

2010

Annual Report



Investor

Compensation

Fund

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Abbreviations

ABB – Association of Banks in Bulgaria;	MF – Ministry of Finance;
AMC - Asset Management Companies;	ROOICF – Regulation of Organization and Operation of Investor Compensation Fund;
BALII – Bulgarian Association of Licensed Investment Intermediaries ;	BNAO – Bulgarian National Audit Office;
BAAMC – Bulgarian Association of Asset Management Companies;	CB – Commercial Banks;
BNB – Bulgarian National Bank;	AMC – Asset Management Companies;
BSE – Bulgarian Stock Exchange;	MB – Management Board;
GS –Government Securities;	DIF – Deposit Insurance Fund;
EC – European Commission;	FI – Financial Instruments;
EP – European Parliament;	ICF – Investor Compensation Fund;
EU – European Union;	IADI – International Association of Deposit Insurers;
ECB – European Central Bank;	EFDI – European Forum of Deposit Insurers;
LPOS – Law on Public Offering of Securities;	ESMA – European Securities and Markets Authority;
LMFI – Law on Markets in Financial Instruments;	UCITS – Undertakings for Collective Investment in Transferable Securities.
II – Investment Intermediaries;	
FSC – Financial Supervision Commission;	

1. MANAGEMENT

In 2010 the Management Board (MB) of the Fund consisted of the following members:

- Mileti Mladenov - Chairman
- Irina Martseva – Member
- Atanas Boichev - Member
- Pavlina Anatchkova - Member

The MB of the Fund takes decisions related to the investment of the accumulated funds by the ICF, the adoption of all administrative documents created and announced due to legal requirements as well as all other issues related to the participation and obligations of investment intermediaries to the Fund.

In 2010 12 meetings of the Fund's MB were held, 67 issues were discussed and 38 decisions were taken.

The Fund's administration is performed by the Chairman of the MB who is responsible for the staff as well as for the organization of the fund's activities.

A check-up of the Fund's activities has been initiated by the Bulgarian National Audit Office (BNAO) since

27th of September 2010 and it was accomplished at the beginning of 2011. The check-up did not find any infringements in the management of the Fund's activities. In order to improve the Fund's activities as well as its reporting some recommendations were made.

For a second year the Fund's MB defined a lower annual payment than the maximum one for the investment intermediaries. Thus, in 2011 the investment intermediaries are going to contribute to the Fund 0,5% of the monthly average amount of their monetary funds for 2010 and 0,5% of the monthly average amounts of the other clients' assets, eligible to compensation. The MB decision for a lower contribution paid by the participants in the scheme is due to, on one hand, the unfavorable situation on the stock

exchange, and on the other hand, the Fund's goal to contribute to the maintenance of the stability and confidence in the capital market.

In 2010 no cases for compensation payments took place. Eight investment intermediaries returned voluntarily their licenses and the Financial Supervision Commission (FSC) took the license of one investment intermediary due to administrative infringements.

The mostly discussed topic in the year was the proposal of the European Commission (EC) for changes in the Directive on Investor Compensation Schemes, which was

publicly announced on the 12th of June, 2010. The proposal foresees significant changes in the schemes activities. (see *Appendix №4*).

The Fund successfully cooperates with the Ministry of Finance (MF) and FSC in relation with the preparation of the Bulgarian position on the EC proposal.

The Fund continued the establishment of better cooperation with the institutions whose activities are related to the ones of the Fund and they are namely – FSC, BNB, MF, BSE, BNAO, ABB, BALII, BAAMC as well as with the participants in the scheme.

2. LEGAL FRAMEWORK

In 2010 there were no changes in the legislation, relevant to the Fund's activities. The main legal acts with a direct influence on the Fund's activities are LPOS, LMFI, ROOICF, FSC Ordinance №23 as well as the adopted by the Fund's MB internal rules.

On EU level the activities of the investor compensation schemes are regulated by the Directive 97/9/EC.

As of the end of 2010 the EC proposal for changes in the Directive was not adopted by the EP as it should be first agreed between the member states and the EC. However, until the end of the year a consensus was not reached.

The EC proposals are going to influence the following aspects in the activities of the investor compensation schemes: scope of

participants and protected assets, schemes' funding, limit of compensation, compensation payments, possibilities for additional funding in case of shortage of funds in compensation payments, information back-up, cooperation with the supervisory authorities and others.

More detailed information on the EC proposals is presented in *Appendix N° 4*.

In the last year the Fund performed its activities in compliance with the requirements with the national legislation and its internal rules.

3. FUND'S ACTIVITIES

The main activities of the Fund are related to compensation payments to the clients of investment intermediaries by using the preliminary accumulated funds from the participants in the scheme. When there are no circumstances for compensation payments, the Fund's employees collect information and prepare analyses on the Fund's exposure in cases of compensation payments. The contributions of the participants to the Fund are determined by the MB in accordance with the current situation as well as the estimations of possible obligations due by the Fund. By its activities the Fund aims at contributing to increasing the investors' confidence in the capital market. The main priority is the

maintenance of successful cooperation with the investment intermediaries in Bulgaria. For the performance of those aims there is a legal and administrative basis, which regulates the rights and obligations of the Fund as well as the participants in the scheme.

3.1 Investments

The MB periodically reviews the Fund's Investment Policy and, if it is necessary, it makes changes in it. The main aim of the MB is the performance of the Fund's Investment Policy in accordance with the situation on the financial markets. Providing adequate security and liquidity are of leading importance in taking investment decisions.

As of 31st of December 2010 the accumulated funds are 8,33 mln. BGN. The legal requirements suppose the accumulated funds to be invested in financial instruments issued or guaranteed by the Bulgarian state, short term deposits in banks and deposits in the BNB.

Figure № 1 shows the structure of the Fund's portfolio as of 31st of December

2010 and as of 31st of December 2009. The majority of funds are invested in government securities as their share decreases by 1,6% in 2010 compared with 2009. The share of the funds, held on current accounts is insignificant. The exposure of the Fund's investments is in accordance with the provisions set in the Fund's Investment Policy.

Fig. № 1

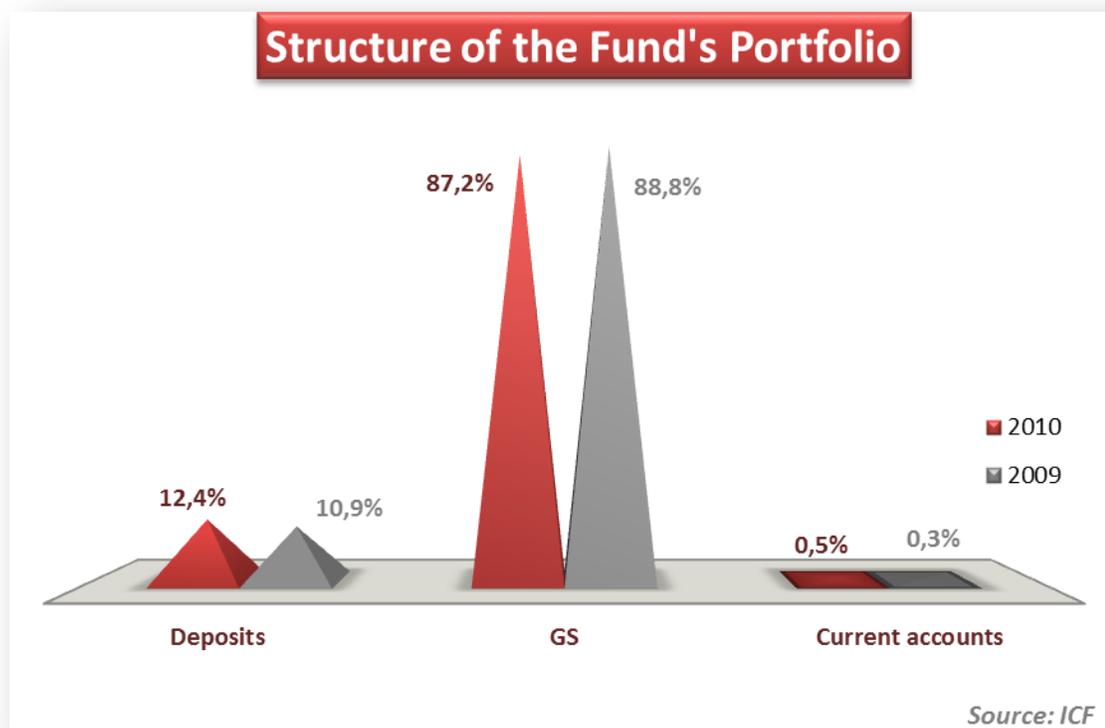


Fig. № 2

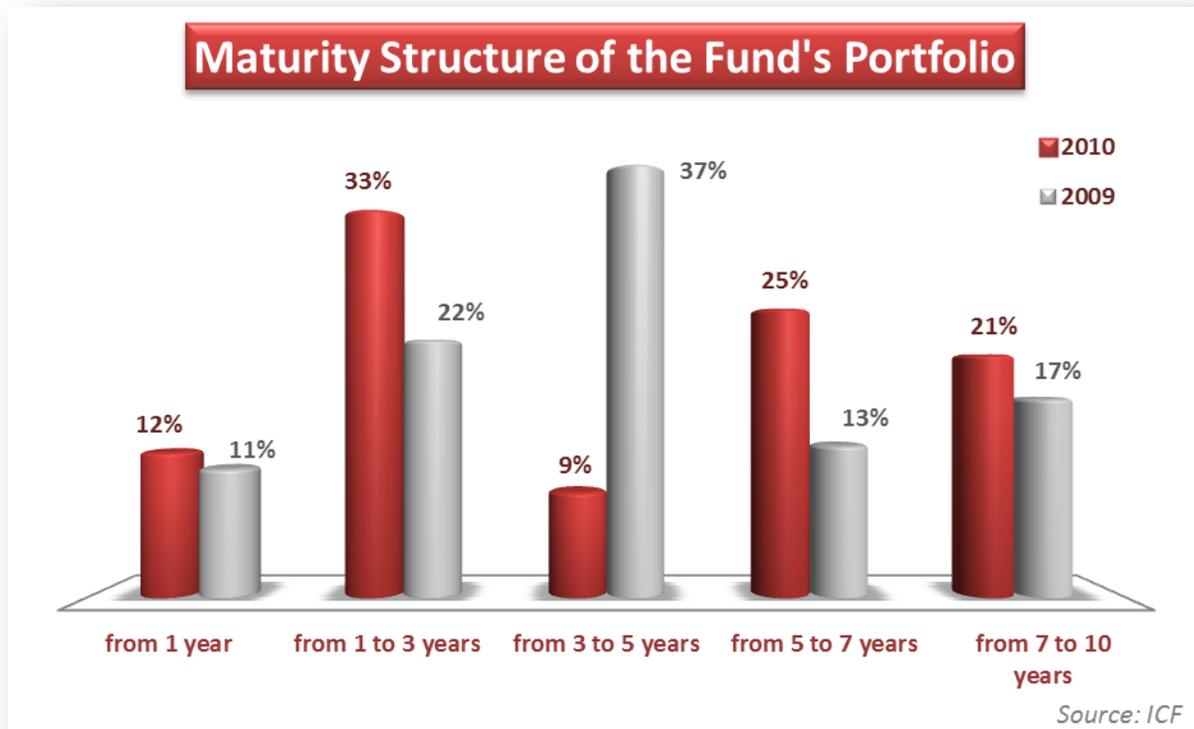


Figure № 2 shows the maturity structure of the portfolio as of 31st of December 2010 and as of 31st of December 2009.

It can be noticed a significant decrease in the share of the investments with a residual maturity of three to five years (from 37% in 2009 to 9% in 2010), which is due to an increase in the other maturity groups.

As of the end of 2010 the average maturity of the portfolio is 5,26 years¹.

¹ The average maturity of the portfolio is calculated as a sum of the maturity of all investments, weighed with the share of the respective investment in the total amount of the invested funds.

The total amount of the annual contributions for 2010 is 1,12 mln. BGN. The revenues from investments for 2010 are 593 thousand BGN compared to 609 thousand BGN in 2009.

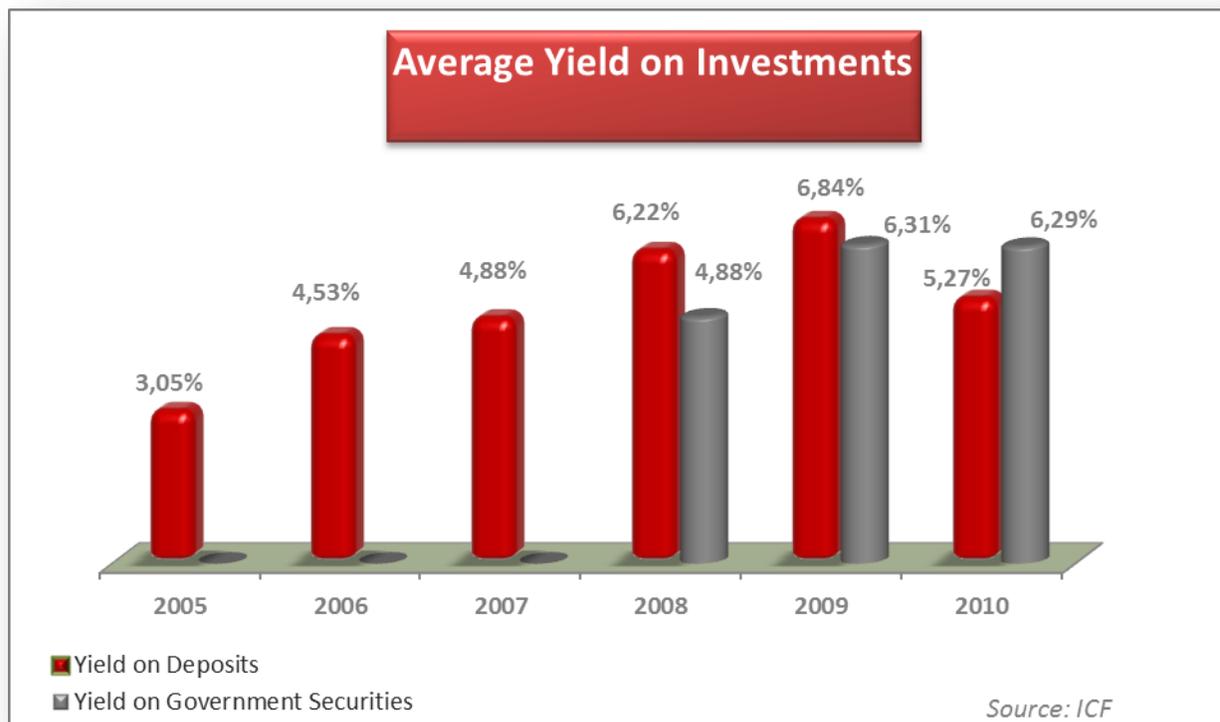
Figure № 3 shows the average yield realized by the Fund from its investments for the period 2005 – 2010, respectively on deposits and government securities².

² The average yield on the investments is calculated as a ratio of the sum of the coupon yield and the weighted average sum of deposits and government securities in the portfolio. The revenues in the year, respectively interest paid on deposits and revaluation of government securities are not included.

The average yield on deposits for 2010 is 5,27 % compared to 6,84% in 2009. The global financial crisis and the insufficient liquidity on the market in 2009 were reflected in the level of the interest rates on deposits, which was the reason for the higher yield in 2009.

In 2010 the interest rate levels decreased significantly. In the first three years since the Fund's establishment the accumulated contributions were invested only in deposits in commercial banks. Since 2008 government securities have been included in the Fund's portfolio as their amount gradually increases.

Fig. № 3



3.2 Participants

All investment intermediaries with partial or full license participate in the Fund as well as the banks-investment intermediaries and asset management companies.

The crisis on the capital market and the decrease in the Bulgarian Stock Exchange turnover forced some investment intermediaries to cease their activities. That was done by 8 investment intermediaries and 6 asset management companies.

As of the end of 2010 52 investment intermediaries, 23 banks –

investment intermediaries and 34 asset management companies participated in the scheme (see Appendix № 1).

2010 in numbers:

In 2010

8 investment intermediaries and 6 asset management companies returned their licenses.

activities does not participate in the Fund.

The weak trading on the BSE directed the attention of some of the investment intermediaries to the foreign markets. As of 31st of December 2010 one investment

intermediary established a branch in Romania and it has also submitted an application for establishing branches in Great Britain and Spain. The Bulgarian investment intermediaries working on the basis of free providing of services in the EU member states are 10 in total.

EU member states investment intermediaries can also perform activities on the territory of the country either by establishing a branch or by free providing of services. Three banks – investment intermediaries and one non bank investment intermediary have established branches in Bulgaria (being evident from the notifications, published by the FSC).

2010 in figures:

Due to administrative infringements one investment intermediary was punished by license revoking.

In 2010 the Fund's MB determined the annual contributions due by the participants in the scheme and they are 0,05% on the financial instruments and 0,5 % on the monetary funds, calculated on average monthly basis.

That decision was taken due to the difficult financial state of the investment intermediaries and the voluntary return of licenses that have started since the end of 2009.

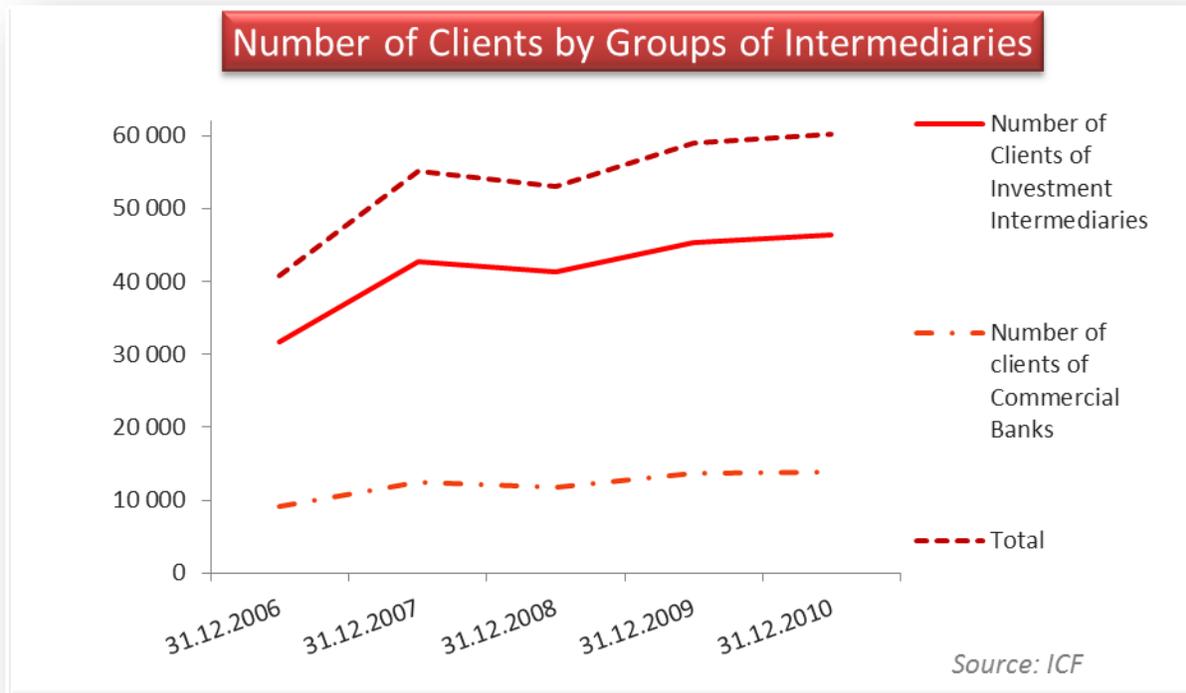
3.3 Clients Assets, Managed by the Participants in the Fund

The compensation limit, provided by the Fund, reached its obligatory minimum level in accordance with the requirements of the EU legislation and as of 1st of January 2010 has been 40 000 BGN for 90% of the clients' assets. The participants in the Fund submit information on the clients' assets, managed by them as of the end of each month as well as the number of clients, eligible to compensation on semiannual basis.

Figure N^o 4 shows systematized data on the number of clients at the year

end from 2006 to 2010. The number of investors protected by the Fund as of 31st of December 2010 is a bit over 60 thousand. There is a decrease during the crisis, which is evident at the end of 2008 but at the end of 2010 the number of investors, protected by the Fund returned to its levels from 2007 and that number is even a bit higher. The number of investors, eligible to compensation, increases from 40 796 in 2006 to 60 112 in 2010, i.e. there is an increase by 47%.

Fig. N° 4



Appendix N° 2 shows the distribution of the number of clients' assets, eligible to compensation, by groups of clients' assets, respectively for non-bank investment intermediaries and commercial banks. The assets, eligible to compensation, held by the non-bank investment intermediaries are three times higher compared to the clients, eligible to compensation, held by the commercial banks-investment intermediaries.

In 2010 there is a minimum increase in the clients' assets, eligible to compensation, from 1,26 billion

BGN as of 31st of December 2009 to 1,33 billion BGN as of 31st of December 2010. There is a slight increase in the share of the protected clients' assets in the amount of the stock exchange capitalization and as of 31st of December 2010 that share is 12% compared to 11% as of 31st of December 2011.

The increase is mainly due to the decrease in the market capitalization at the BSE but not due to an increase in the amount of clients' assets, eligible to compensation. (see Table N° 1).

Table 1 Clients' Assets, Stock Exchange Capitalization and GDP as of 31st of December

	2010	2009	2008
<i>Clients' Assets, Eligible to Compensation (in mln. BGN)</i>	1 322	1 259	1 314
<i>Stock Exchange Capitalization (in mln. BGN)</i>	10 754	11 796	12 461
<i>Clients' Assets/Stock Exchange Capitalization</i>	12,00%	11,00%	11,00%
<i>GDP (in mln. BGN)</i>	70 474	68 322	69 295
<i>Stock Exchange Capitalization/GDP</i>	15,00%	17,00%	18,00%

Source: Internet Site of BSE; ICF

The amounts of financial instruments (FI) and the amounts of money held by the Funds participants as of 31st of December, by types of participants – investment intermediaries, commercial banks-investment intermediaries and asset management companies - are presented in Table № 2.

The total amount of clients assets, eligible to compensation, is 1,33 billion BGN and the amount of those assets, not eligible to compensation is 11,01 billion BGN, i.e. about 8 times higher than the protected assets. It is evident that banks held almost three

times more clients' assets compared to the investment intermediaries.

The amount of the protected monetary funds held by investment intermediaries and asset management companies is 34 mln. BGN compared to the amounts of 41,16 mln. BGN assets that are not protected. The share of the available funds in the scheme (8,33 mln. BGN) in the protected clients' assets (1,33 billion BGN) is 0,6%. According to Art. 77s, Para. 1 in the LPOS, when the available funds in the scheme exceed 5% of the total amounts of clients' assets, held by all investment

intermediaries, the collection of contributions should be ceased, i.e. according to the data on clients'

assets as of 31st of December 2010 the target level should be 66 million BGN (5% of 1,33 million BGN).

Table № 2 Clients' Assets as of 31st of December 2010

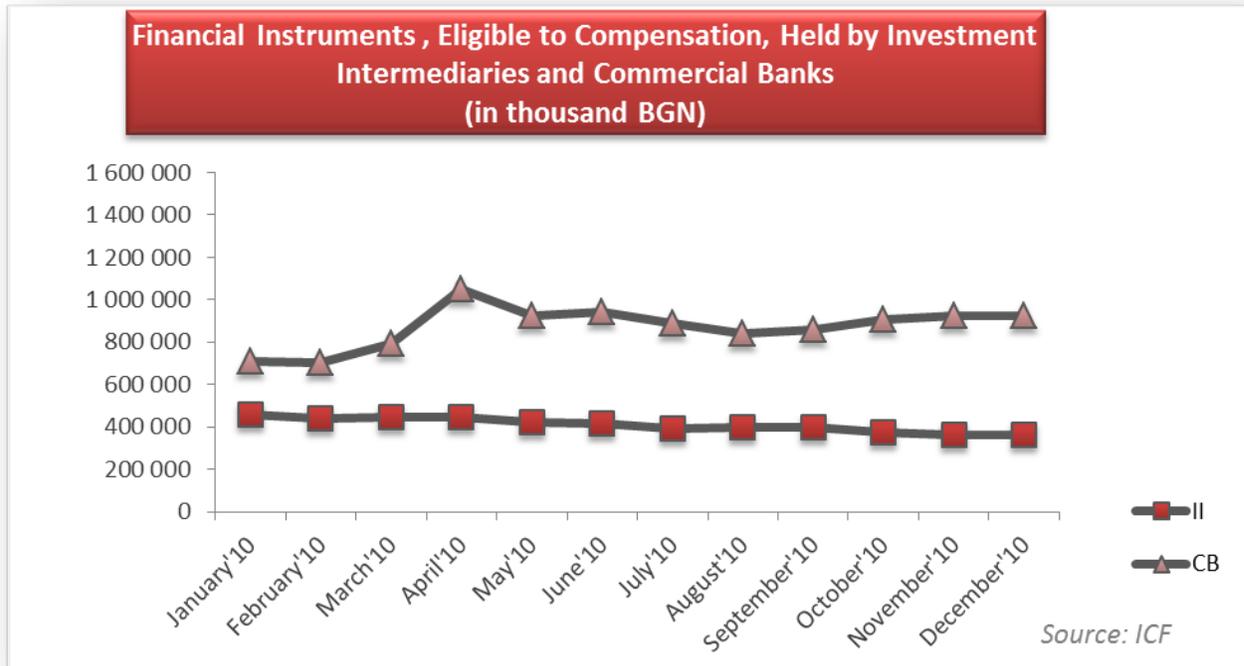
	Clients'Assets, Eligible to Compensation	Clients'assets, not Eligible to Compensation	Ratio Clients'Assets, Eligible to Compensation/ Clients'assets, Not Eligible to Compensation
	(BGN)	(BGN)	(%)
FI -CB	925 793 966	8 078 157 807	11,46
FI-II	362 012 077	2 876 495 466	12,59
Money-II	34 027 319	37 504 895	90,73
FI-AMC	3 250 164	13 728 654	23,67
Money -AMC	8 808	3 660 099	0,24
TOTAL	1 325 092 334	11 009 546 921	12,02

Source: ICF

In Annex № 3 the stock exchange capitalization is shown for the years 2009 and 2010 and the amount of financial instruments, eligible to compensation in the respective years. The share of financial instruments, eligible to compensation, in the amount of the stock exchange capitalization is low– it varies between 9,99 % and 12,21 %.

Figure № 5 shows the amount of financial instruments, eligible to compensation, by months for the year of 2010. Significant variations are not observed with the exception of April, when the amount of financial instruments, managed by the commercial banks, increases sharply.

Figure N° 5

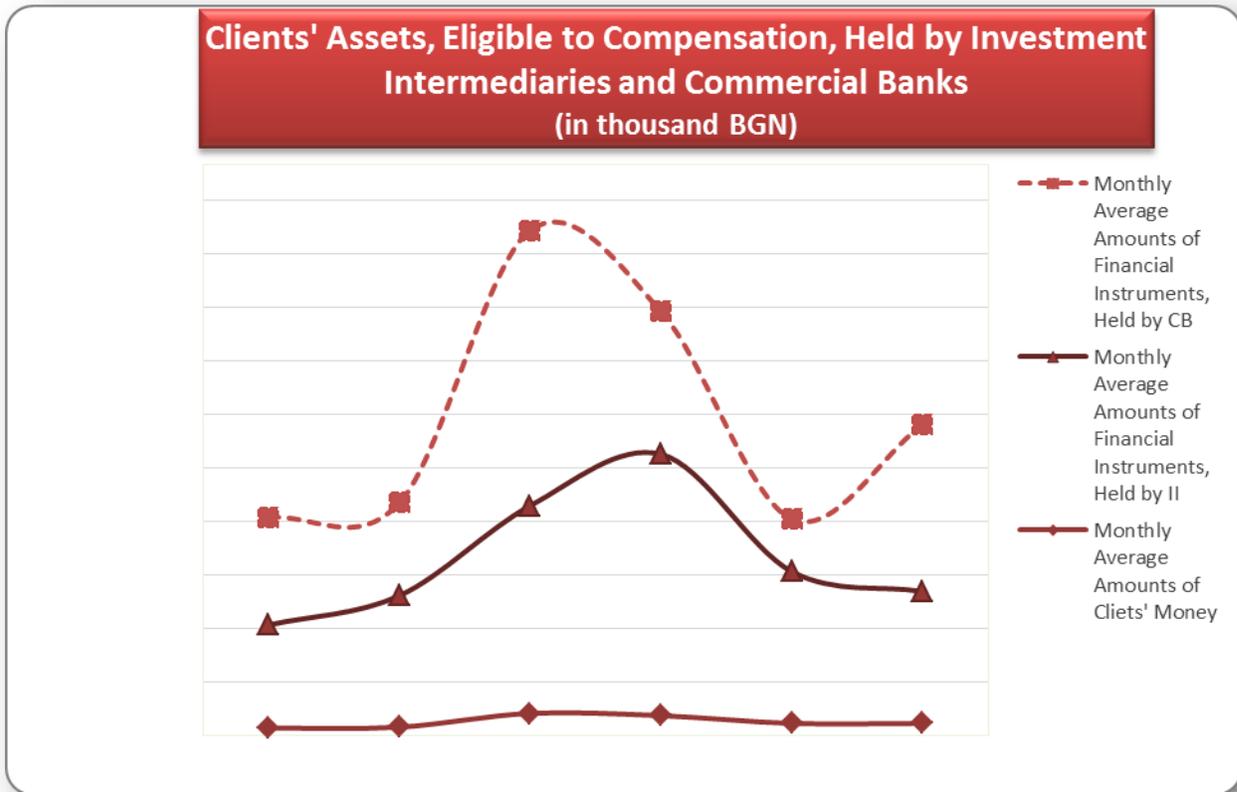


Comparing the monthly average amounts of financial instruments and monetary funds, held by investment intermediaries and commercial banks by years, it is evident that in 2010 the trend has been different at the commercial banks and investment intermediaries since the

establishment of the Fund till the end of 2010. (Figure N° 6).

In the past year the commercial banks recovered part of the lost value of their clients' assets during the crisis, while at the investment intermediaries the tendency is much more to intensifying the decrease.

Figure № 6



Source: ICF

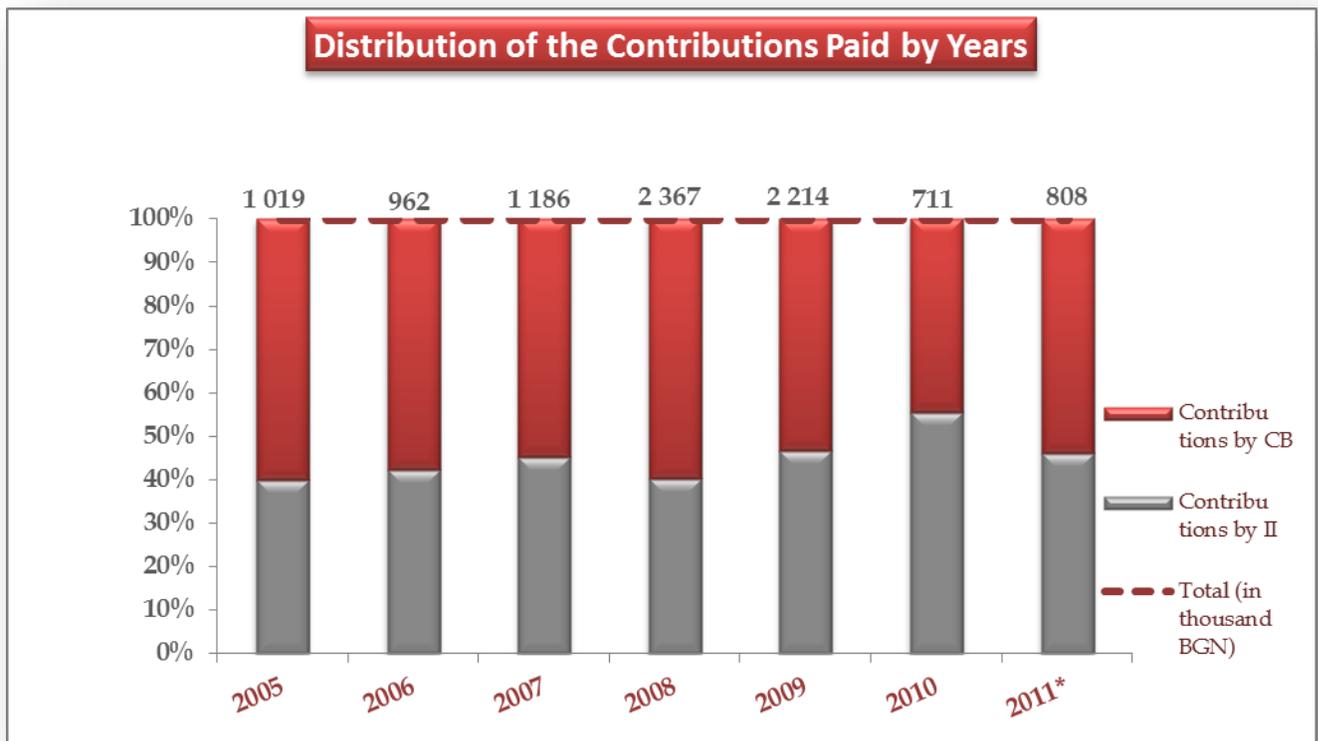
The monthly average amount of the financial instruments in 2010 comes to 1,28 billion BGN compared to 1,073 billion BGN in 2009. The monthly average amounts of clients' assets (monetary funds and financial instruments) form the basis for the calculation of the annual premiums that is due by the investment intermediaries to the Fund.

The annual payments to the Fund are made in four equal contributions that should be paid in the month following the quarter. The annual payments due by the participants for 2010 are 711 thousand BGN, i.e. about three times smaller compared to the annual payments due for 2009 r. (Figure № 7).

The reason for that is, on the one hand, the almost double decrease in the basis for calculations of the annual contributions, and on the other hand, the decrease in half of the amount of the contributions due on financial instruments. For the first time in 2010 the amount of the annual contributions paid by

investment intermediaries is higher than those paid by commercial banks. The preliminary calculations for the annual contributions due for 2011 show that higher annual contributions of about 100 thousand BGN compared with 2010 should be expected for the year of 2011.

Figure N° 7



* By preliminary data.

3.4 Fund's Exposure in Case of Eventual Activation of the Scheme

The Bulgarian scheme is one of the few schemes that makes an analysis on the possible obligations to the clients of the investment intermediaries that may arise in cases of eventual activation of the scheme. That type of analysis is based mainly on the information on the number of clients, distributed by groups of clients' assets as of the end of each semi quarter. The monthly information on the amounts of clients' assets, eligible to compensation, submitted by the participants in the scheme is used for the purposes of the analysis. Calculated on that basis the total amounts of the eventual claims is 277 million BGN as of 31st of December 2010, which makes 21% of all clients'

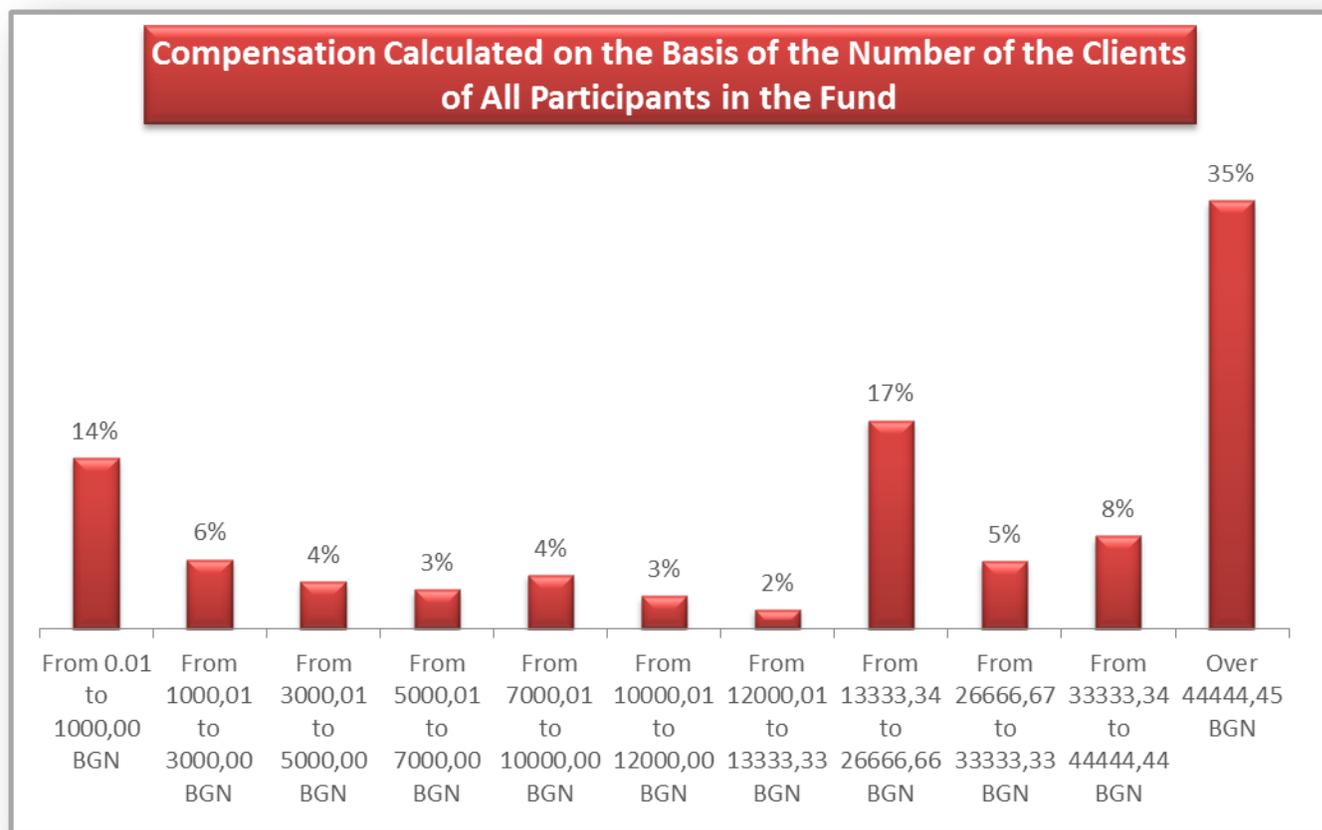
assets, eligible to compensation³.

Information on the number of clients by groups of clients' assets held by investment intermediaries and commercial banks is presented in Annex № 2. As of 31st of December 2010 the biggest share belonged to the retail investors (71,12%), which are those that possess assets at amounts up to 1000 BGN.

The clients that hold assets over 44 444 BGN are only 4,02% of all clients but they have the biggest share in cases of eventual compensation payments - 35% of the total amount of compensation (Figure № 8). If the limit of compensation rises to 50 000 EUR, the share of compensation paid to clients in the last group will be higher.

³ The maximum amount of compensation to the clients of one investment intermediary is calculated as 90% on the amount of clients' assets but not more than 40 000 BGN to an individual client. The calculations are made on the basis of the information submitted by the investment intermediaries and commercial banks as of 31st of December 2010. Due to the aggregated data, the calculated maximum amounts of compensation are a bit higher than the actual amounts

Figure N° 8



Source: ICF

Table № 3 presents the distribution of the participants in the scheme by the total amount of compensation that would be paid out in cases of eventual compensation payments to the clients of each intermediary taken on individual basis. The majority of the scheme participants fall within the level of compensation payments up to 500 000 BGN (25,33%), followed by the range of compensation payments from 1 to 2 million BGN (17,33%). The amounts, accumulated by the Fund as of 31st of December 2010 would be enough for

eventual compensation payments to the clients of some participants in the scheme falling within the first ranges or to participants in the scheme taken on individual basis falling within the ranges up to 8 million BGN. It is possible the amounts accumulated by the Fund to be insufficient for the compensation payments to the clients of 6 investment intermediaries, which may impose the collection of additional funds in accordance with the provisions set in Art. 77r in the LPOS.

Table 3 Distribution of the Participants in the Scheme in accordance with the Amounts of the Eventual Compensation Payments by the ICF

Amount of Compensation, Paid by the Fund to the Clients of Each Investment Intermediary on an Individual Basis	Number of Participants in the Fund (as of 31st of December 2009)	Distribution of the Compensation Paid by Groups as a Percentage to the Total Number of Intermediaries
From 500 000 BGN	19	25,33%
From 500 000,01 to 1 mln. BGN.	10	13,33%
From 1 000 000,01 to 2 mln. BGN	13	17,33%
From 2 000 000,01 to 3 mln. BGN	6	8,00%
From 3 000 000,01 to 4 mln. BGN	11	14,67%
From 4 000 000,01 to 6 mln. BGN	5	6,67%
From 6 000 000,01 to 8 mln. BGN	5	6,67%
Over 8 mln. BGN	6	8,00%

Source: ICF

Table № 4 shows the distribution of the participants in the scheme by the amounts of the monetary funds, held by them, that are eligible to compensation. The probability for a misuse with clients' money is higher

compared with financial instruments. For that reason the possibility for compensation payments that may arise on the monetary funds is much higher.

Table 4 Distribution of Investment Intermediaries in Accordance with the Monetary Funds Held by Them

Amount of Clients' Money	Number of Investment Intermediaries (as of 31st of December 2010)	Share in the Total Amount (%)
from 100 000 BGN	29	60
from 100 000,01 to 200 000 BGN	5	10
from 200 000,01 to 400 000 BGN	3	6
from 400 000,01 to 600 000 BGN	1	2
from 600 000,01 to 1 000 000 BGN	1	2
from 1 000 000,01 to 3 000 000 BGN	5	10
from 3 000 000,01 to 7 000 000 BGN	3	6
from 7 000 000,01 to 11 000 000 BGN	1	2
Total	48	100

Source: ICF

It is evident that there is a prevalence of the investment intermediaries that hold clients' money at the amounts less than 100 thousand BGN (60%). Nine investment intermediaries hold monetary funds at the amounts over than 1 million BGN and one investment intermediary holds

clients' money, eligible to compensation that are more than the money available at the Fund.

The amount of money, held by investment intermediaries, is about 34 million BGN and it represents 2,6% of the total amount of clients' assets, eligible to compensation.

3.5. Administration

The Fund's staff consists of five employees on a labor contract. Average, four persons were employed on a labor contract in 2010.

The quality and results of the staff's work is monitored and estimated by the Chairman of the MB in accordance with the requirements set in the Internal Rules. The Fund's administration aims to respond adequately to any issues that currently arise.

The successful cooperation with the participants in the scheme and the relevant institutions is of major importance for the Fund's activities.

The employees have the possibility to attend courses and seminars to increase their qualifications, which helps for increasing the efficiency and quality of work. The Fund performs balanced socially responsible policy to its employees, which results in improvements in the working environment in the recent years and decreases the fluctuations in the staff. The Fund's employees performed their duties in accordance with the legal requirements and Fund's Internal Rules in 2010

3.6. International Activities

In 2010 the Fund continued to perform its active international activities.

Despite the contacts performed along the Fund's membership in EFDI (European Forum of Deposit Insurers) and the relations established with the EU member-states investor compensation schemes, the Fund's representatives also participated in the discussions on the proposed changes in the Investor Compensation Scheme Directive (ICSD). In 2009 the European Commission sent several questionnaires to the investor compensation schemes on issues related to their activities. After the last questionnaire, received in November 2009, the EC organized on the 9th of February in Brussels a meeting with the participation of representatives of the investor compensation schemes. During that meeting issues related to the schemes' funding, minimum level of protection, delays in payments and others, were discussed. The Fund's participant actively took part in the discussion.

Subsequently, on the 12th of June 2010 the EC published its proposal

for changes in the Directive⁴. Annex N° 4 provides systemic information on the most important aspects in the EC proposal.

In August a meeting of the Working group existing at EFDI was held in London, where representatives from the investor compensation schemes from 14 member-states participated, incl. Bulgaria. As a whole all participants expressed the view that some of the EC proposals are disputable and they should become a subject of discussions.

That refers to the inclusion of UCITS in the investor compensation schemes, providing compensation to investors in cases of third party's (custodian) failure, increase in the level of protection from 20 000 EUR to 50 000 EUR, implementation of possibilities for cross border lending between the investor compensation schemes in the EU member states, etc. The meeting was useful and it contributed to working out a statement from each scheme and country on the EC proposal.

The Fund presented its expert opinion at the Ministry of Finance on the EC proposals and continued to support actively the communication between the Ministry of Finance and the EU Council. Since September 2010 the EU Council has initiated discussions by all EU member states on the proposed changes in the Directive. A representative of the Fund participated in one of the meetings where the Bulgarian position after preliminary agreement with the Ministry of Finance was expressed. In 2010 the EU member states and the European Commission didn't achieve an agreement on some issues, which postponed the adoption of the changes in the directive for the mandate of the Hungarian presidency in 2011.

In 2010 the Chairman of the Fund's MB participated in the EFDI Annual meeting in Rome, during which a conference was held, organized together with IADI (International Association of Deposit Insurers).

⁴ http://ec.europa.eu/internal_market/securities/isd/investor_en.htm

4. Directions in Fund's Activities in 2011

The participation of Fund's representatives in different international meetings in 2010 pointed new aspects in the Fund's activities, that would be of high importance in 2011. The expected changes in the Directive (*Annex N° 4*) are going to encourage improvements in the reporting and the preliminary analyses performed by the Schemes. The Bulgarian scheme is one of the most developed in that respect. The already created electronic system for processing the data submitted by the investment intermediaries is being improved and automated as in the forth coming years better efficiency of the software is expected to be achieved. The transposition of the new provisions in the national legislation after entering into force of the changes in the directive is expected and the Fund is going to participate actively in that process.

The Fund's experts will continue their successful cooperation with the participants in the scheme but they will also observe the performance of their obligations and in cases of any irregularities they are going to approach the respective supervisory

authorities as it is the current practice.

The joint activities of the EU investor compensation schemes were useful and productive when the possible changes in the directive were discussed in 2010. That made the European Commission to reconsider some of the proposals. In 2011 the Fund will also continue its cooperation with EFDI and the European investor compensation schemes. It is envisaged one of the meetings of the Working group in 2011 to be hosted in Bulgaria, which would have a positive influence on the reputation of the Bulgarian scheme.

The Fund will continue its cooperation with the schemes, whose members are the branches of foreign investment intermediaries that are active on the Bulgarian market.

As it is the current situation, the Fund's activities are going to be in compliance with the legal requirements, which is a prerequisite for the performance of its main aim – to contribute to increasing the stability and confidence in the capital market in the country.



Investment Intermediaries

1 ABV - Investments LTD	27 BenchMark Finance AD
2 Adamant Capital Partners AD	28 Beta Corp AD
3 Argo - Invest AD	29 Bul Trend Brokerage LTD
4 Aval In AD	30 Bulbrokers AD
5 Balkan Consulting Company EAD	31 Capital Ingeneer Project LTD
6 Balkan Investment Company AD	32 Capital Invest AD
7 BBG Simex - Bulgaria LTD	33 Delta Stock AD
8 BG Proinvest AD	34 EFG Securities AD
9 Bulex Invest AD	35 Elana Tradiing AD
10 Capital Markets AD	36 Euro-Finance AD
11 D.I.S.L. Securities AD	37 Faktori AD
12 Dealing Financial Company AD	38 Fiko Invest LTD
13 Eurodealing AD	39 Fina-C AD
14 Favorit AD	40 First Financial Brokerage House LTD
15 Global Markets LTD	41 FK Ever AD
16 Intercapital Markket AD	42 Focal Point Investment AD
17 KM Invets AD	43 Kapman AD
18 Naba Invest AD	44 Karol AD
19 Populyarna Kasa - 95 AD	45 Makkap Brokers AD
20 Positiva AD	46 Sofia International Securities AD
21 Real Finance AD	47 Somoni Financial Brokerage LTD
22 Standard Inverstment AD	48 Status Invest AD
23 Varchev Finance LTD	49 TBI Invest EAD
24 Zlaten Lev Brokers LTD	50 Tradevil EAD
25 Astra Investment AD	51 Ug Market AD
26 ABC Finance EAD	52 Zagora Finacorp AD

Commercial Banks – Investment Intermediaries

1. DSK Bank AD
2. Piraeus Bank Bulgaria AD
3. Bulgarian-American Credit Bank AD
4. Bulgarian Development Bank AD
5. Emporiki Bank- Bulgaria EAD
6. International Asset Bank AD
7. Corporate Commercial Bank AD
8. United Bulgarian Bank AD
9. Municipal Bank AD
10. First Investment Bank AD
11. Raiffeisenbank (Bulgaria) EAD
12. Societe Generale Expressbank AD
13. CIBANK PLC
14. Citibank N.A. - Sofia Branch
15. Allianz Bank Bulgaria AD
16. Investbank AD
17. MKB Unionbank AD
18. Tokuda Bank AD
19. D Commerce Bank AD
20. UniCredit Bulbank AD
21. Central Cooperative Bank AD
22. Texim Private Entrepreneurial Bank AD
23. Eurobank EFG Bulgaria AD

Source: ICF

Asset Management Companies

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|------------------------------------|--|
| 1 Adamant Capital Management EAD | 18 CCB Asset Management AD |
| 2 Aktiva Asset Management AD | 19 First Financial Brokerage House Asset Management AD |
| 3 Alpha Asset Management EAD | 20 Intercart Investment Asset Management AD |
| 4 Astra Asset Management AD | 21 Municipal Bank Asset Management EAD |
| 5 Avvora Capital AD | 22 Neway Asset Management AD |
| 6 Balkan Capital Management AD | 23 Raiffeisen Asset Management (Bulgaria) EAD |
| 7 BenchMark Asset Management AD | 24 Real Finance Asset Management AD |
| 8 Capman Asset Management AD | 25 Saglasie Asset Management AD |
| 9 DSK Asset Management AD | 26 Sentinel Asset Management AD |
| 10 Ekspat Asset Management AD | 27 Somoni Asset Management AD |
| 11 Elana Asset Management AD | 28 Standard Asset Management AD |
| 12 Invest Capital EAD | 29 Status Capital AD |
| 13 Invest Fund Asset Management AD | 30 TBI Asset Management EAD |
| 14 Karol Capital Management AD | 31 UBB Asset Management AD |
| 15 KD Investments EAD | 32 Ug Market Fund Management AD |
| 16 KTB Asset Management AD | 33 Ultima Capital Management AD |
| 17 Varchev Management Company AD | 34 Zlaten Lev Capital Asset Management AD |

Source: ICF

Distribution of the Number of Protected Clients and Potential Comensation by Groups of Clients' Assets as of 31st of December 2010

GROUPS OF CLIENTS' ASSETS	Number of Clients at Investment Intermediaries		Potential Compensation Paid to the Clients of Investment Intermediaries		Number of Clients at Commercial Banks		Potential Compensation Paid to the Clients of Commercial Banks		Total Potential Compensation by Groups of Clients' Assets Held at Investment Intermediaries and Commercial Banks	
	(in thousand BGN)				(in thousand BGN)				(in thousand BGN)	
From 0,01 BGN to 1000,00 BGN	34 308	74%	30 877	17,12%	8 445	61,27%	7 601	7,85%	38 478	13,88%
From 1000,01 BGN to 3000,00 BGN	4259	9%	11 499	6,38%	1 547	11,22%	4 177	4,31%	15 676	5,66%
From 3000,01 BGN to 5000,00 BGN	1710	4%	7 695	4,27%	652	4,73%	2 934	3,03%	10 629	3,83%
From 5000,01 BGN to 7000,00 BGN	1017	2%	6 407	3,55%	381	2,76%	2 400	2,48%	8 807	3,18%
From 7000,01 BGN to 10000,00 BGN	985	2%	8 865	4,92%	361	2,62%	3 249	3,35%	12 114	4,37%
From 10000,01 BGN to 12000,00 BGN	471	1%	5 087	2,82%	209	1,52%	2 257	2,33%	7 344	2,65%
From 12000,01 BGN to 13333,33 BGN	269	1%	3 228	1,79%	93	0,67%	1 116	1,15%	4 344	1,57%
From 13333,34 BGN to 26 666,66 BGN	1391	3%	33 384	18,51%	568	4,12%	13 632	14,08%	47 016	16,96%
From 26 666,67 BGN to 33 333,33 BGN	346	1%	10 380	5,76%	160	1,16%	4 800	4,96%	15 180	5,48%
From 33 333,34 BGN to 44 444,44 BGN	347	1%	13 880	7,70%	177	1,28%	7 080	7,31%	20 960	7,56%
Over 44 444,45 BGN	1226	3%	49 040	27,19%	1190	8,63%	47 600	49,15%	96 640	34,86%
Total	46 329	100%	180 342	100,00%	13 783	100,00%	96 846	100%	277 188	100%

Source: ICF

Stock Exchange Capitalization and Financial Instruments, Eligible to Compensation

Year	2010								2009		
	Stock Exchange Capitalization	Percentage Change in the Stock Exchange Capitalization in 2010 Compared to 2009	Financial Instruments, Eligible to Compensation Held by All Investment Intermediaries	Financial Instruments, Eligible to Compensation Held by Commercial Banks	Financial Instruments, Eligible to Compensation Held by All Intermediaries	Stock Exchange Capitalization	Financial Instruments, Eligible to Compensation Held by All Intermediaries				
	In thousand BGN		In thousand BGN	Share in the Stock Exchange Capitalization	In thousand BGN	Share in the Stock Exchange Capitalization	In thousand BGN	Share in the Stock Exchange Capitalization	In thousand BGN	In thousand BGN	Share in the Stock Exchange Capitalization
Month	(1)	(2) = [(1) - (9)] / (9)	(3)	(4) = (3) / (1)	(5)	(6) = (5) / (1)	(3) + (5)	(7) = (7) / (1)	(9)	(10)	(11) = (10) / (9)
January	9 917 224	-1,48%	455 498	4,59%	707 773	7,14%	1 163 271	11,73%	10 066 712	1 005 396	9,99%
February	9 639 360	22,40%	439 617	4,56%	703 119	7,29%	1 142 736	11,85%	7 875 008	916 003	11,63%
March	9 773 268	15,97%	446 457	4,57%	792 286	8,11%	1 238 743	12,67%	8 427 668	950 980	11,28%
April	9 885 922	3,57%	443 817	4,49%	1 048 693	10,61%	1 492 509	15,10%	9 544 793	1 045 053	10,95%
May	9 152 322	-5,65%	420 922	4,60%	923 350	10,09%	1 344 272	14,69%	9 700 744	1 106 473	11,41%
June	9 031 604	-2,13%	417 436	4,62%	942 315	10,43%	1 359 751	15,06%	9 228 226	1 076 107	11,66%
July	9 030 365	3,46%	393 969	4,36%	888 213	9,84%	1 282 182	14,20%	8 728 530	1 065 382	12,21%
August	9 244 360	-7,15%	396 624	4,29%	838 035	9,07%	1 234 659	13,36%	9 956 549	1 127 381	11,32%
September	9 284 840	-12,26%	399 319	4,30%	860 524	9,27%	1 259 843	13,57%	10 582 585	1 197 840	11,32%
October	8 896 639	-11,14%	372 927	4,19%	908 167	10,21%	1 281 094	14,40%	10 011 721	1 190 098	11,89%
November	9 173 692	-5,66%	364 307	3,97%	923 937	10,07%	1 288 245	14,04%	9 724 485	1 183 380	12,17%
December	9 342 040	-8,06%	362 017	3,88%	925 794	9,91%	1 287 811	13,79%	10 161 275	1 240 903	12,21%

Source: BSE Internet Site; ICF

Main Aspects in the EC Proposal for Changes in Directive 97/9/EC on Investor Compensation Schemes, Published on the 12th of July 2010



Changes in Directive 97/9/EC on the investor compensation schemes have not been made since its creation in 1997. For that period of 13 years the capital market has gone through many significant developments. The reason for the creation of investor compensation schemes is the necessity of protection of the retail investors in cases when investment intermediaries, holding their financial assets, are not able to return them back due to reason directly related to the financial state of the investment intermediaries. Usually, such situations arise in cases of fraud or misuse of clients' assets by the investment intermediaries. By its activities investor compensation schemes contribute to maintaining the confidence in the capital market.

By the adoption of the Markets in Financial Instruments Directive (MiFID) the scope of financial instruments and services has expanded. The current changes, proposed by the EC, aim at achieving compliance between both directives (MiFID and Directive 97/9/EC) directed to the financial instruments and services, which are regulated and protected as well as in the scope of investors. That direction of changes is important for the stability of the capital market but on the other hand

some important issues arise, that should be additionally investigated and analyzed. On the 12th of July 2010 the EC officially published its proposal for changes in the European Directive on Investor Compensation Schemes accompanied by an analysis of the activities of the schemes. The proposed activities affect all main activities of the schemes. A summary of the proposal is made below, as it is important to note that this is the first EC proposal and its discussion will continue in the future, i.e. when the new Directive enters into force it is possible some changes in the proposal to take place.

I. Increase in the Compensation Limit

The current Directive requires the minimum level of compensation, provided by each scheme to be 20 000 EUR. Due to the changes in the level of the guaranteed deposits, which was first increased to 50 000 EUR and then as of the beginning of 2011 that level reached 100 000 EUR as well as due to the accumulated inflation in the last 13 years, the EC proposes an increase in the limit of compensation up to 50 000 EUR. It is important to note that the EC proposes removing the minimum

compensation but at the same time a common level of compensation is implemented for all member states. The result of that proposal will affect those schemes providing a limit of compensation over 50 000 EUR because they will be forced to decrease that level, which would not be a good signal for the investors, protected by those schemes.

On the other hand, the schemes providing a limit of compensation up to 20 000 EUR should increase that level 2,5 times, which would burden many times the expenditures that may arise in cases of compensation payments.

The proposal foresees removing the option for co-funding, where part of the risk is carried by the investors. The new provisions foresee paying 100% of the protected clients' assets. Currently, the directive gives the possibility 10% of the risk to be carried by the investors and the aim of that option was to limit the moral hazard in the choice of an investment intermediary by the clients.

The EC proposal foresees the Commission to be able to change the level of compensation taking into consideration definite conditions, e.g. the rate of inflation, etc.

II. Inclusion of UCITS in the Scheme

The EC proposal foresees schemes to compensate investors' losses in UCITS, when the undertakings for collective investments are not able to restore money or financial instruments due to reasons directly related to the depositories of the UCITS, where the investors hold their shares or money.

III. Provided Coverage by the Schemes in Cases of Third Party Failure (Custodian)

According to the proposed changes the cases where the schemes are going to recover the investors money, will depend not only on the financial state of the investment companies but also on the financial circumstances of each third party where the financial intermediaries have deposited their clients' financial instruments in cases when that third party is not able to recover them.

IV. Implementation of a Minimum Level of the Available Resources in the Schemes

As not all of the schemes are funded in advance, the EC proposes the schemes to collect a monetary fund of 0,5% on the clients' money and financial instruments, eligible to compensation and that fund should be invested in deposits and low risk assets with a maturity not longer than 2 years.

V. Requirements for an Ex-ante Funding of the Schemes

Currently many of the EU schemes collected contributions after an event of a scheme activation, which requires compensation payments. The EC proposes that possibility to be removed and each scheme to collect funds in advance in the form of annual contributions paid by the participants and the accumulated contributions will be used for compensation payments.

VI. Creation of Possibilities for Mutual Funding between the EU Investor Compensation Schemes

Due to the cases of shortage of funds in the past in the compensation payments by some of the European schemes, the EC proposes a mechanism for mutual funding between the schemes. That mechanism foresees each scheme to allocate 10% of the preliminary targeted fund, which should be used by the EU schemes that are in need. That process should be coordinated and controlled by the European Securities and Markets Authority (ESMA), which is part of the newly created European Council for Systemic Risk. The parameters of that credit mechanism foresee loans to be granted for a period of up to 5 years at an interest rate corresponding to the marginal interest rate on loans, defined by the ECB.

VII. Possibilities for Partial Compensation Payments

In Art.9, item 2 in the Directive a new text is added, which allows payment of a partial compensation at the amount of 1/3 of the investor's claim and that payment is based on the preliminary estimation made by the assignee in bankruptcy on the amount of the respective claim. The rest of the payment should be performed after the 9-months period, since the initiation of the claim, has been expired. The reasons

for that proposal made by the EC are the problems that have arisen at some schemes when they were forced to collect additional contributions in order to be able to pay the due compensation payments, which resulted in a delay in their payment for years (e.g. the Czech Republic, but not only there). The implementation of partial compensation payments aims at decreasing the investors' discontent in cases where additional time is necessary to reveal cases of misappropriation and to clarify the facts. That decision could also provide faster recovery of the investors' money. The proposed draft for changes in the directive also foresees the obligation of the member states to guarantee that the investor compensation schemes will be able to recover partially the compensations which have been paid out illegally.

Taking into consideration the huge differences in the schemes' history and organization in the EU member states, it is very probable some of the EC proposals to be changed before the final adoption of the draft by the European Parliament. Until the end of 2010 a consensus among the member states was not achieved. The discussions are going to continue in 2011. After the adoption of the changes by the European Parliament and their coming into force, the EU member states are going to have a period of one year in order to transpose the new provisions in their national legislation.