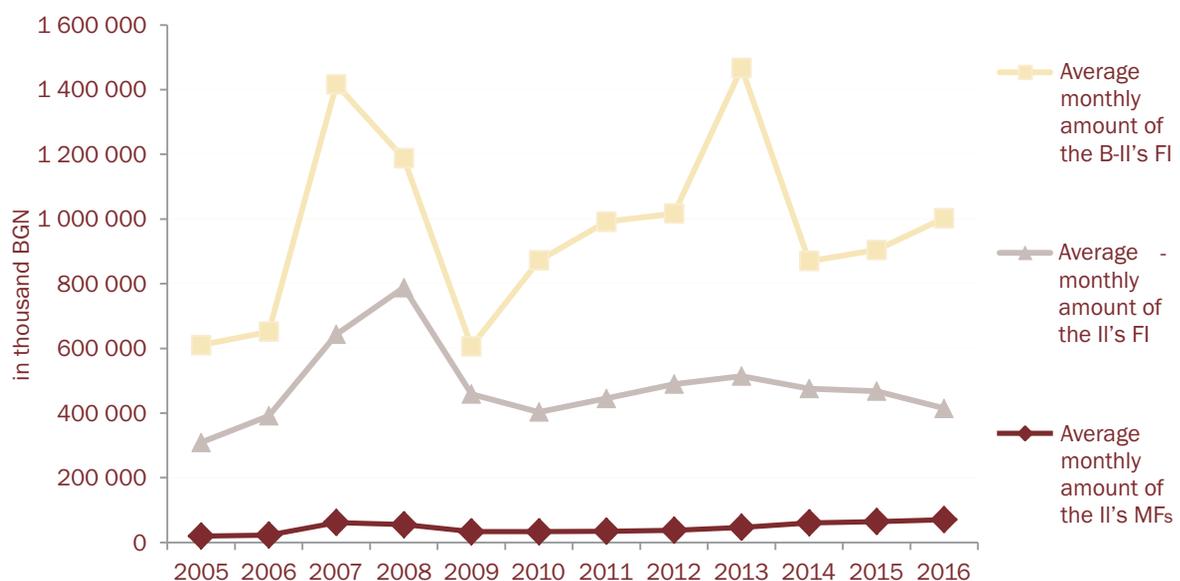


Table 4 presents the protected clients' assets, the stock exchange capitalization and GDP, as of December, 31<sup>st</sup> of the respective year.

The stock exchange capitalization as of 31.12.2016 was 9,68 billion BGN. Compared with the end of 2015, there was an increase of 12,8%. The GDP also increased and as of 31.12.2016 it is 88,94 billion BGN. Respectively, the ratio of stock exchange capitalization to GDP increased from 10,2% in 2015 to 10,9% as of the end of 2016.

The share of protected clients' assets in the amount of stock exchange remains at the same level as in 2015 (17%). The reason for that is the increase both of the amount of protected clients' assets and the amount of market capitalization.

More detailed review of the capital market in 2016 is shown in Appendix 3.

**Table 4.** Clients' assets, the stock exchange capitalization and GDP, as of December, 31<sup>st</sup>

	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Clients' assets eligible to compensation (million BGN)</b>	1 314	1 259	1 322	1 612	2 091	2 325	1 579	1 435	1 677
<b>Stock exchange capitalization (million BGN)</b>	12 461	11 796	10 754	12 436	9 828	9 961	9 756	8 587	9 683
<b>Ratio clients' assets/stock exchange capitalization</b>	11,00%	11,00%	12,00%	12,96%	21,28%	23%	16%	17%	17%
<b>GDP (million BGN)</b>	69 295	68 322	70 474	75 265	77 323	79 454	78 722	84 236	88 939
<b>Ratio stock exchange capitalization / GDP</b>	18,00%	17,00%	15,00%	16,52%	12,71%	12,5%	12,4%	10,2%	10,9%

Source: website of BSE, ICF

## 5. EXPOSURE TO THE PARTICIPANTS

The eventual Fund's exposure to the clients of each participant is calculated on the basis of information for the number of eligible to compensation clients, distributed by groups of clients' assets. The Fund's participants submit that information on semi-annual basis.

The calculation of the eventual exposure, which the Fund could pay to the clients of each participant, makes it possible to assess to what extent the accumulated resources in the Fund are sufficient to cover payments in the event of an intermediary bankruptcy.

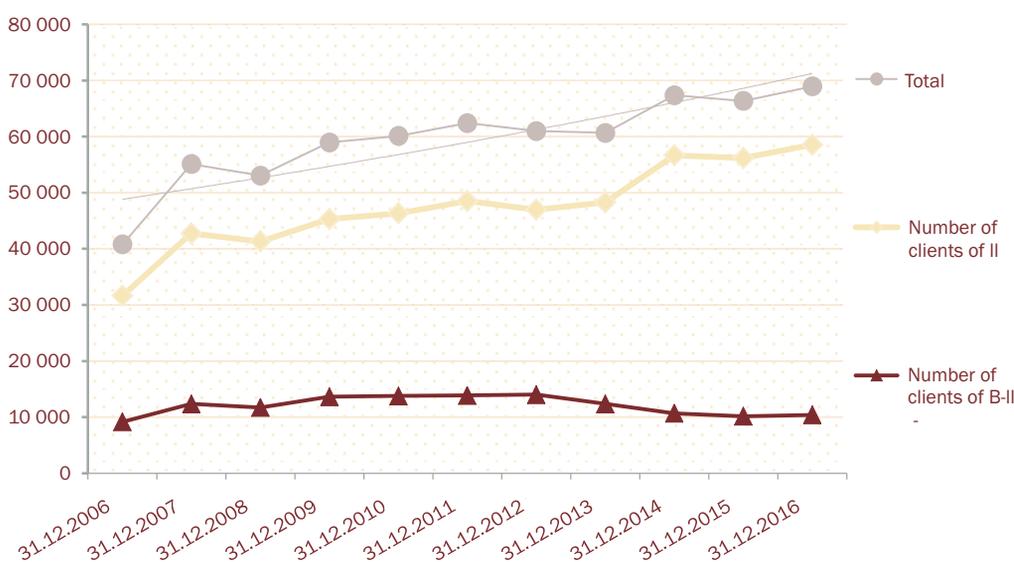
Fig. 9 shows the number of investors, eligible to compensation, as of December, 31<sup>st</sup>, distributed by groups of intermediaries for the period 2006 to 2016.

The increase of the total number of clients is mainly due to increase in the number of investors in the group of II, which as of the end of 2016 declared 58 533 clients, i. e. by 2 358 clients more on an annual basis. The number of protected clients in 2016 for B-II is 10 410, or 227 more clients on an annual basis.

The protected clients' assets, managed by II are 521 million BGN. Although B-II manage twice as much assets – 1 146 million BGN they declared six times less protected clients.

The number of clients of AMC is not included in Figure 9, as there are only 3 companies that declare protected clients in the current reporting period and their total number is 51 compared to 253 as of 31.12.2015.

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



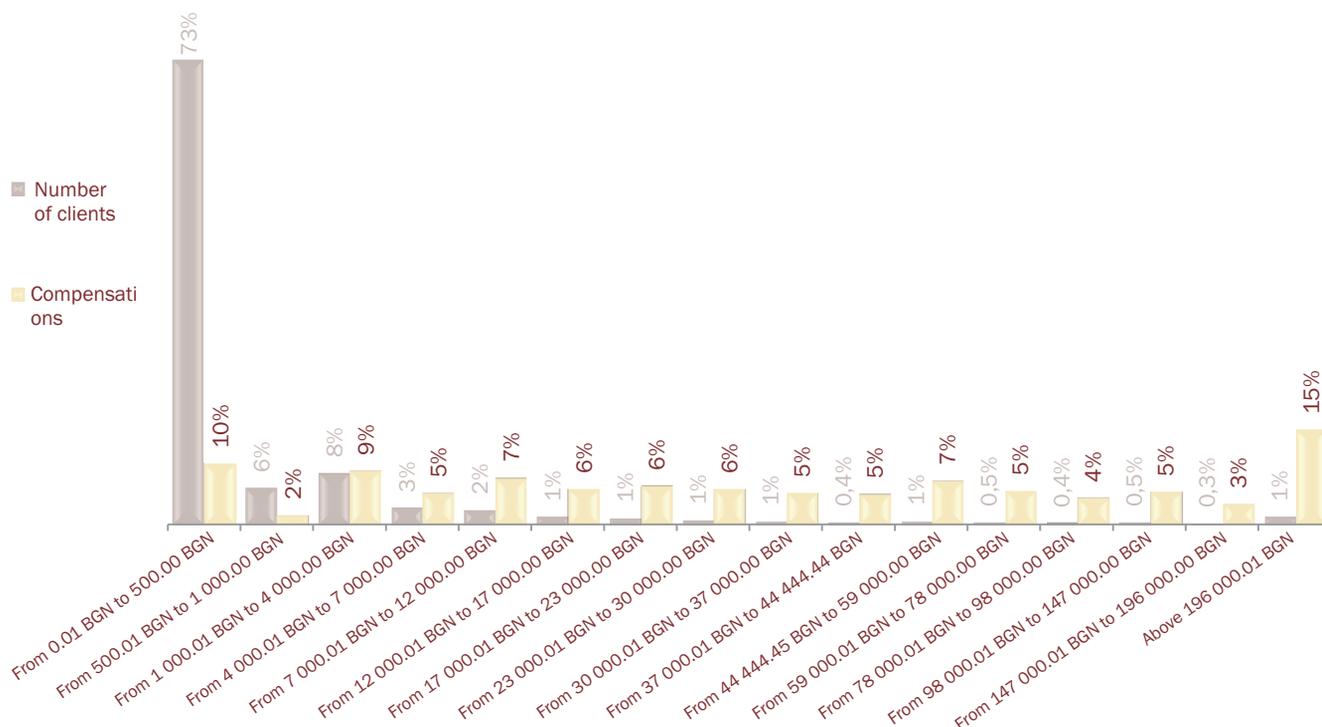
As of 31.12.2016, II declared the largest number of protected clients since the establishment of the Fund – 68 994, i. e. 2 383 clients more compared to 31.12.2015.

As of 31.12.2016, the Fund's calculated maximum compensation<sup>16</sup> for the clients of all groups of intermediaries, amounts to 238,04 million BGN compared to 230,96 million BGN, as of the end of 2015. The reason for that is the higher number of protected clients, reported by II.

The Fund's exposure to II is the highest one - 169 million BGN, of which 148 million BGN is the Fund's exposure to clients of II with a full license. The calculated maximum compensation for the clients of B-II is approximately 67,08 million BGN and for the AMCs' clients – 1,69 million BGN.

The distribution of the number of protected clients, as well as the calculated maximum compensation by groups of clients' assets, is presented on Figure 10.

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



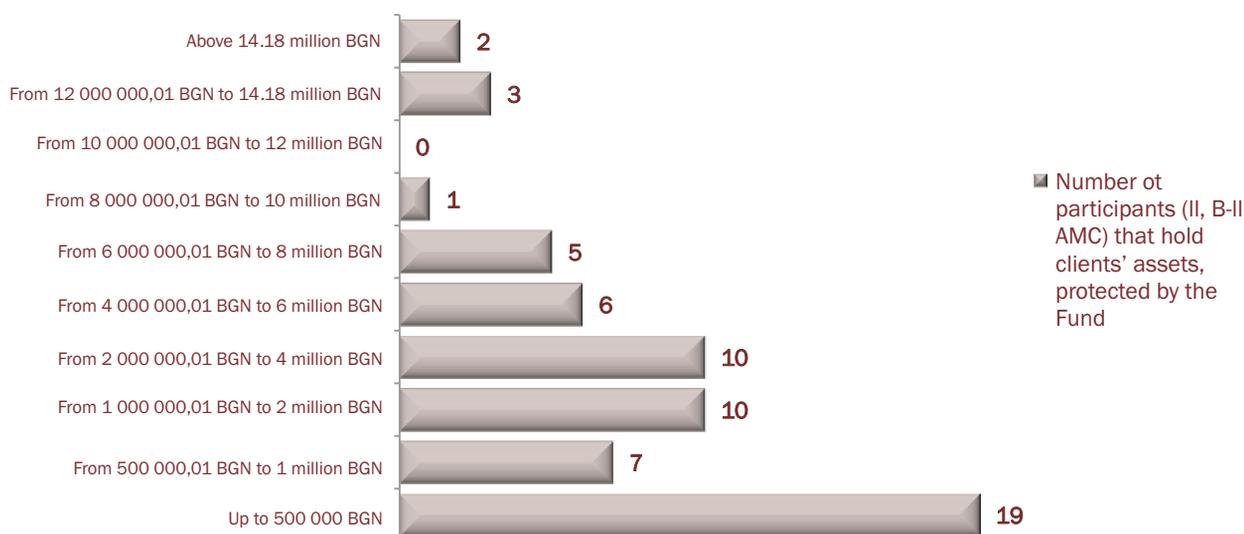
<sup>16</sup> The maximum compensation to the clients of one investment intermediary is calculated as 90% of the amount of clients' assets but not more than 40 000 BGN per investor. The calculations are based on the information provided by intermediaries as of December, 31<sup>st</sup> 2016. Due to the assumption that clients hold assets at the amount equal to the amount in the upper range where they fall, thus the estimated compensation payment is increased.

The highest number of investors (73%) is in the first interval, with assets up to 500 BGN, but the compensation calculated for them is only 10% of all compensations or 23 million BGN. The Fund's biggest exposure is to clients with assets at amount over 196 thousand BGN – the compensation calculated for them is 15% of the total compensations or in absolute value this is 35 million BGN. Those clients are only 1% of the total number of the protected investors.

As of 31.12.2016 the accumulated resources in the Fund are 5,96% of the amount of calculated compensation for all participants (14,18 million BGN/238,04 million BGN).

Figure 11 presents the distribution of participants according to compensation payments and by ranges up to the available resources in the Fund (14,18 million BGN). As of 31.12.2016 the total number of active participants in the Fund is 63. There are 3 AMC included on the figure.

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



The biggest number of intermediaries is in the range with compensations up to 500 thousand BGN - 19, of which 12 II, 6 B-II and 1 AMC. There are an equal number of intermediaries (10) in the ranges with compensation up to 2 and 4 million BGN. For 3 intermediaries, the calculated compensation falls within the range of resources available in the Fund (14,18 million BGN). For 2 II

the calculated compensation is more than the available Fund's resources and in case of a failure of one of those intermediaries the Fund could be forced to collect additional resources for covering the shortage. In the same time the Fund's resources would be enough to compensate clients of several intermediaries at once, to which the potential compensations are in smaller amounts.

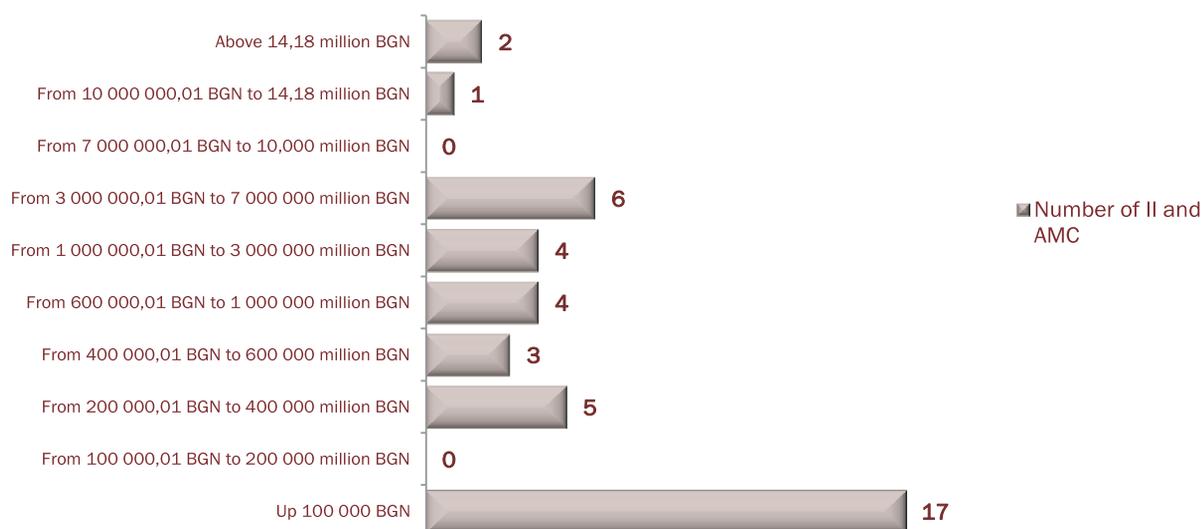
Appendix 4 shows the distribution of the number of clients eligible to compensation by groups of client assets for II and B-II.

On Figure 12 the distribution of II and AMC is presented according to the protected MFs held by them.

The biggest number of participants (17) hold clients' MFs up to 100 thousand BGN – they represent 40% of all participants. The number

of participants in the range up to 7 million BGN is 6 and up to 400 thousand BGN – 5. Unlike previous reporting periods, there are no participants that hold MFs in the range up to 200 thousand BGN. An equal number of participants (four) hold clients' MFs in the ranges up to 1 million BGN and up to 3 million BGN. The clients' MFs, held by two participants are more than the Fund' accumulated resources.

**Fig. 12**  
**Amount of MFs at II and AMC as of 31.12.2016**



## 6. INTERNATIONAL ACTIVITY

In 2016, the Fund's representatives participated in several international events. At the beginning of the year, a conference of the International Association of Deposit Insurers (IADI) was held in Turin, and was attended by the chair of the management board of the ICF. During the conference, reports were presented and issues, related mainly to the Resolution and Recovery of Banks and Investment Intermediaries Directive and the ways in which it was implemented in the national legislations of the Member States of the European Union, were discussed.

In connection with associated membership of the Fund in the European Forum of Deposit Insurers (EFDI), in September 2016, Fund's representatives participated in the Annual Meeting and the EFDI General Assembly, in Vilnius. Issues related to the Resolution and Recovery of Banks and Investment Intermediaries Directive and the establishment of the European Deposit Guarantee Scheme were discussed. An international meeting of investor compensation schemes was also held within the forum.



In addition to attending meetings and seminars, the Fund's international activity in 2016 was also driven by cooperation and exchange of information with other investor compensation schemes from EU Member States as well as other EFDI members. All EFDI participants are linked in an online system that provides faster exchange of information and experience between them.

Given the fact that the Fund is a national organization with a specific activity, the exchange of information and experience at international level is of particular importance for the development of the Bulgarian investor compensation scheme.

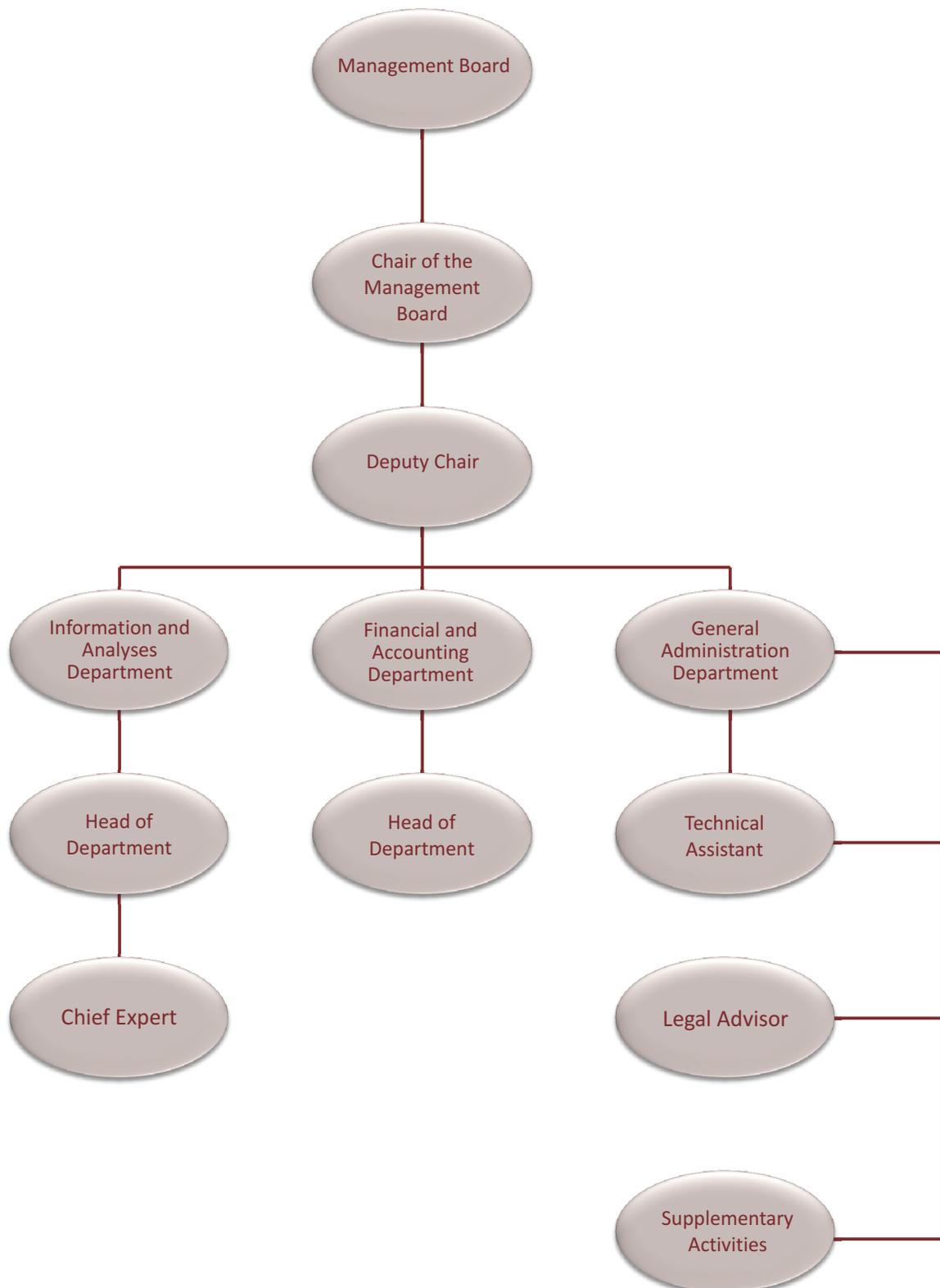


**INVESTOR  
COMPENSATION  
FUND**

# **APPENDICES**

Appendix № 1

**ORGANIZATIONAL STRUCTURE**





## Appendix № 2

### INVESTMENT INTERMEDIARIES

- |                                  |   |
|----------------------------------|---|
| 1. ABC FINANCE EAD               | 21. DV INVEST EAD                       |
| 2. ABV INVESTMENTS EOOD          | 22. ELANA TRADING AD                    |
| 3. ADAMANT CAPITAL PARTNERS AD   | 23. EURO-FINANCE AD                     |
| 4. ALARIC SECURITIES OOD         | 24. FACTORY AD                          |
| 5. AVAL IN AD                    | 25. FAVORIT AD                          |
| 6. AVUS CAPITAL OOD              | 26. FK-EVER AD                          |
| 7. BALKAN CONSULTING COMPANY EAD | 27. FINEX                               |
| 8. BALKAN INVESTMENT COMPANY AD  | 28. FIRST FINANCIAL BROKERAGE HOUSE OOD |
| 9. BENCHMARK FINANCE AD          | 29. FOCAL POINT INVESTMENTS AD          |
| 10. BETA CORP AD                 | 30. INTERCAPITAL MARKETS AD             |
| 11. BMFN EAD                     | 31. KAROL AD                            |
| 12. BUL TREND BROKERAGE OOD      | 32. MATADOR PRIME OOD                   |
| 13. BULBROKERS EAD               | 33. POZITIVA AD                         |
| 14. CAPITAL INVEST EAD           | 34. REAL FINANCE AD                     |
| 15. CAPITAL MARKETS AD           | 35. SOMONI FINANCIAL BROKERAGE OOD      |
| 16. CAPMAN AD                    | 36. SOFIA INTERNATIONAL SECURITIES AD   |
| 17. D.I.S.L. SECURITIES AD       | 37. UG MARKET AD                        |
| 18. DE NOVO EAD                  | 38. VARCHEV FINANCE EOOD                |
| 19. DEALING FINANCIAL COMPANY AD | 39. ZAGORA FINACORP AD                  |
| 20. DELTA STOCK AD               |   |



## Appendix № 2

### BANKS- INVESTMENT INTERMEDIARIES

1. ALLIANZ BANK BULGARIA AD
2. BULGARIAN-AMERICAN CREDIT BANK AD
3. BULGARIAN DEVELOPMENT BANK AD
4. CENTRAL COOPERATIVE BANK AD
5. CIBANK AD
6. COMMERCIAL BANK VICTORIA EAD
7. D COMMERCIAL BANK
8. DSK BANK EAD
9. EUROBANK BULGARIA AD
10. FIRST INVESTMENT BANK AD
11. INTERNATIONAL ASSET BANK AD
12. INVESTBANK AD
13. MUNICIPAL BANK AD
14. PIRAEUS BANK BULGARIA AD
15. RAIFFEISENBANK (BULGARIA) AD
16. SOCIETE GENERALE EXPRESSBANK AD
17. TBI BANK EAD
18. TEXIM BANK AD
19. TOKUDA BANK AD
20. UNICREDIT BULBANK AD
21. UNITED BULGARIAN BANK AD



## Appendix № 2

### ASSET MANAGEMENT COMPANIES

- |  |  |
|--|--|
| 1. ACTIVA ASSET MANAGEMENT AD                              | 17. INVEST FUND MANAGEMENT AD                  |
| 2. ALARIC CAPITAL AD                                       | 18. INVEST CAPITAL ASSET MANAGEMENT EAD        |
| 3. ALFA ASSET MANAGEMENT COMPANY EAD                       | 19. KAROL CAPITAL MANAGEMENT EAD               |
| 4. ARKUS ASSET MANAGEMENT AD                               | 20. MUNICIPAL BANK ASSET MANAGEMENT EAD        |
| 5. ASTRA ASSET MANAGEMENT AD                               | 21. RAIFFEISEN ASSET MANAGEMENT (BULGARIA) EAD |
| 6. CAPMAN ASSET MANAGEMENT AD                              | 22. REAL FINANCE ASSET MANAGEMENT AD           |
| 7. CCB ASSET MANAGEMENT AD                                 | 23. SELECT ASSET MANAGEMENT EAD                |
| 8. COMPASS INVEST AD                                       | 24. SKY ASSET MANAGEMENT AD                    |
| 9. CONCORD ASSET MANAGEMENT AD                             | 25. STRATEGIA ASSET MANAGEMENT AD              |
| 10. DELTASTOCK ASSET MANAGEMENT EAD                        | 26. TEXIM ASSET MANAGEMENT EAD                 |
| 11. DSK ASSET MANAGEMENT AD                                | 27. TREND ASSET MANAGEMENT AD                  |
| 12. DV ASSET MANAGEMENT EAD                                | 28. UBB ASSET MANAGEMENT AD                    |
| 13. EF ASSET MANAGEMENT AD                                 | 29. UG MARKET FUND MANAGEMENT AD               |
| 14. ELANA FUND MANAGEMENT AD                               | 30. VANCHEV MANAGING COMPANY EAD               |
| 15. EXPAT ASSET MANAGEMENT AD                              | 31. ZLATEN LEV CAPITAL AD                      |
| 16. FIRST FINANCIAL BROKERAGE<br>HOUSE ASSET MANAGEMENT AD |  |

## REVIEW OF THE CAPITAL MARKET IN BULGARIA<sup>1</sup>

### Appendix № 3

In 2016 there is an increase of most indicators of the capital market in Bulgaria, although the values still remain far from the pre-crisis levels. The reported results of the Bulgarian stock exchange (BSE) for 2016 indicate an increase in all indicators of trade compared with a year earlier. As of 31.12.2016 the Bulgarian stock exchange capitalization increased by nearly 13% and reached 9,7 billion BGN, but remains more than three times lower than the levels in 2007. The relative weight of the volume of capital market in relation to the gross domestic product (GDP) is nearly 11% or an increase of one percentage point on an annual basis. Bulgaria is among the countries with the lowest values under this indicator, and this limits the opportunities for financing and stimulating the economy.

Among the indices, the SOFIX index marks the largest increase – by 27%, followed by indices 40 BGBX and BG TR30, which accounted for about 20% growth on an annual basis. BG REIT has the weakest growth record – 11%.

The number of new issues on the BSE increased by 28% - from 18 in 2015 to 23 in 2016.

Stock trading on the BSE in 2016 marks an increase at the expense of trading in other financial instruments. For example, in bonds,

there is a significant drop of almost 50%, despite the increasing number of traded issues. Turnover from trade marks an annual growth of 1,3%, which is not enough to compensate for the significant decline compared to 2014, when the trade was almost 2 times higher. In 2016 the trading of exchange traded funds started, the first one (Expat Bulgaria SOFIX UCIT ETF) on the SOFIX stock index was created by the management company Expat Asset Management EAD.

The main trading instrument on the Bulgarian capital market continues to be government bonds, which are traded on an off-regulated market. According to the Ministry of Finance, in 2016 the volume of the secondary market for GS in Bulgaria is approximately BGN 19,1 billion.<sup>2</sup> Interest in this type of investment is primarily driven by their security and the available liquidity of many financial institutions with regulatory constraints on their portfolios. In 2017 it is expected that government securities trading on the secondary market gets on the BSE, which will have a significant impact on trading on the exchange.

<sup>1</sup> The appendix is based on data from the BSE, the Ministry of Finance and the FSC.

<sup>2</sup> www.minfin.bg - volume of the secondary market for performance purposes under point 2 of the criteria for the selection of primary dealers of government securities for the period 01.01.2016 - 31.12.2016.

In 2016, with the support of the European Bank for Reconstruction and Development (EBRD), a new regional platform for securities trading (SEE Link) was created, which is available on the stock exchanges in Bulgaria, Croatia and Macedonia. Later this year, two other regional exchanges - the Greek and the Slovenian - joined the initiative. This platform is expected to stimulate the development of capital markets in the Balkans, including the Bulgarian one.

Understanding the need to support the development of the capital market in Bulgaria, regulators and other bodies have taken a number of initiatives.

The Financial Supervision Commission in partnership with non-banking financial organizations initiated the establishment of a Capital Market Development Council in Bulgaria, which aims to provide a formal platform for cooperation to stimulate the development of the capital market. In this direction, a medium to long-term capital market development road map was elaborated in order to increase the role and share of the non-banking sector, while improving the regulatory framework and conditions for access to financial services.

One of the key points in the Strategy is the idea of including the Bulgarian government securities trading, the capitalization of the big state companies through the Bulgarian Stock Exchange, the opportunity to finance infrastructure projects through the capital market, etc.

During the year, a working group was set up with representatives of FSC, BALII, BAAMC, ABB, ICF, Bulgarian Industrial Capital Association (BICA), Association of Bulgarian Investor Relation Director (ABIRD), etc. on the initiative of Central Depository AD (Central Depository AD) in order to solve the problems with the accounts of persons holding financial instruments, which are registered in Register A of the Central Depository AD (so-called dormant shares). The purpose of this initiative of CD AD was again aimed at increasing the liquidity and turnover of the Bulgarian Stock Exchange and reviving the capital market.

The implementation of these measures would not only lead to the revival of the capital market but also to the improvement of the economic climate in the country.



Appendix № 4

Distribution of number of protected clients and potential compensation by groups of clients' assets as of 31.12.2016

Groups of clients' assets	Number of clients of II	Compensation at II (in BGN)	Number of clients of B-II	Compensation at B-II (in BGN)	Total number of clients	Total compensation (in BGN)
From 0,01 BGN to 500,00 BGN	45 343	20 404 350	5 328	2 397 600	50 671	22 801 950
From 500,01 BGN to 1 000,00 BGN	2 639	2 375 100	1 393	1 253 700	4 032	3 628 800
From 1 000,01 BGN to 4 000,00 BGN	4 264	15 350 400	1 364	4 910 400	5 628	20 260 800
From 4 000,01 BGN to 7 000,00 BGN	1 470	9 261 000	413	2 601 900	1 883	11 862 900
From 7 000,01 BGN to 12 000,00 BGN	1 237	13 359 600	375	4 050 000	1 612	17 409 600
From 12 000,01 BGN to 17 000,0 BGN	706	10 801 800	175	2 677 500	881	13 479 300
From 17 000,01 BGN to 23 000,00 BGN	555	11 488 500	153	3 167 100	708	14 655 600
From 23 000,01 BGN to 30 000,00 BGN	360	9 720 000	135	3 645 000	495	13 365 000
From 30 000,01 BGN to 37 000,00 BGN	276	9 190 800	87	2 897 100	363	12 087 900
From 37 000,01 BGN to 44 444,44 BGN	220	8 799 999	68	2 720 000	288	11 519 999
From 44 444,45 BGN to 59 000,00 BGN	308	12 319 999	103	4 120 000	411	16 439 998
From 59 000,01 BGN to 78 000,00 BGN	239	9 559 999	80	3 200 000	319	12 759 999
From 78 000,01 BGN to 98 000,00 BGN	187	7 479 999	65	2 600 000	252	10 079 999
From 98 000,01 BGN to 147 000,00 BGN	217	8 679 999	94	3 760 000	311	12 439 999
From 147 000,01 BGN to 196 000,00 BGN	125	5 000 000	74	2 960 000	199	7 959 999
Above 196 000,01 BGN	387	15 479 998	503	20 119 998	890	35 599 996
<b>TOTAL:</b>	<b>58 533</b>	<b>169 271 543</b>	<b>10 410</b>	<b>67 080 296</b>	<b>68 943</b>	<b>236 351 839</b>
		100%	100%	100%	100%	100%



**INVESTOR  
COMPENSATION  
FUND**

# **FINANCIAL STATEMENTS**

## **2016**



## CONTENT:

I. INDEPENDENT AUDITOR'S REPORT	36
II. STATEMENT OF FINANCIAL POSITION	40
III. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	41
IV. STATEMENT OF CHANGES IN RESERVES	42
V. STATEMENT OF CASH FLOWS	43

---

## **INDEPENDENT AUDITOR'S REPORT**

TO THE MANAGEMENT BOARD OF INVESTOR COMPENSATION FUND SOFIA

---

### **Report on financial statements**

---

#### *Opinion*

We have audited the accompanying financial statements of the INVESTOR COMPENSATION FUND, Sofia, which comprise statement of financial position as of December 31<sup>st</sup>, 2016, statement of profit or loss and other comprehensive income, the statement of changes in reserves, the statement of cash flows, as well as notes comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the INVESTOR COMPENSATION FUND, as of December 31<sup>st</sup>, 2016, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards, accepted by the European Union.

---

#### *Reasons for expressing an opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are further described in the section of our report Auditor's Responsibilities for the Audit of the Financial Statements.

We are independent of the INVESTOR COMPENSATION FUND in accordance with the Ethics Code of Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code) along with the ethical requirements applicable to our audit of the financial statements in the Republic of Bulgaria. We have also met our other ethical responsibilities in line with these requirements and the IESBA Code.

We believe that the audit evidence we have received is sufficient and relevant to warrant our opinion.

---

### **Report on Other Legal and Regulatory Requirements - Annual Activity Report**

---

In addition to our responsibilities and reporting under ISAs, in relation to the activity report, we have also implemented the procedures added to the ISAs required. These procedures concern verification of the existence and verification of the form and content of such other information in order to assist us in formulating an opinion as to whether the other information includes the disclosures and reporting 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 our procedures, our opinion is that:

- The information included in the activity report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- The activity report is prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

---

## *Other information different than the financial statements and the auditor's report*

The manual is responsible for the other information. The other information consists of an activity report prepared by the management under Chapter Seven of the Accountancy Act but does not include the financial statements and our audit report on it.

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 expressly 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 thus to assess whether this other information is in material inconsistency with the financial statements or with our knowledge acquired during the audit or otherwise way appears to contain substantial misstatement. If, on the basis of the work we have done, we come to the conclusion that there is a minor misstatement in this other information, we are required to report this fact.

We have nothing to report on this.

---

## *Management's responsibilities for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 misstatement, whether due to fraud or error.

In preparing the financial statements, ICF's management is responsible for assessing the Fund's ability to continue functioning by disclosing, where applicable, matters relating to the going concern assumption and using the entity's accounting base on a going concern assumption basis, if no action is taken for the transformation, termination or liquidation of the Fund by the competent authorities in accordance with the provisions of Art. 77 of LPOS.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

---

---

## Responsibilities of the auditor to audit the financial statements

---

Our goals are to obtain a reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an audit report that includes our opinion. A reasonable degree of security is a high level of security, but it is not a guarantee that an audit performed in accordance with ISA will always reveal a material deviation when it exists. Deviations may arise as a result of fraud or error and are considered material if it could reasonably be expected that they will, individually or as a whole, affect the economic decisions of users made on the basis of these financial statements.

Further details on our responsibility are set out in the Appendix to this report.

Nikolay Polinchev

Chartered Auditor

Date: 03-05-2017

---

## APPENDIX to Independent auditor's report on the Financial Statements of the Investor Compensation Fund for 2016

---

### *Responsibilities of the auditor to audit the financial statements*

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

We also:

- We identify and measure the risks of significant misstatement in financial statement, whether due to fraud or error, we develop and perform audit procedures in response to those risks and we obtain audit evidence that is appropriate to warrant our opinion. The risk of not disclosing a significant variation in result of fraud is higher than the risk of a significant misstatement resulting from an error, as fraud may involve covert collusion, forgery, deliberate omissions, statements of auditor introduction as well as neglecting or circumventing internal control.
- We have an understanding of internal control relevant to the audit in order to develop audit procedures that are appropriate according to circumstances, but not in order to express an opinion on the effectiveness of the Fund's internal control.
- We assess the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by the management.
- We conclude on the appropriateness of the management's use of the accounting base on the basis of the going concern assumption and, on the basis of the audit evidence obtained, whether there is significant uncertainty about events or conditions that might give rise significant doubts about the ability of the Fund to continue to operate as a going concern. If we come to the conclusion that there is significant uncertainty, we are required to draw attention in our audit report to the disclosures in the financial statements relating to that uncertainty or, in the event that disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence we have received by the date of our audit report. However, future events or conditions may cause the Fund to cease operating as a going concern.
- We evaluate the overall presentation, structure and content of the financial report, including disclosures, and whether the financial statements present the underlying transactions and events in a manner that delivers credible performance.

We communicate with those charged with governance, along with other issues, the scope and timing of the audit, and the material audit findings, including significant internal control deficiencies that we identify during our audit.



## I. STATEMENT OF FINANCIAL POSITION

For the year ended on December 31<sup>st</sup>, 2016

In thousands BGN

	Notes	December 31 <sup>st</sup> 2016	December 31 <sup>st</sup> 2015
<b>ASSETS</b>			
<i>Non-current tangible assets</i>	4	1	1
<i>Non-current intangible assets</i>	5	2	3
<i>Non-current Government bonds at fair value</i>	3; 6	7 642	12 258
<i>Non-current Government bonds at amortized cost</i>	6	4 294	-
<i>Receivables</i>	7	529	520
<i>Prepaid expenses</i>	8	4	5
<i>Cash equivalents</i>	6	2 237	331
<i>Cash</i>	9	214	669
<b>Total Assets :</b>		<b>14 923</b>	<b>13 787</b>
<b>RESERVES</b>			
	10		
<i>Reserve for compensations</i>		14 807	14 708
<i>Result for the period</i>		93	(934)
<b>Total Reserves:</b>		<b>14 900</b>	<b>13 774</b>
<b>LIABILITIES</b>			
<i>Trade payables</i>		-	3
<i>Employees liabilities</i>		4	1
<i>Other liabilities</i>	11	19	9
<b>Total liabilities:</b>		<b>23</b>	<b>13</b>
<b>Total reserves and liabilities:</b>		<b>14 923</b>	<b>13 787</b>



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

For the year ended on December, 31<sup>st</sup>, 2016

In thousands BGN

	<i>Notes</i>	<i>December 31<sup>st</sup> 2016</i>	<i>December 31<sup>st</sup> 2015</i>
<i>Financial revenues /(expenses)</i>	<i>12</i>	<i>454</i>	<i>455</i>
<i>Proceeds/(expenses) of government bonds revaluation</i>	<i>12.1</i>	<i>34</i>	<i>115</i>
<i>Proceeds/(expenses) of amortization of premium on government bonds held to maturity</i>		<i>(14)</i>	<i>-</i>
<i>Impairment losses of financial assets</i>		<i>-</i>	<i>(1 149)</i>
<i>Other revenues</i>			<i>1</i>
<i>Purchases of materials</i>	<i>13</i>	<i>(7)</i>	<i>(6)</i>
<i>Expenses for external services</i>	<i>14</i>	<i>(81)</i>	<i>(8)</i>
<i>Depreciation expenses</i>		<i>(1)</i>	<i>(1)</i>
<i>Employees expenses</i>	<i>15</i>	<i>(280)</i>	<i>(257)</i>
<i>Other expenses</i>		<i>(12)</i>	<i>(11)</i>
<i>Result before taxation</i>		<i>93</i>	<i>(934)</i>
<b><i>Result for the period:</i></b>		<b><i>(93)</i></b>	<b><i>934</i></b>
<b><i>Other comprehensive income</i></b>			
<i>Initial and annual contributions</i>		<i>1 024</i>	<i>967</i>
<b><i>Other comprehensive income for the year, after tax:</i></b>		<b><i>1 024</i></b>	<b><i>967</i></b>
<b><i>Total comprehensive income for the year:</i></b>		<b><i>1 117</i></b>	<b><i>33</i></b>

### III. STATEMENT OF CHANGES IN RESERVES

For the year ended on December, 31<sup>st</sup> 2016

In thousands BGN

	<i>Reserve for compensations</i>	<i>Financial result</i>	<i>Total reserves</i>
<b><i>Balance as of December 31<sup>st</sup>, 2014</i></b>	<b>13 584</b>	<b>107</b>	<b>13 691</b>
<i>Changes in reserves in 2015</i>			
<i>Transfer of the accumulated earnings from previous years as a reserve for compensations</i>	107	(107)	
<i>Initial and annual contributions</i>	780		780
<i>Non-submitted fourth part of annual contributions for 2014</i>	237		237
<i>Financial result</i>		(934)	(934)
<b><i>Balance as of December 31<sup>st</sup>, 2015</i></b>	<b>14 708</b>	<b>(934)</b>	<b>13 774</b>
<i>Changes in reserves in 2016</i>			
<i>Transfer of the accumulated earnings from previous years as a reserve for compensations</i>	(934)	934	0
<i>Initial and annual contributions</i>	787		787
<i>Non-submitted fourth part of annual contributions for 2016</i>	246		246
<i>Financial result</i>		93	93
<b><i>Balance as of December 31<sup>st</sup>, 2016</i></b>	<b>14 807</b>	<b>93</b>	<b>14 900</b>



#### IV. STATEMENT OF CASH FLOWS

For the year ended on December, 31<sup>st</sup> 2016

In thousands BGN

	Notes	December 31 <sup>st</sup> 2016	December 31 <sup>st</sup> 2015
<b>Operating cash flows:</b>			
Initial and annual contribution receipts from investment intermediaries		1 034	967
Cash payments to suppliers		(95)	(89)
Cash payments to employees		(285)	(261)
Cash payments to the budget		(2)	(1)
<b>Net cash flows from operating activities:</b>		<b>652</b>	<b>616</b>
<b>Cash flows from investing activities:</b>			
Cash receipts from sales of tangible assets			2
Cash payments to acquire tangible assets			(3)
<b>Net cash flow used in investing activities:</b>		<b>0</b>	<b>(1)</b>
<b>Net cash flow from financial activities:</b>			
Proceeds from matured Government bonds		2 694	600
Cash payments related to Government bonds		(4 246)	(2 696)
Proceeds against coupons on Government bonds		496	444
Cash coupon payments related to the purchase of government bonds		(52)	
Received interest on deposits		<b>1</b>	<b>0</b>
<b>Net cash flow used in financial activities:</b>		<b>(1 107)</b>	<b>(1 652)</b>
Net increase/(decrease) of cash and cash equivalents:		(455)	(1 037)
Cash and cash equivalents in the beginning of the period		669	1 706
<b>Cash in the end of the period:</b>	<b>9</b>	<b>214</b>	<b>669</b>