

ANNUAL REPORT

INVESTOR COMPENSATION FUND

2012



CONTENT:

1. MANAGEMENT AND ADMINISTRATION	5
2. LEGAL FRAMEWORK	6
3. FUND'S ACTIVITIES	7
3.1 FUND'S RESOURCES	8
3.1.1 CONTRIBUTIONS	10
3.1.2 INVESTMENTS	11
3.2 PARTICIPANTS	15
3.3 CLIENTS' ASSETS MANAGED BY THE PARTICIPANTS	17
3.4 POTENTIAL AMOUNT OF COMPENSATION IN CASE OF TRIGGERING THE SCHEME	22
3.5 INTERNATIONAL ACTIVITIES	28
4. FUND'S ACTIVITIES IN 2013	29

APPENDICES:

1. LIST OF THE FUND'S PARTICIPANTS AS OF THE 31ST OF DECEMBER 2012
2. DISTRIBUTION OF THE NUMBER OF THE PROTECTED CLIENTS AND POTENTIAL COMPENSATION, BY GROUPS OF CLIENTS' ASSETS AS OF 31ST OF DECEMBER 2012

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;

GS – Government Securities;

EEA – European Economic Area;

EC – European Commission;

EU – European Union;

LPOS – Law on Public Offering of Securities;

LMFI – Law on Markets in Financial Instruments;

II – Investment Intermediaries;

FSC – Financial Supervision Commission;

MF – Ministry of Finance;

MFs – Monetary Funds;

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

CA – Current Account;

BNAO – Bulgarian National Audit Office;

CB – Commercial Banks;

AMC – Asset Management Companies;

MB – Management Board;

FI – Financial Instruments;

ICF – Investor Compensation Fund;

EFDI – European Forum of Deposit Insurers.

1. MANAGEMENT AND ADMINISTRATION

The Fund is managed by a Management Board that consisted of the following members in 2012:

- Mileti Mladenov – Chairman
- Teodora Drenska – Deputy Chairperson*
- Irina Martseva – Member
- Atanas Boichev – Member
- Pavlina Anatchkova-Kantareva – Member

The Management Board (MB) discusses all issues related to the Fund's activities and prepares and adopts the internal legal acts of the organization.

In 2012 fifteen meetings of the MB were held, where 49 issues were discussed and 35 decisions were taken.

The Chairman of the MB manages the Fund's operational activities. As of 31st of December the Fund's administration consisted of four people.

*Member of the MB since the 25th of January 2012. Up to that date the MB consists of 4 people – the Chairman and the three members.

In 2012 there were no circumstances triggering compensation payments by the Fund. The Fund's activities were mainly directed to the collection of the contributions due by the investment intermediaries within the legal deadlines, the management of the Fund's activities in accordance with the Investment Policy of ICF, collection and analyses of the information on clients' assets, managed by the participants in the scheme.

In 2012 important amendments in the Fund's legal framework were made as the MB participated actively in the preparation and discussions of the drafts.

At the end of 2012 the MB determined the size of the annual contribution due to the Fund for 2013 and for forth subsequent year the lower rate on financial instruments was kept. That aimed at alleviating the costs for investment intermediaries whose activities were affected by the global financial crisis.



In the past year 4 investment intermediaries and 4 asset management companies dropped off the scheme as one new investment intermediary was included.

The cooperation with national institutions and organizations as the Financial Supervision Commission (FSC), Bulgarian

National Bank (BNB), Ministry of Finance (MF), Bulgarian Association of Licensed Investment Intermediaries (BALII), Bulgarian Association of Asset Management Companies (BAAMC) and others was particularly important for the successful operation of the Fund.

2. LEGAL FRAMEWORK

The Fund's activities are regulated by the Law on Public Offering of Securities (LPOS), Law on Markets in Financial Instruments (LMFI), Regulation of Operation and Organization of Investor Compensation Fund (ROOICF), Ordinance №23 and Ordinance №46 of FSC as well as by the adopted by the MB internal legal acts.

In the past year the Fund participated in the preparation and discussions of a number of legal acts related to the Fund's activities.

In April 2012 Ordinance № 46 of the FSC, which regulates the order and the way of compensation payments by the Fund, was adopted. The draft ordinance was created with the Fund's active participation.

At the end of 2012 important legal changes were made in the LPOS. Amendments

arranging the recalculation of the contribution to the Fund in cases of withdrawal of a license of an investment intermediary were implemented, the legal framework arranging the clients' claims in cases of insolvency of an investment intermediary as well as a requirement for settling the obligations to the Fund in cases of voluntary return of the license were also implemented. Additionally, the legal framework regulating the taxation of the Fund was also amended. Since the 1st of January 2013 the Fund has no longer been a subject to a corporate tax which is not common for an organization of that type.

The changes in the European Directive on Investor Compensation Schemes, proposed by the EC in 2010, did not enter into force in



2012. The discussions were ceased until the adoption of the amendments of the Directive on Deposit Guarantee Schemes. In 2012 the Fund's activities were in

correspondence with the requirements of the national legislation and the Fund's internal rules.

3. FUND'S ACTIVITIES

The main activity of the Fund is related to the compensation payments to the clients of investment intermediaries in cases where the investment intermediary is in an insolvency situation and it is not able to recover the cash or the financial instruments to its clients. In 2012 there were no cases of compensation payments by the Fund.

According to the legislative framework the Fund makes the compensation payments by the accumulated resources in advance from the participants in the investor compensation scheme that are licensed by the FSC to perform investment services. The participants in the Fund are investment intermediaries, asset management companies and banks licensed as investment intermediaries. The majority of the resources are accumulated by the participants' contributions.

The accumulated funds are invested in accordance with the legal restrictions aiming at higher security and liquidity.

Another aspect of the Fund's activities is the analysis of the information on clients' assets and the number of clients eligible to compensation. On the basis of that analysis the possible compensation payments that could be paid out by the Fund in cases of failure of an investment intermediary are calculated. Thus, the Fund's exposure to the participants in the scheme is estimated as well as the adequacy of the level of the accumulated funds.

The Fund's activities are subject to control by the FSC and the Bulgarian National Audit Office (BNAO) that are responsible for observing the legal requirements kept by the Fund and the expedience of the costs.



3.1 FUND'S RESOURCES

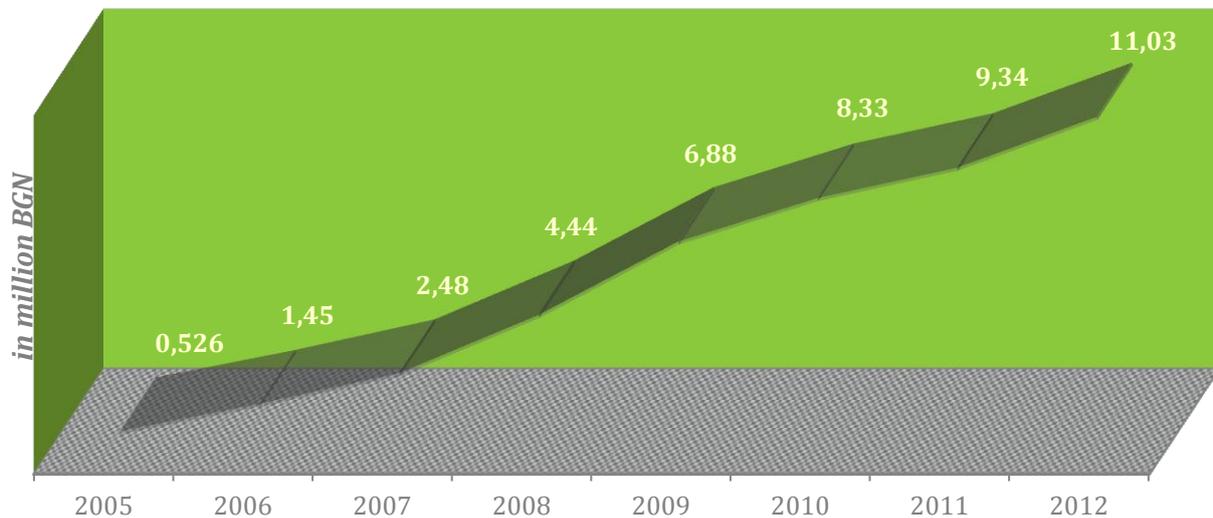
The Fund's resources are accumulated by the received contributions from the participants in the scheme as well as from the investments' revenues. As of the 31st of December 2012 the accumulated resources by the Fund amounted to 11,03 million BGN and they were invested in short-term deposits and government securities. The

accumulation, investment and spending of the Fund's resources is in accordance with the provisions of LPOS, ROOICF and the internal rules of the Fund as those activities are controlled by the FSC and BNAO.

Fig. 1 shows the amount of the accumulated funds as of the end of each year.

Fig. 1

Fund's Resources as of 31st of December



The highest increase on annual basis in absolute terms was at the end of 2009 when the Fund's resources increased by 55% - from 4,44 million BGN as of the end of 2008 to 6,88 million BGN as of the end of 2009. The reason for that increase was the higher basis for the calculation of the annual contribution before it was affected by the crisis but also the high yield on deposits which was realized in 2009. The increase in the amounts in 2012 compared to 2011 was by 1,69 million BGN or by 18% on annual basis. At the end of each year the Management Board adopts the draft budget for the administrative expenses of the Fund for the next year, which is subject to approval by the FSC. In 2012 the budget of

the Fund was 385 thousand BGN. The actual expenses for the Fund's activities were 86,8% of the annual budget, i.e. an economy of 13,2% was realized.

In 2012 the realized profit by the Fund before taxes was 849 thousand BGN as a corporate tax at the amount of 85 thousand BGN¹ was paid. Thus, the net realized profit by the Fund was 764 thousand BGN for 2012.

¹ The annual profit is calculated on the basis of the financial revenues increased (decreased) by the profit (loss) generated from the revaluation of GS and decreased by the administrative expenses of the Fund for the current year.

■ 3.1.1 CONTRIBUTIONS

Non-bank investment intermediaries and commercial banks - investment intermediaries make entry contributions to the Fund when they become members at the amount of 2 500 BGN or 15 000 BGN depending on their license². In 2012 the collected funds from entry contributions were 2 500 BGN.

All participants in the scheme make annual contributions depending on the amount of clients' assets eligible to compensation.

The amount of the annual contribution for 2012 was determined by a decision of the Management Board and it is as follows:

- 0,5 on the average monthly amount of clients' money, eligible for compensation for 2011, and
- 0,05% on the average monthly amount of the rest of the clients' assets, eligible to compensation for 2011.

² Investment intermediaries with limited license do not participate in the scheme.

The accumulated payments from annual contributions for 2012 were 881,5 thousand BGN.³

Fig. 2 presents the distribution of the annual contributions by non-bank investment intermediaries and commercial banks for 2005-2013.

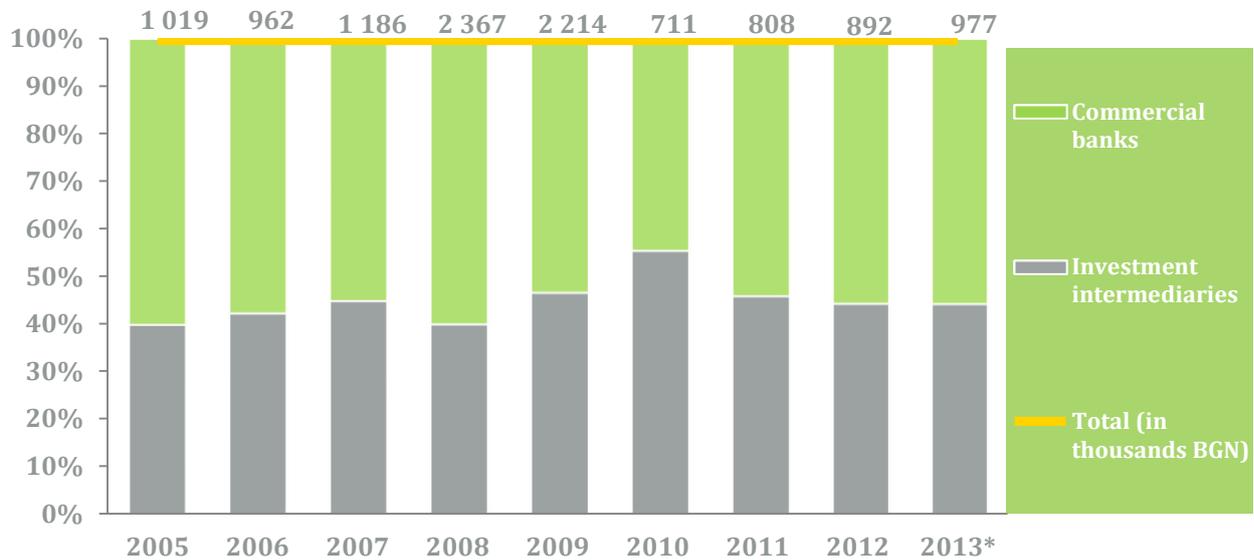
The annual contributions for 2012 were 897 thousand BGN compared to 808 thousand BGN in 2011, i.e. there was an increase by 11%⁴. The increase was due to an increase in the amounts on which the calculation of the contributions was based.

³ In 2012 one fourth of the annual contributions due for 2011 were paid till the 30th of January 2012 and three fourth of the annual contributions due for 2012 were transferred to the Funds' accounts.

⁴ The annual contribution for 2012 is paid in four equal parts after the end of each quarter. In 2012 three fourth of the annual contributions due for 2012 were transferred to the Fund and one fourth is paid to the Fund at the beginning of 2013.



Fig. 2
Distribution of the Revenues from Contributions of II and CB



*The data for 2013 are preliminary.

Source: ICF

As of the end of 2012 the basis for the calculation of the annual contributions increased significantly as it was close to the maximum amounts that were recorded before the crisis but it still could not reach them. The annual contribution was still two times lower compared to the maximum amounts in 2008. This was also due to the decrease in the rate applied for determining the annual contribution on financial instruments. The share of the annual contributions paid by the commercial banks to the Fund for 2012 kept almost the same level as in 2011 - about 55%. The preliminary calculations show that the

contributions for 2013 are expected to be by around 100 thousand BGN higher than the contributions for 2012.

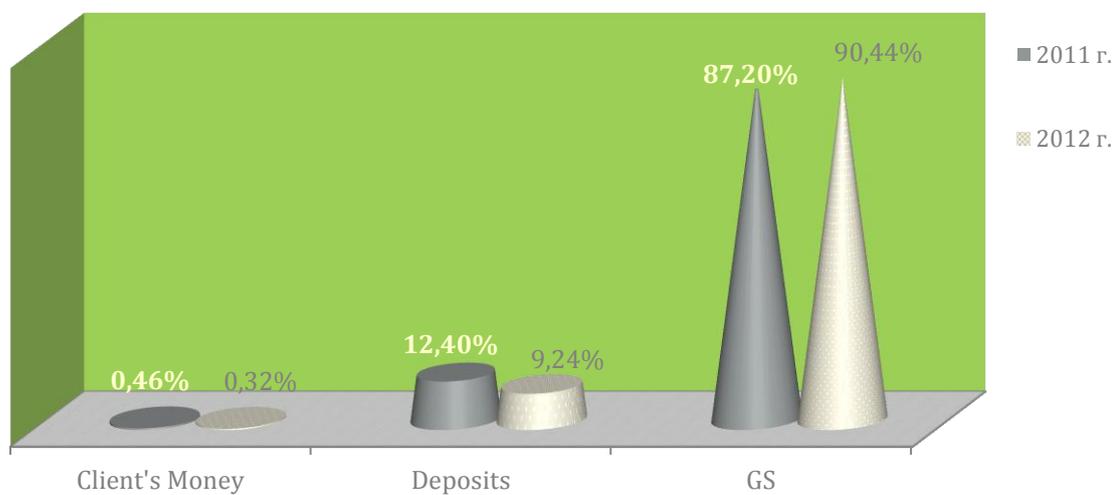
■ 3.1.2 INVESTMENTS

The accumulated funds by the scheme are invested in accordance with the provisions of LPOS and „*Investment Policy*” adopted by the MB. The investment decisions are in accordance with the requirements for security, liquidity and yield according to the market conditions. In accordance with the legal framework the accumulated resources can be invested in financial instruments,

issued and guaranteed by the state, short-term deposits in commercial banks and in the BNB. The structure of the Fund's

portfolio as of the end of 2012 and 2013 is presented on Fig. 3.

Fig. 3
Portfolio Structure



Source: ICF

The share of the government securities (GS) in the portfolio increased from 87,2% in 2011 to 90,43% in 2012. That increase was mainly due to the deposits that increased approximately by 9% in the portfolio. The amounts on current accounts continued to be minimal.

The revenues from Fund' investments include interest on deposits, government securities coupons and profit (loss) from

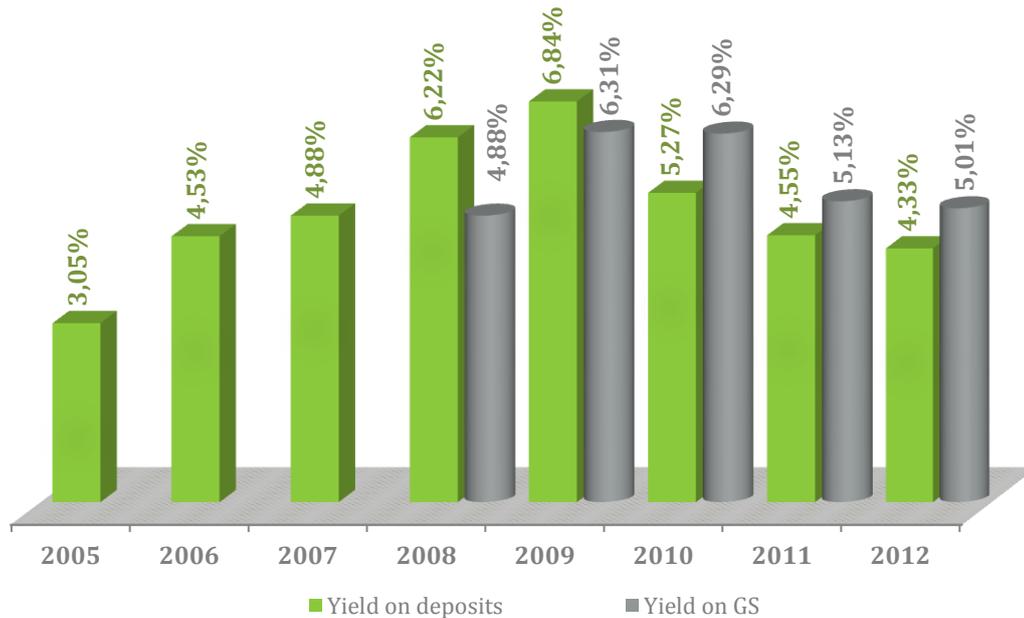
government securities revaluation. In 2012 the revenues from Fund's investments were 1 167 thousand BGN compared to 542 thousand BGN in 2011. The reason for the increase in revenues was the profit that was reported from the revaluation of government securities due to significant increase in the prices of the government bonds in the second semester of 2012. The



realized average yield from interests on deposits and government securities for

the period 2005 - 2012 is presented on Fig.4.⁵

Fig. 4
Annual Yield on Investments



Source: ICF

In 2012 the average realized yield from deposits was 3,60%, and from government securities coupons - 5,39%. A decrease on the yield on deposits on annual basis was observed which was due to decrease in the interest rate level on deposits in

2012. The average yield from government securities coupons was kept on a level that was close to the level realized in 2011.

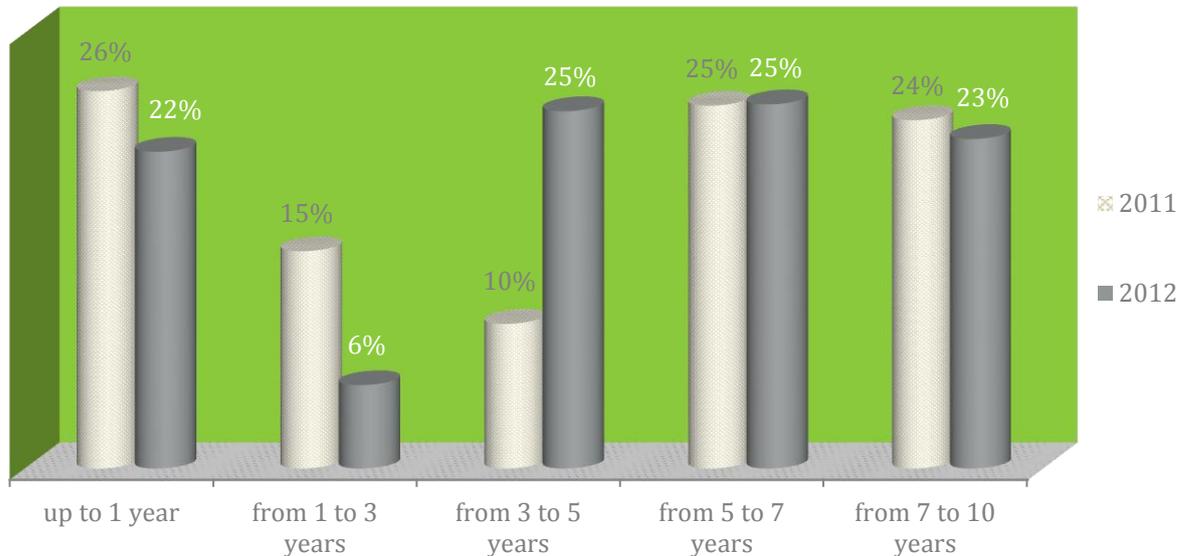
The portfolio structure by maturity bands is presented on Fig. 5. The investments in government securities and short-term deposits are included. The share of investments with a maturity up to 5 years is about 53%, as significant increase in the investments with a maturity from 3 to 5 years is observed which is due to decrease

⁵ The average yield on investments is calculated as a ratio of the sum of the yield gained from investments in the year (respectively interest yield gained on deposits and coupon payments on GS) and the average weighed amount of the portfolio in deposits and in GS. The revenues from revaluation of GS are not included.

in the investments with a maturity from 1 to 3 years. The three groups with the highest maturity have approximately the

same share - about 25%. The share of the investments in the maturity band from 1 to 3 years is the smallest (6%).

Fig. 5
Portfolio Maturity Structure



Source: ICF

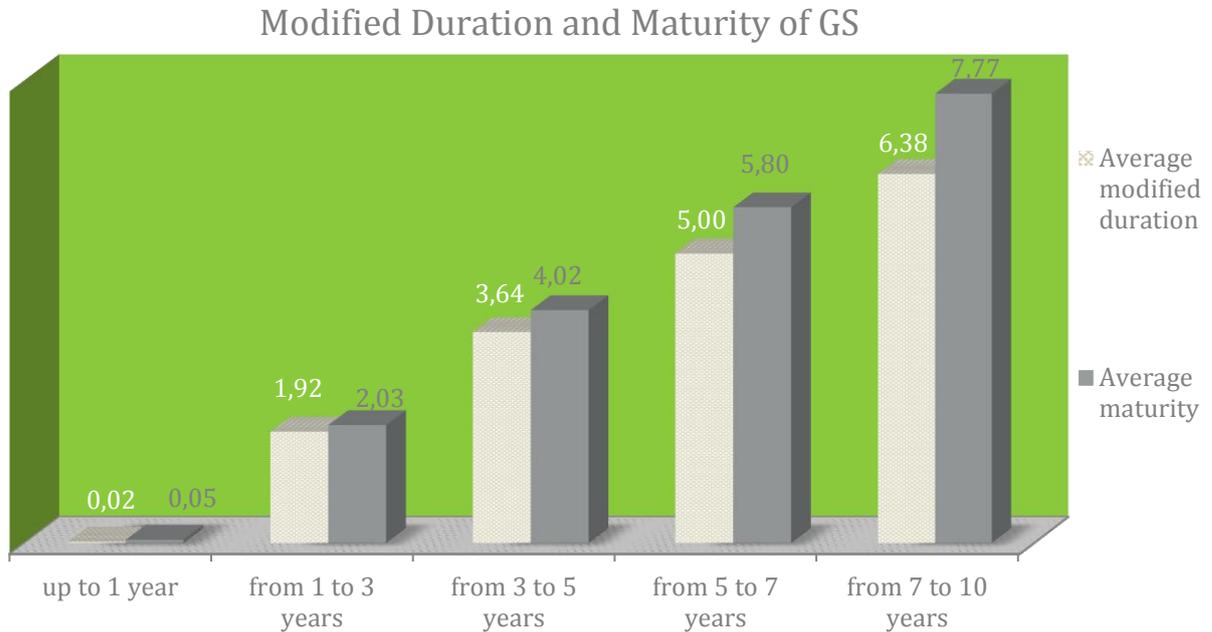
Fig. 6 shows the modified duration and the average residual maturity of the investments in government securities in accordance with their maturity structure as of 31st of December 2012.

The average weighed modified duration of the government securities portfolio as of

31st of December 2012 was 4,10 years compared to 3,08 years as 31st of December 2011. The average residual maturity of the Fund's investments in government securities was 4,79 years as of 31st of December 2012 compared to 4,29 years as of the end of 2011.⁶

⁶ The average maturity of the portfolio is calculated as the sum of the maturities of all investments weighed with the share of the respective investment in the total amount of the invested funds.

Fig. 6



Source: ICF

■ 3.2 PARTICIPANTS

In the past year four investment intermediaries and four asset management companies dropped out off the investor compensation scheme. Some of them voluntarily returned their licenses while the FSC revoked the licenses of the others as an administrative measure. The license of one investment intermediary was transformed to a limited license and for that reason that participant was excluded from the scheme as according to the LMFI investment intermediaries with a limited license do not participate in the Fund.

In 2012 the FSC issued a partial license to one new investment intermediary (with a minimum required capital of 250 thousand BGN), which joined the Fund.

Thus as of 31st of December 2012 the participants in the Fund were 98 as 46 of them were investment intermediaries, 23 were commercial banks and twenty nine were asset management companies. For the period of 2009-2012 thirty-two participants dropped out off the scheme as four new participants joined it. Table 1 provides the

number of investment intermediaries and asset management companies that have

dropped out off the scheme for the period from 2009 to 2012.

Table. 1 Number of Participants Dropped from the Investor Compensation Scheme

	2009	2010	2011	2012	Total:
Investment Intermediaries	3	9	5	4	21
Asset Management Companies	-	6	1	4	11

Source:ICF

As of the end of 2009 the investment intermediaries that first returned their licenses were 3 in total. In 2010 there was a record number of the Fund's participants that returned their licenses – 9 investment intermediaries and 6 asset management companies. In the next years the tendency for returning licenses was kept despite their smaller number. The majority of investment intermediaries that dropped out off the scheme were with partial licenses.

As of the 31st of December 2012 the number of investment intermediaries with branches abroad was 4 as some of them have branches in more than one EU member

state or in the European Economic Area (EEA).⁷ The countries with established branches of Bulgarian investment intermediaries were 7 in total (Poland, the Czech Republic, Slovakia, Norway, the Netherlands, Italy and Romania).⁸

The number of Bulgarian investment intermediaries working on the principle of “free providing of services” was 14 as they included 3 investment intermediaries with established branches.

⁷ According to the list published on the FSC web site of investment intermediaries that have the right to provide investment services on the territory of other EU member states as of 30th of October 2012.

⁸ The Fund protects the clients of investment intermediaries providing investment services through a branch or on the basis of free providing of services in other EU member states.

Countries where services on the principle of “free providing of services” are offered are all 26 member states and one EEA country.

These data indicate that the Bulgarian investment intermediaries develop their activities also on the foreign capital market.

3.3 CLIENTS ASSETS MANAGED BY THE PARTICIPANTS

The Fund guarantees 90% of the investment intermediaries clients’ assets but the maximum amount of compensation to one person cannot be more than 40 000 BGN. According to the data provided by the participants in the Fund the total amount of clients’ assets eligible to compensation as of

the end of 2012 was 2,09 billion BGN including both cash and financial instruments. The clients’ assets that were not protected by the Fund amounted to 11,5 billion BGN. Table 2 presents the distribution of clients’ assets by groups of investment intermediaries.

Table 2 Clients’ assets managed by the participants as of 31st of December 2012

	Protected clients’ assets as of 31/12/2012	Protected clients’ assets as of 31/12/2011	Change on annual basis	Non-protected clients’ assets as of 31/12/2012	Non-protected clients’ assets as of 31/12/2011	Change on annual basis
	(1)	(2)	[3=(1-2)/2]	(4)	(5)	[6=(4-5)/5]
FI - CB	1 411 008 591	1 086 854 631	30%	8 873 712 538	8 772 371 876	1%
FI-II	631 469 312	485 912 114	30%	2 606 506 187	4 107 299 877	-37%
MF-II	35 849 912	34 029 883	5%	14 023 773	11 987 154	17%
FI-AMC	12 254 825	5 005 689	145%	32 709 217	36 335 039	-10%
MF- AMC	710 527	107 991	558%	146 231	238 020	-39%
Total:	2 091 293 166	1 611 910 308	30%	11 527 097 945	12 928 231 966	-11%

*FI –financial instruments; MF –monetary funds

Source:ICF

As of 31st of December 2012 the protected clients’ assets increased significantly – by 30% in comparison with the 31st of December 2011. An increase was observed

for all clients’ assets as it was more significant for the financial instruments. Commercial banks continued to hold the biggest share of protected

financial instruments and as of 31st of December 2012 their amount reached 1,4 billion BGN compared to 1,09 billion BGN a year earlier. Taking into consideration asset management companies the increase was significant both for financial instruments and clients' money. Despite the higher amounts of protected financial instruments at the end of 2012 the average monthly amounts for 2012 were about 1,5 billion BGN but they still could not reach the pre-crisis levels.

As of 31st of December 2012 the ratio of the accumulated resources by the ICF (11,03 million BGN) to the amount of the protected clients' assets (2,09 billion BGN) was 0,53%. According to Art. 77s, para 1 of the LPOS when the accumulated resources exceed 5% of the total amount of clients' assets eligible to compensation held by all investment intermediaries, the Fund should cease collecting contributions from participants. As of 31st of December 2012 5% of clients' assets were equal to 104 million BGN (5% of 2,09 billion BGN) compared to 80,1 million BGN as of 31st of December 2011. For the same period the available resources in the Fund increased only by 1,7 million BGN (from 9,34 million BGN as of the end of

2011 to 11,03 million BGN as of the end of 2012).

The non-protected clients' assets indicated a decrease by 11% on annual basis. The most significant changes referred to the non-bank investment intermediaries where the non-protected financial instruments decreased by 37%. Regarding the commercial banks the non-protected financial instruments did not indicate a decrease as they were at the almost the same level with a slight decrease of about 1%. The total amount of the protected clients' money was 36,5 million BGN or 1,75% of the clients' assets eligible to compensation. As of 31st of December 2012 non-protected money (held by investment intermediaries and asset management companies) were about 14 million BGN or there was a decrease of 16% on annual basis.

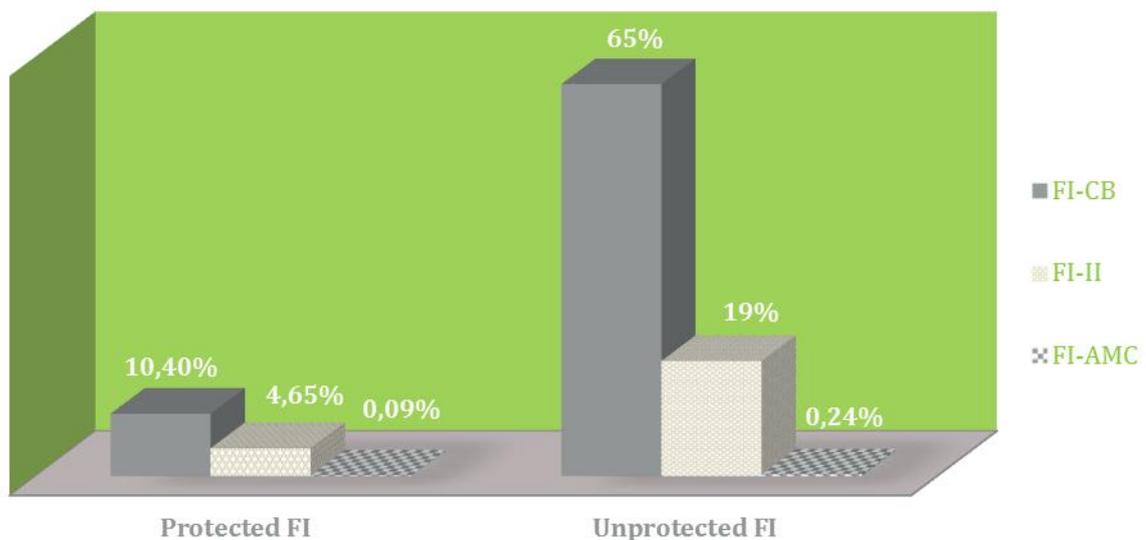
As of 31st of December 2012 the total amount of the clients' assets was 13,62 billion BGN (both protected and non-protected).

Fig. 7 shows financial assets eligible and non-eligible to compensation as their distribution by types of investment intermediaries is presented.

As of 31st of December 2012 protected financial instruments were about 15% of all financial instruments. The biggest share of clients' assets was held by the commercial banks – about 76% of all financial instruments (10,4% of all protected and 65% of all non-protected clients' assets). Totally, investment intermediaries held

around 24% of financial instruments of which 4,65% were protected and 19% were non-protected. Insignificant part of financial instruments was held by asset management companies – totally about 0,3%. The share of protected financial instruments held by all participants in the scheme increased by 5% on annual basis.

Fig. 7
Distribution of FI by Groups of Investment Intermediaries as of 31st of December 2012



Source:ICF

Table 3 presents information on the financial instruments protected by the Fund. Despite the observed increase of those financial instruments they still could not have reached their peak values since August 2008. Then, their amount was

approximately 2,5 billion BGN. The lowest amounts of financial instruments were declared at the beginning of 2009 г. - 918 million BGN.

Table 3 Protected Clients' Assets

	Date	Upper amount	Minimum	Current amount
Total of the clients' assets, protected by the Fund (in BGN)	August, 2008	2 483 880 619		
	February, 2009		917 667 292	
	December, 2012			2 043 978 169
% of the upper amount		100%	-63%	-21,5%

Source: ICF

In 2012 the smallest amounts of financial instruments were declared in April – 1,3 billion BGN and the biggest amounts in December – 2,044 billion BGN. Despite the financial instruments registered their maximum value in August 2008, the commercial banks reported the highest amounts of the protected financial instruments a year earlier (in June 2007), when they were almost 1,8 billion BGN. The highest amounts of financial instruments, held by investment intermediaries, were reported in February 2008 and they were 1,09 billion BGN.

The average monthly amount of clients' assets is the basis for the calculation of the annual contributions that should be made

by the participants in the Fund. Fig. 8 shows the average monthly amounts of the protected clients' assets by years and by participants in the Fund. In 2012 the average monthly amount of the protected financial instruments, held by all participants in the Fund, was approximately 1,5 billion BGN. Regarding commercial banks the average monthly amount of financial instruments was over 1 billion BGN as that amount was kept at almost the same level as in 2011. Regarding non-bank investment intermediaries the average monthly amounts of financial instruments continued to increase gradually as in 2012 it was about 490 billion BGN.

Fig. 8



Source: ICF

Clients' money held by the non-bank investment intermediaries were kept at comparatively constant levels after 2009. In 2012 the average monthly amounts of the protected clients' money held by the non-bank investment intermediaries was about

37 million BGN or they were approximately by 3 million BGN more compared with the previous year.

Table 4 shows the protected clients' assets, the stock exchange capitalization and GDP as of 31st of December.

Table 4 Clients' assets, stock exchange capitalization and GDP as of 31st of December

	2012	2011	2010	2009	2008
Clients' assets, eligible to compensation <i>(in million BGN)</i>	2 091	1 612	1 322	1 259	1 314
Stock exchange capitalization <i>(in million BGN)</i>	9 828	12 436	10 754	11 796	12 461
Clients' assets/Stock exchange capitalization	21,28%	12,96%	12,00%	11,00%	11,00%
GDP <i>(in million BGN)</i>	77 323	75 265	70 474	68 322	69 295
Stock exchange capitalization/GDP	12,71%	16,52%	15,00%	17,00%	18,00%

Source: Internet site of BSE, ICF

The ratio of protected clients' assets to the stock exchange capitalization increased from 12,96% at the end of 2011 to 21,28% at the end of 2012. On one hand, the increase was due to the increased amount of clients' assets, eligible to compensation and, on the other hand, it was due to the reported decrease in the stock exchange capitalization.

■ 3.4 POTENTIAL AMOUNT OF COMPENSATION IN CASES OF SCHEME ACTIVATION⁹

The number of clients protected by the Fund as of 31st December 2012 was 60 997 compared to 62 399 at the end of 2011, i.e. there was a decrease by 1 402 (or by 2%).

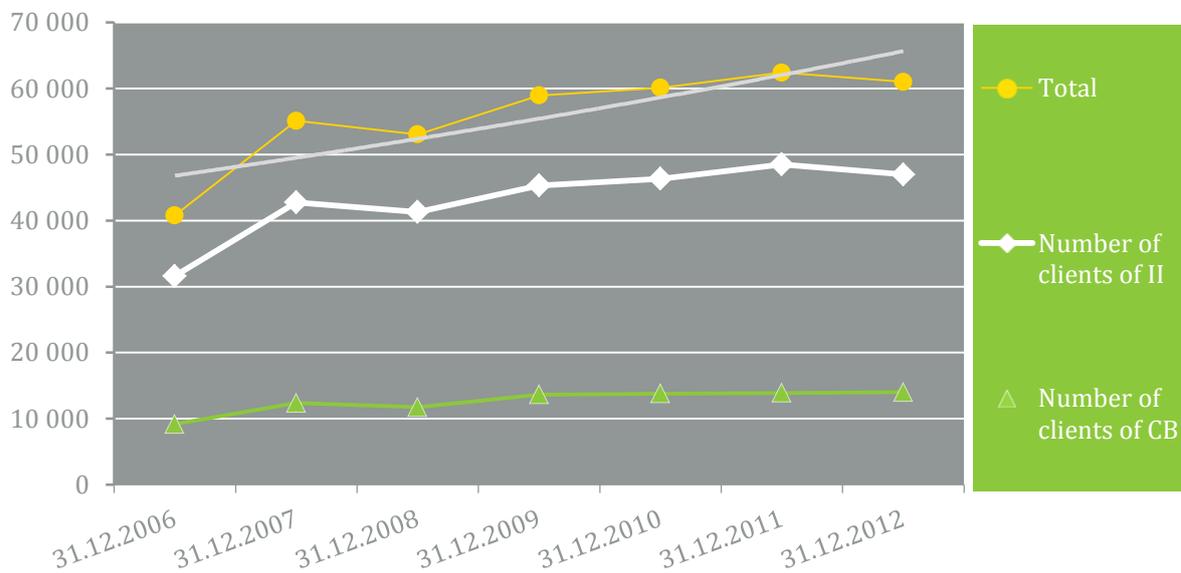
⁹ The participants in the Fund submit information on the number of protected clients on semi-annual basis, distributed by groups of clients' assets. At the end of each month participants in the scheme submit also information on the clients' assets managed by them. On that basis the Fund's experts calculate the potential compensation payments that could arise in cases of activation of the scheme.

According to the data these were mainly retail clients holding assets up to the amount of 1000 BGN and it was much probable the decrease in the number of clients to be due to dropping out of inactive investors. The total number of the clients holding assets at the amounts over 1000

BGN was 15 666 or 26% of the total amount of the protected clients.¹⁰

Fig. 9 shows the number of investors eligible to compensation as of 31st of December distributed by groups of investment intermediaries for the period from 2006 to 2012.

Fig. 9
Number of clients by groups of investment intermediaries



Source: ICF

As of 31st of December 2012 a decrease in the number of protected clients was reported only for the non-bank investment intermediaries. Regarding commercial banks the number of clients was by 133 more compared to the end of 2011. Non-

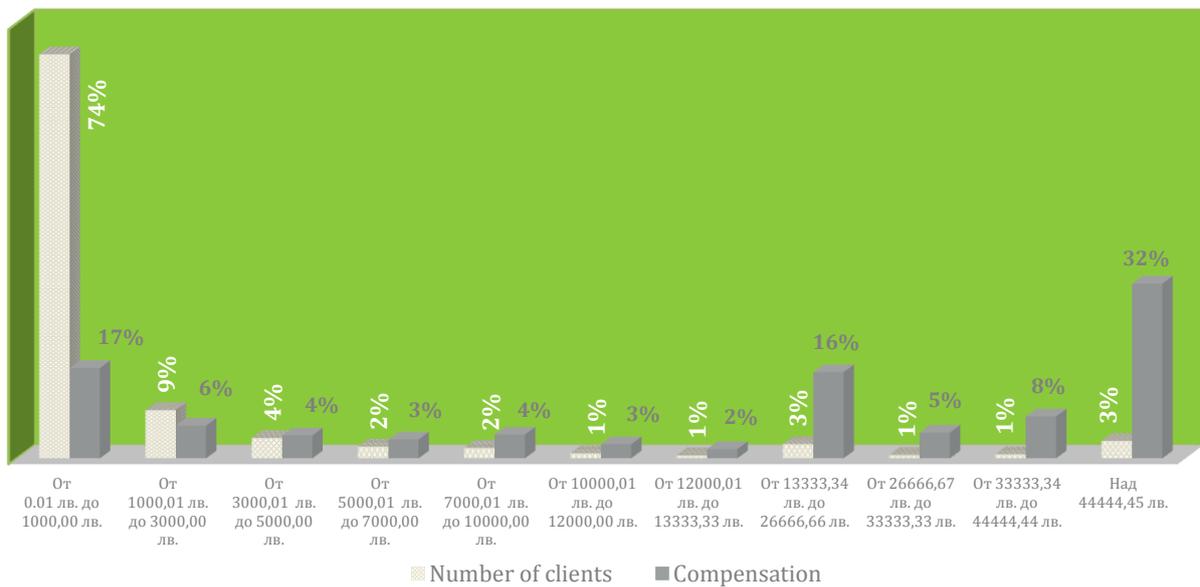
bank investment intermediaries had about three times more protected clients (about 47 thousand) compared to commercial banks. On the other hand, clients' assets

¹⁰ It could be considered that clients' assets over 1000 BGN are actively traded by the investors.

managed by investment intermediaries came to 667 million BGN compared to 1,4 billion BGN managed by commercial banks that had only 14 thousand clients.

Fig. 10 shows the distribution of the number of protected clients and the maximum compensation which the Fund would pay out to the clients at each group of clients' assets.¹¹

Fig. 10
Distribution of the Maximum Compensation and the Number of Clients by Groups of Clients' Assets



Source: ICF

The majority of the investors fall within the scope of the first group with assets up to 1000 BGN (74%), but the potential liabilities of the Fund to those investors were hardly 17% of all possible compensation payments. The Fund's biggest exposure was to the clients holding assets over 44 thousand BGN (32%). Those clients represented hardly 3% of the total number

of the protected investors and the calculated maximum amount of compensation was about 79 million BGN. Significant amounts of compensation would be also paid out to the clients holding

¹¹ The maximum potential compensation payment to the clients of one investment intermediary is calculated as 90% of the amount of clients' assets, eligible to compensation but not more than 40 000 BGN per investor. The calculations are on the basis of the information provided by the investment intermediaries as of 31st of December 2012. Due to the assumption that the clients hold assets at the amount equal to the upper edge of the range, the calculated potential compensation payment is increased.



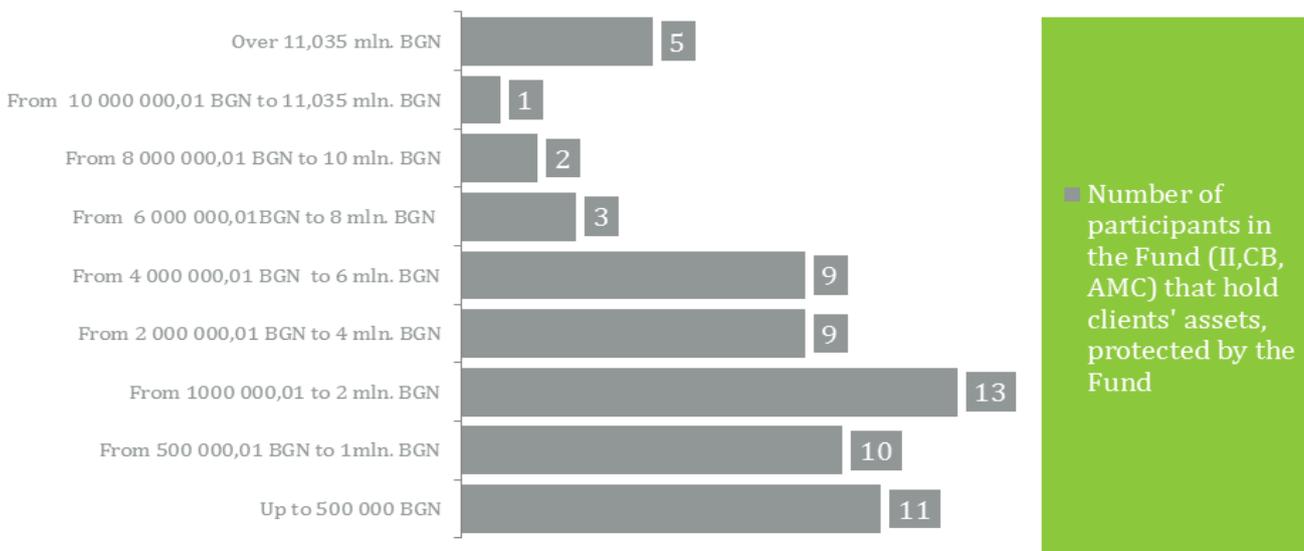
amounts of assets within the range from 13 thousand BGN to 26 thousand BGN (16%). The calculated amounts of the total potential claims to the Fund was about 244 million BGN as of 31st of December 2012. The highest Fund's exposure was to the non-bank investment intermediaries – 170 million BGN as investment intermediaries with a full license had the biggest share. The Fund's exposure to the clients of all commercial banks was about 74 million BGN. The Fund's exposure to the clients of asset management companies

holding clients' assets eligible to compensation equaled 1,7 million BGN. The total amount of the calculated maximum compensation was about 12% of all clients' assets, eligible to compensation.

Fig. 11 shows the distribution of Fund's participants by the calculated possible compensation that would be paid by the Fund to the clients of the participants in the scheme.

Fig. 11

Number of participants in accordance with the Fund's exposure to their clients



Source: ICF



The majority of the participants fell in the range from 1 to 2 million BGN (14), followed by the compensation range to 500 thousand BGN (12 participants). As of 31st of December 2012 the number of investment intermediaries where the Fund's resources would be insufficient in cases of triggering the scheme was 5 – 4 non-bank investment intermediaries and 1 commercial bank. In those cases the Fund would be enforced to collect additional resources in accordance with the provisions of Art. 77s of LPOS. On the other hand, the Fund's resources would be sufficient for the simultaneous compensation payments to the clients of several investment intermediaries, where the potential compensation payments were at smaller amounts.

The available resources at the Fund (11,03 million BGN) would cover 4,5% of the total potential compensation (244 million BGN).

Appendix № 2 shows the distribution of the number of clients, eligible to compensation by groups of clients' assets respectively for the non-bank investment intermediaries and commercial banks.

It is considered that the risk for

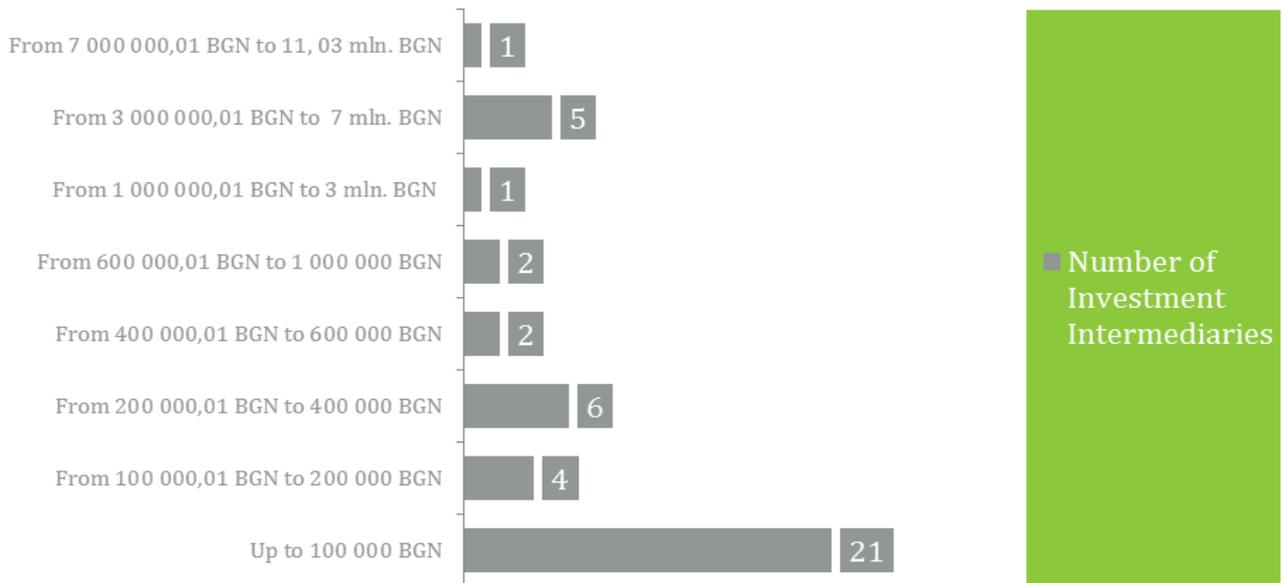
compensation payments regarding clients' money is higher compared to financial instruments as those funds can be easily used by the investment intermediaries in cases of bridging clients' contracts. That risk is higher regarding non-bank investment intermediaries with a full license as they have the right to trade on their own account and respectively to take more risk.¹²

Fig. 12 shows the distribution of investment intermediaries in accordance with the protected clients' money held by their clients.

¹² There are cases of failures of investment companies that have used the clients' money not in accordance with their purpose. The Irish investment firm Custom House Capital Limited that bought properties with clients' money without their knowledge and not in respect with the terms of the contract is such an example. In the aftermath of the financial crisis the properties' prices decreased by 40%, which led to the company's failure. That case is known as the Irish "Ponzi" scheme.

Fig. 12

Amount of monetary funds held by investment intermediaries as of 31st of December 2012 ¹³



Source: ICF

Most non-bank investment intermediaries held clients' money at the amounts up to 100 thousand BGN – 21 II, followed by those investment intermediaries holding amounts in the range from 200 to 400 thousand BGN – 6 in total. As of 31st of December 2012 five investment intermediaries held clients' money at the

amounts from 3 million BGN to 7 million BGN and only one investment intermediary held clients' money in the range from 7 to 11,03 million BGN. There was no investment intermediary holding clients' money at the amount higher than the available resources in the Fund.

¹³ Investment intermediaries that hold no clients' money are not included in the range up to 100 thousand BGN.

■ 3.5 INTERNATIONAL ACTIVITIES

In 2012 the Fund continued to develop its cooperation with other EU investor compensation schemes. The Fund's international activities were mainly regarding its associated membership in EFDI (European Forum of Deposit Insurers).

In March a meeting of the working group on investor compensation schemes at EFDI was held in Prague. Issues related to the activities of the investor compensation schemes on national and international level were discussed on that meeting.

At the end of 2012 the first meeting of the research working group was at EFDI was held in Roma, where the Fund was also represented. Traditionally the Chairman of the Management Board participates at the EFDI Annual Meeting.

During the year contacts were kept with the majority of the European investor compensation schemes. The international cooperation is among the priorities in the Fund's activities as it has an important role for applying the best practices in the field of investor compensation.

4. FUND'S ACTIVITIES IN 2013

In 2013 Fund's activities are going to be directed to contributing to the maintenance of stability and confidence in the capital market in Bulgaria by providing protection to the clients of non-bank investment intermediaries and asset management companies to the limits that are set in the legal framework. For that reason the aim of the Fund will be to provide adequate protection to investors by keeping the legal requirements. In order to achieve that aim the Fund is going to participate actively in all processes related to its activities in cooperation with the respective national and international institutions. That also includes the responsible management of the accumulated resources by giving priority to their liquidity and security.

The Fund will also continue the practice to renovate and develop the instruments that

help for collecting and processing the information submitted by the participants in the scheme. That includes improvement of the used software products as well as preparation of analyses by the Fund's experts.

The international activity is one of the Fund's priorities in 2013 as it contributes to the development of the scheme as well as for the international reputation and positions which are important for the role of the Fund not only in Bulgaria but also in the EU.

The Fund will continue to be a correct partner to the participants in the capital market by keeping their confidence and its stability by providing timely and adequate protection to investors.



APPENDICES

2012



List of Participants in the Fund as of 31st of December 2012**NON-BANK INVESTMENT INTERMEDIARIES**

1	ABC FINANCE AD	24	EURO - FINANCE AD
2	ABV - INVESTMENTS LTD	25	FACTORY AD
3	ADAMANT CAPITAL PARTNERS AD	26	FH EVER AD
4	AUSTRIAN BULGARIAN INVESTMENT GROUP AD	27	FAVORIT CLS
5	ARGO INVEST AD	28	FINA-S AD
6	AVAL IN AD	29	FIRST FINANCIAL BROKERAGE HOUSE LTD
7	AVUS CAPITAL OOD	30	FOCAL POINT INVESTMENTS AD
8	BALKAN CONSULTING COMPANY AD	31	GLOBAL MARKETS LTD
9	BALKAN INVESTMENT COMPANY AD	32	INTERCAPITAL MARKETS AD
10	BENCHMARK FINANCE AD	33	KAROL AD
11	BETA CORP AD	34	NABA INVEST AD
12	BG PROINVEST AD	35	POPULIARNA KASA - 95 AD
13	BMFN EAD	36	POZITIVA AD
14	BUL TREND BROKERAGE LTD	37	REAL FINANCE AD
15	BULBROKERS AD	38	RNK CAPITAL AD
16	CAPITAL INVEST LTD	39	SOFIA INTERNATIONAL SECURITIES
17	CAPITAL MARKETS AD	40	SOMONI FINANCIAL BROKERAGE LTD
18	CAPMAN AD	41	STATUS INVEST AD
19	D.I.S.L. SECURITIES LTD	42	TBI INVEST EAD
20	DE NOVO EAD	43	UG MARKET LTD
21	DEALING FINANCIAL COMPANY AD	44	VARCHEV FINANCE LTD
22	DELTA STOCK AD	45	ZAGORA FINACORP AD
23	ELANA TRADING AD	46	ZLATEN LEV BROKERS LTD

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 CITIBANK N.A. – SOFIA BRANCH
- 7 CORPORATE COMMERCIAL BANK
- 8 CREDIT AGRICOLE BULGARIA EAD
- 9 D COMMERCIAL BANK AD
- 10 DSK BANK EAD
- 11 EUROBANK BULGARIA AD
- 12 FIRST INVESTMENT BANK AD
- 13 INTERNATIONAL ASSET BANK AD
- 14 INVESTBANK AD
- 15 MUNICIPAL BANK AD
- 16 MKB UNIONBANK AD
- 17 PIRAEUS BANK BULGARIA AD
- 18 RAIFFEISENBANK (BULGARIA) AD
- 19 SOCIETE GENERALE EXPRESSBANK AD
- 20 TEXIM BANK AD
- 21 TOKUDA BANK AD
- 22 UNICREDIT BULBANK AD
- 23 UNITED BULGARIAN BANK AD

ASSET MANAGEMENT COMPANIES

1	ACTIVA ASSET MANAGEMENT AD	16	KD INVESTMENTS EAD
2	ALFA ASSET MANAGEMENT COMPANY EAD	17	KTB ASSET MANAGEMENT EAD
3	ASTRA ASSET MANAGEMENT AD	18	MUNICIPAL BANK ASSET MANAGEMENT EAD
4	AVRORA CAPITAL AD	19	RAIFFEISEN ASSET MANAGEMENT (BULGARIA) EAD
5	BALKAN CAPITAL MANAGEMENT AD	20	REAL FINANCE ASSET MANAGEMENT AD
6	BENCHMARK ASSET MANAGEMENT AD	21	SAGLASIE ASSET MANAGEMENT AD
7	CAPMAN ASSET MANAGEMENT AD	22	SENTINEL ASSET MANAGEMENT AD
8	CCB ASSET MANAGEMENT AD	23	SOMONI ASSET MANAGEMENT AD
9	DSK ASSET MANAGEMENT AD	24	STATUS CAPITAL AD
10	ELANA FUND MANAGEMENT AD	25	TBI ASSET MANAGEMENT EAD
11	EXPAT ASSET MANAGEMENT AD	26	UBB ASSET MANAGEMENT AD
12	FIRST FINANCIAL BROKERAGE HOUSE ASSET MANAGEMENT AD	27	UG MARKET FUND MANAGEMENT AD
13	INVEST CAPITAL EAD	28	VARCHEV MANAGING COMPANY EAD
14	INVEST FUND MANAGEMENT AD	29	ZLATEN LEV CAPITAL AD
15	KAROL CAPITAL MANAGEMENT EAD		

Distribution of the Number of Protected Clients and Potential Compensation by Groups of Clients' Assets as of 31st of December 2012

Ranges of Clients' Assets	Number of clients at Investment Intermediaries		Potential Compensation Payments by Investment Intermediaries <i>(in BGN)</i>		Number of Clients at Commercial Banks		Potential Compensation Payments by Commercial Banks <i>(in BGN)</i>		Total Number of Clients		Total Potential compensation Payments <i>(in BGN)</i>	
<i>From 0,01 BGN to 1 000,00 BGN</i>	36 029	77%	32 426 100	19%	9 302	66%	8 371 800	11%	45 331	74%	40 797 900	17%
<i>From 1 000,01 BGN to 3 000,00 BGN</i>	3 883	8%	10 484 100	6%	1 574	11%	4 249 800	6%	5 457	9%	14 733 900	6%
<i>From 3 000,01 BGN to 5 000,00 BGN</i>	1 613	3%	7 258 500	4%	679	5%	3 055 500	4%	2 292	4%	10 314 000	4%
<i>From 5 000,01 BGN to 7 000,00 BGN</i>	937	2%	5 903 100	3%	409	3%	2 576 700	3%	1 346	2%	8 479 800	3%
<i>From 7 000,01 BGN to 10 000,00 BGN</i>	860	2%	7 740 000	5%	330	2%	2 970 000	4%	1 190	2%	10 710 000	4%
<i>From 10 000,01 BGN to 12 000,00 BGN</i>	406	1%	4 384 800	3%	179	1%	1 933 200	3%	585	1%	6 318 000	3%
<i>From 12 000,01 BGN to 13 333,33 BGN</i>	264	1%	3 168 000	2%	83	1%	996 000	1%	347	1%	4 164 000	2%
<i>From 13 333,34 BGN to 26 666,66 BGN</i>	1 151	2%	27 623 998	16%	470	3%	11 279 999	15%	1 621	3%	38 903 997	16%
<i>From 26 666,67 BGN to 33 333,33 BGN</i>	274	1%	8 220 000	5%	112	1%	3 360 000	5%	386	1%	11 580 000	5%
<i>From 33 333,34 BGN to 44 444,44 BGN</i>	342	1%	13 680 000	8%	131	1%	5 240 000	7%	473	1%	18 920 000	8%
<i>Over 44 444,45 BGN</i>	1 223	3%	48 919 997	29%	746	5%	29 839 998	40%	1 969	3%	78 759 995	32%
TOTAL:	46 982	100%	169 808 595	100%	14 015	100%	73 872 997	100%	60 997	100%	243 681 592	100%