

**RULES FOR VALUATING CLIENT ASSETS AT INVESTMENT INTERMEDIARY BENCHMARK
FINANCE JSC**

I. FRAMEWORK

1. These rules (The Rules) are accepted under Article 7a from Regulation No: 23 for the procedures of valuating client assets of the Financial Supervision Commission (Regulation No: 23).
2. Words and phrases used in these Rules have the meaning and importance that the Law on the Financial Instruments Market, Law on Public Offering of Securities, Regulation No: 23 from 08.02.2006 of the Financial Supervision Commission for the procedures of valuating client assets (Regulation) and internal acts of "BenchMark Finance" JSC attach to them.
3. The financial instruments and other such assets maintained, administrated or managed at the expense of the clients in regard to the services provided by "BenchMark Finance" JSC under Article 5, Paragraph 2 and 3 from the Law on the Financial Instruments Market including interests, dividends and other similar payments, are evaluated under the present Rules.
4. Client assets that are not subject to such valuation are the assets of:
 - 4.1. Members of Board of Directors and procurators;
 - 4.2. Individuals who possess 5% or more direct or indirect votes in the general meeting of the company and can be controlled, as well as the individuals belonging to the same group to whom the investment intermediary also belongs and for which are the consolidated statements drawn up;
 - 4.3. The registered auditor who has audited the annual financial report of the investment intermediary;
 - 4.4. Spouses, lineal ascendants or descendants without any constraints to second degree, including affinity to second degree including individuals under Subparagraphs 4.1, 4.2 and 4.3.;
 - 4.5. Investment intermediaries;
 - 4.6. Credit institutions;
 - 4.7. Insurers;
 - 4.8. Pension and retirement funds;
 - 4.9. Investment firms of closed-end type, collective investment schemes and special purpose investment companies;
 - 4.10. Government and state institutions;
 - 4.11. Municipalities;
 - 4.12. Investor-compensation fund, The fund of bank deposit guarantee and the Guarantee Fund under Article 287 from the Insurance Code;
 - 4.13. Other professional clients under Paragraph 1, Point 9 from the additional provisions in the "Law on the Financial Instruments Market".
5. Client assets are priced on a monthly basis on the last day of the month at market value and the results of the valuation are presented on a paper and/or electronic carrier until the 10th digit number of every month in the Financial Supervision Commission and the Investor-compensation fund with reference to the client assets around the last digit of the previous month.
 - 5.1. When the last digit number of the month is a non-working day, the client assets are valued in the last working day of the month concerned.
 - 5.2. Information for the cash due or belonging to the clients of the investment intermediary which they hold at their expense in regard to service or activity performance under Article 5, Paragraph 2 and 3 in the Law on the Financial Instruments Market, is included in the reference.

II. AIMS AND PRINCIPLES ON WHICH VALUATION OF CLIENT ASSETS IS BASED

6. The valuation under the current Rules is done for the purpose of:

6.1. Calculating the amount of the annual payment due by the intermediary to Investor-Compensation fund;

6.2. Determination of the compensation amount which Investor-compensation fund pays to the clients of the intermediary under Article 776, Paragraph 1 from the Law on the Public Offering of Securities.

7. Principles on which the valuation of the assets of the clients is based are:

7.1. Lawfulness of valuation activities;

7.2. Use of unified and coherent system for valuation of the assets of intermediary's clients;

7.3. Establishing a system for collecting information with clearly defined and reliable sources of information for valuation aims;

7.4. Assets are priced:

a) in case of initial acquisition of the assets – according to its acquisition cost;

b) in case of subsequent valuation of assets – according to their market cost in all cases when they have it.

7.5 When assets do not have a market price, they are priced at their fair value and agreed methods of valuation are used.

III. SYSTEM FOR COLLECTING INFORMATION RELATED TO THE VALUATION OF ASSETS. SOURCES OF INFORMATION

8. At determination of the cost of the financial instruments of the clients some of the following data, analyses and factors are used and taken into consideration:

8.1. Declared issue price of issuer's securities in a prospectus for public offering;

8.2. Decision to increase or decrease the capital of the issuer;

8.3. Decision of business-issuer-reorganization and the security cost/exchange ratio declared in the reorganization plan or the financial instruments issued by the issuer;

8.4. Any amendments in the trading activity of the issuer affecting the cost of their financial instruments;

8.5. Changes in the statute of the issuer;

8.6. Cost of trading proposal approved by the Financial Supervision Commission;

8.7. Analysis of the business sector in which functions the issuer;

8.8. Analysis of the general state of the financial instrument market;

8.9. The presence of option contracts for the given financial instruments;

8.10. Trading and cost of financial instruments of similar issuers for local and foreign market data;

8.11. Regular newsletters of official statistical institutes.

9. The main sources of information used for determining client asset valuation, are as follows:

9.1. The official newsletter of the stock exchange;

9.2. The register of the public companies in the Financial Supervision Commission;

- 9.3.** Annual and interim financial statements;
- 9.4.** Prospects for public proposals of securities;
- 9.5.** Official quotes of primary dealers of securities;
- 9.6.** Official newsletters of National Statistical Institute and Bulgarian National Bank;
- 9.7.** Quotes, newsletters and analyses of local and foreign places of enforcement.

The abovementioned sources are of a recommending and not obligatory nature and this is not an exhaustive list. Using and quoting a certain source in the present rules binds on the investment intermediary as much as the information has become popular and publicly accessible before the valuation, and only as much as the intermediary has had an access to the source of information concerned.

IV. METHODS OF VALUATING CLIENT ASSETS

10. The client assets are priced according to:

10.1. The market value of the shares admitted to a regulated market, determined by the closure cost of the regulated market on the last digit of the month for which the valuation is prepared, respectively the day in which the decision under Article 776, Paragraph 1 from The Law on Public Offering of Securities was taken. If there are no transactions concluded during this day, the market value is determined under the cost of closure of the regulated market for the closest from the two-month-period day to the day predating the day from the first sentence;

10.2. The market value of the shares admitted to another regulated market or their trading is done on another place of enforcement, is determined by the cost of closure or a similar indicator disclosed publicly from the trading venue at which the largest share volume is traded for the relevant day;

10.3. The market value of the bonds and other financial instruments admitted to regulated market is determined under Point 10.1 and 10.2 if the information is published under conditions and order similar to those of the transactions concluded with the relevant financial instrument, laid down for the shares;

10.4. The market value of shares and units of collective investment schemes is the lastly quoted buy-back price. When the shares of the contractual funds have not reached the minimum required net value of shares of 500 000 BGN, the net value of the shares of one share unit is considered market value;

10.5. The market value of state securities issued by Republic of Bulgaria, is the cost defined as arithmetic average "buy" price declared by two primary dealers at the last digit of the month for which the valuation is prepared and for the day in which the decision under Article 776, Paragraph 1 from the Law of Public Offering of Securities is respectively enforced;

10.6. When shares are subject to public offering in Republic of Bulgaria and are not admitted to trading on a regulated market, they are priced at the cost from the period of acquisition to the publication of the given financial statement of the company – issuer, containing the data under Point 11 from the current rules.

11. Where it is impossible to form the market value of the financial instruments in accordance with Points 10.1 to 10.5 from the current rules including when the financial instruments are not admitted to trading on a regulated market, the market value is determined as follows:

11.1. For the shares of a public company which have been subject to public offering in Republic of Bulgaria or shares of a company admitted to a regulated market, it is determined under the method of net book value of assets on the basis of information from the latest published financial report of the company – issuer of the shares. Under this method, the value of a share is

determined as follows: the assets on the balance of the company reduced with the amount of the current and non-current liabilities on the balance are divided to the number of the shares (without the bought-back by the company shares, if the net book value is positive);

11.2. For the bonds – under the method of the discounted future net cash flows bearing in mind that the discount factor is determined by the intermediary of the relevant year until 31st of January and reflects the minimum base rate of Bulgarian National Bank at the end of the previous year and the inflation rate for the previous year declared by the National Statistic Institute;

11.3. For shares not admitted to trading on a regulated market – under the method of net book value of the assets on the basis of the information from the latest published financial report of the company bearing in mind that the value of a given asset is determined when the assets on the balance of the company, less the current and non-current liabilities on the balance are divided to the number of assets without the ones that are bought-back by the company, if the net balance is positive;

11.4. For financial instruments and other client assets except for the ones under Paragraph 11.1, 11.2 and 11.3 – under generally accepted valuation methods.

12. The net book value method is applied also at valuation of assets and of shares of collective investment schemes in the event of buy-back suspension.

13. The asset value, the current and non-current liabilities of the company at applying the net book value method, is determined on the basis of the lastly published balance sheet.

14. The client assets in foreign exchange are converted in their equivalent in BGN at the exchange rate of Bulgarian National Bank at the last working day of the month which the valuation is prepared for and respectively for the date of the decision under Article 776, Paragraph 1 from the Law on Public Offering of Securities.

15. The assets of a public company which are in the process of being wound up or insolvency or the trading of the assets on a regulated market has been suspended and there is no concluded contract for over 2 months, are valued under the net book value method of the assets on the basis of the lastly published balance sheet of the company – issuer of the shares.

16. The shares of the company that is removed from the commercial registry towards an entry agency, regardless of whether the removal of the company has occurred due to a process of being wound up or insolvency, are excluded from the valuation of client assets.

17. In all cases where given securities are priced under the method of assets net book value on the basis of the lastly published balance sheet of the company and the so calculated net book value of the shares is negative, then these securities are priced at zero.

18. The intermediary takes the client assets into account similarly for valuating purposes and stores the information and documents, which have served for valuation of the financial instruments and other client assets within 5 years.

V. SUBSEQUENT VALUATION OF CLIENTS` ASSETS OF THE INTERMEDIARY

19. The subsequent valuation of shares and rights accepted for trading of securities on a regulated market in Bulgaria is done:

a) under the closing price for the current working day, announced in the stock-list.

b) if there are no concluded transaction during the day, the market value is determined under the closing price of the regulated market for the closest day of the two-month-period, prior to the day on subparagraph a).

c) where it is impossible to apply the asset valuation methods from subparagraph a) –b), and for the shares that are not traded on regulated markets, the subsequent valuation is done by applying

the net book value method (Application 2) or applying some of the following valuation methods respectively:

- ▶ The price-earnings ratio method of comparable companies (Application 1).
- ▶ The method of discounted net cash flow (Application 3).

d) in the event of acquisition of (new) shares from a company as a result of capital increase with the means of the same company, a receivable is recognized as from the date, from which the share owners of the company do not have right of share from the capital increase – the date, after which a concluded transaction with the shares do not affect the right to obtain new shares until the date of registering the capital increase and its listing to JSC Central Depository.

The value of receivables is equal to the product of the number of new shares and the price of a new share.

$$R = N_n \times P_n,$$

where :

R – receivable,

N_n – number of new shares,

P_n – price of a new share.

The price of a new share is obtained when the last valuation price of an “old” share is divided to the amount from the number of new shares, obtained from an “old” share and one 1 “old” share.

$$P_n = \frac{P_0}{(N_r + 1)},$$

where:

P_n – price of a new share,

P_0 – final valuation cost of an “old” share,

N_r – number of new shares for an “old” share.

From the date of listing the new shares to JSC Central Depository, to the date of their introduction to trading to Bulgarian Stock Exchange – Sofia, the new shares are recognized under a cost, calculated according to the following formula:

$$P_n = \frac{P_0}{(N_r + 1)}$$

where:

P_n – price of a new share,

P_0 – final valuation cost of an “old” share,

N_r – number of new shares for an “old” share.

After listing the new shares for trading on the Bulgarian Stock Exchange – Sofia, the subsequent valuation is done in accordance with the valuation methods of securities traded on a regulated market.

e) in the event of obtaining (new) shares from a particular company as a result of the division of the already existing shares (split), a receivable is recognized as from the date, from which the new shares are already separated from the existing shares – the date, after which concluded transactions with the shares do not affect the right to obtain new shares to the date of registering the capital increase and its listing to JSC Central Depository.

The cost of the receivable is equal to the product of the number of new shares and the cost of one new share.

The cost of a new share is obtained by dividing the final valuation price of an “old” share to the number of new shares, acquired for an “old” share.

$$R = N_n \times P_0 \times \frac{1}{N_r},$$

where:

R – receivable,

N_n – number of new shares,

P_0 – final valuation price of an “old” share,

N_r – ratio split.

From the date of entering the new shares into JSC Central Depository to the date of their introduction to trading on Bulgarian Stock Exchange – Sofia, the new shares are recognized under a price, calculated according to the following formula:

$$P = P_0 \times \frac{1}{N_r}$$

where:

P – price of a new share,

P_0 – final valuation price of an “old” share,

N_r – ratio split

After introducing the new shares to Bulgarian Stock Exchange – Sofia, their subsequent valuation is done in accordance with the valuation methods of securities traded on a regulated market.

f) the methods for determining price for subsequent revaluation described in subparagraphs c), d) and e) can be corrected with coefficients, based on data and circumstances representing important information under Article 28, Paragraph 2 from Regulation No: 2 for the prospects of public offering of securities and disclosure of information from public companies and other issuers of securities.

g) where it is impossible to apply the ways of evaluating rights from subparagraphs d), e), the subsequent valuation is done under price, representing the difference between the price of the existing shares of the company, determined according to the requirements of subparagraphs a) – c) and the nominal value of the new shares from the capital increase, multiplied by the number of shares' ratio in one right.

h) in the event of obtaining rights from a company at capital increase through issue of shares, receivable (of rights) is recognized from the date of registering the rights in JSC Central Depository to the date of introducing them for trading on Bulgarian Stock Exchange – Sofia.

The price of the right is calculated by the following formula:

$$P_r = P_l - \frac{P_l + P_i \times N_r}{N_r + 1}$$

where:

Pr – price of right,

Pl – price of final valuation of the share (prior to right separation),

Pi – nominal value of the new shares,

Nr – number of shares in one right.

i) from the share payment date as a result of exercising rights until the registration date of the capital increase and its listing in JSC Central Depository, the registered shares are reflected as taking which is formed as the number of the registered shares is multiplied by the amount of the value of one right under the last evaluation, before registering the shares divided by the number of shares in one right and the emission value of one share.

$$R = N_n \times \left(P_i + \frac{P_r}{N_r} \right),$$

where:

R – receivable,

N_n – number of inscribed shares,

P_i – nominal value of a share,

P_r – cost of one right,

N_r – number of shares in one right.

From the date of listing the new shares in JSC Central Depository to the date of introducing them for trading on the Bulgarian Stock Exchange – Sofia, the new shares are recognized under the price, calculated by the following formula:

$$P = P_i + \frac{P_r}{N_r}$$

where:

P – price of the share,

Pi – nominal value of a share,

Pr – cost of one right,

Nr – number of shares in one right.

After introducing the new shares to trade on Bulgarian Stock Exchange – Sofia, their subsequent valuation is done in accordance with the valuation methods for securities traded on a regulated market.

j) in the event of obtaining shares from Joint Stock Company as a result of initial public offering, the shares are recognized from the date of their registration in the Central Depository JSC. The subsequent valuation of the shares from the date of their registration in the Central Depository JSC to the date of their admission for trading on the Bulgarian Stock Exchange – Sofia, is done under the price equal to the amount of the nominal value of a share and the cost of one right under the final valuation before the subscription of the relevant shares, divided to the number of shares in one right.

The calculation of the price is done under the following formula:

$$P = P_i + \frac{P_r}{N_r}$$

where:

P – price of share,

P_i – nominal value of a share,

P_r – value of a right,

N_r – amount of shares in a right

k) the subsequent valuation of shares, issued by investment company of open-ended type and respectively shares on agreement fund, including cases of temporary suspension of the buy-back, is done under the final announced price for buy-back. Subsequent valuation for shares on fund which has not reached the minimum amount of assets' net book value under Article 166, Paragraph 3 from the Law on Public Offering of Securities, is done under the final determined and announced nominal value of a share, less the amount of the expenses foreseen in the rules of the agreement fund with regard to the issue and buy-back of a share.

20. Subsequent valuation of bonds, accepted for trading of securities on a regulated market is done:

a) the closure price of the current working day, announced in the exchange newsletter.

b) if there are no concluded transactions during the current day, the market value is determined under the closure price of the regulated market for the day closest to the two-month-period, prior to the day from subparagraph a).

c) if subsequent valuation is done on bonds under which interest payment is due and the price announced in the exchange newsletter is net, the subsequent valuation is formed by adding the coupon payment due towards the date of completing the valuation to the announced in the newsletter price.

The cost of the accrued interest is determined by using the following formula:

$$AccInt = F * \frac{C}{n} * \frac{A}{E}$$

where:

AccInt – the accrued coupon payment

F – principal amount (nominal value) of the bond

C – annual coupon payment

n – the number of the interest payment per annum

A – past interest days from the beginning of the interest period to the date of calculations. Days are calculated on 30-days in a month-basis or real number of days depending on the regulation in the prospect for the relevant issue.

E – the number of days in the current interest period. Days are calculated on a 360,364,365,366 days in the year basis or a real number of days depending on the regulation in the prospect for the relevant issue.

The accrued coupon payment towards the day of completing the valuation is added to the net price and the calculated gross price is used for subsequent valuation of the bond.

d) where it is impossible to apply subparagraphs a) and b), the discounted cash flow method is applied under the formula hereinafter with a discount norm at forming price for subsequent valuation of bonds traded on a regulated market as well as for subsequent valuation of bonds that are not traded on regulated markets of securities:

- ▶ The present profitability to the maturity of the securities with similar characteristics (type, terms of payment and maturity), traded on regulated markets of securities, corrected with risk premium reflecting the risk of the issuer. The choice of the security whose profitability to maturity will be used as discount rate, are justified by comparative analysis. The source of information for the comparative characteristics is the daily newsletter of Bulgarian Stock Exchange – Sofia;
- ▶ The present profitability to the maturity of state securities with similar terms of payment and maturity, corrected with a risk premium reflecting the risk of the issuer and the given security.
- ▶ The following formula is used under the discounted cash flow method:

$$P = \sum_{i=1}^N \frac{C/n}{(1+r/n)^i} + \frac{F}{(1+r/n)^N}$$

where:

P – price of security

F – principal amount of security

C – the annual coupon of bond

n – number of interest payments per annum

N – total number of interest payments

r – discount rate

i – order number of interest payment

21. Subsequent valuation of state securities issued in the country is done:

a) on the basis of average “buy” prices for the present working day, announced by at least two primary state security dealers.

b) if the price is calculated on the basis of the presented by the primary dealers gross prices, it is used directly for revaluation. Provided that the price is net on the basis on interest characteristics of periodicity and level of coupon payment, it is converted to gross price and is used for revaluation afterwards.

c) where it is impossible to apply subparagraph a), the discounted cash flow method is used. The prices of the last issues with the relevant maturity, which the primary dealers are obliged to quote, are used as a base for the calculations. The newest emissions with relevant maturity are hereafter shortly named “principal issues”. The issue whose price should be determined is named “wanted issue”.

The price calculation of the given issues is done in accordance with subparagraph a).

The price calculation of the given issues via the linear interpolation method goes through the following stages:

- ▶ Income curve is formed on the basis of average prices of the principal issues;
- ▶ Depending on the remaining life of the maturity of the wanted issue, its location is determined according to the closest prior and closest further in terms of time principal issues;
- ▶ The difference (in days) between the term to the maturity of the two principal issues and the difference in their income to the maturity is determined;

- ▶ A multiplier is calculated as the difference in the income until the maturity is divided to the difference in the days until the maturity;
- ▶ The difference in the days until the maturity of the wanted issue and the prior principal issue is determined;
- ▶ The resulting difference is multiplied with the multiplier from the previous stage in order to calculate the difference in the income to the maturity of the wanted and principal emissions;
- ▶ The income to the maturity of the wanted issue is obtained by adding the resulting difference in the incomes from the previous stage to the profitability of the principal issue, prior to the wanted issue.
- ▶ The gross price of the wanted issue is calculated on the basis of the resulting income to its maturity, by using the following formula:

$$P = \sum_{i=1}^N \frac{C/n}{(1+r/n)^i} + \frac{F}{(1+r/n)^N}$$

where:

P – price of the security

F – principal amount of the security

C – annual coupon of the bond

n – number of the interest payments per annum

N – total number of interest payments

r – discount rate (equal to the income until the maturity)

i – order number of the interest payment

The price calculated under this formula is gross and is used directly for subsequent revaluation of the relevant debt security.

22. Subsequent revaluation of bonds issued abroad by the Bulgarian state is done:

- a) under "buy" price at market closure on the day of the revaluation, published on the electronic system for price information of securities.
- b) if the security market has not closed until 3pm on the revaluation day – under "buy" price at this hour on the revaluation day, published on the electronic system for price information of securities.
- c) if the foreign exchange market of securities does not work on the revaluation day – under "buy" price at market's closing for the last working day, published on the electronic system for price information of securities.
- d) if the price calculated under subparagraphs a) – c) is gross, it is used directly for revaluation. Provided that the price is net with regard to the interest characteristics of periodicity and level of coupon payments, it is converted into gross and is then used for revaluation.
- e) Where it is impossible to apply the valuation manners from subparagraphs a) – d) the method described in Article 21, Paragraph c) is used.

23. The subsequent valuation of foreign securities admitted to trading on internationally recognized and liquid regulated markets of securities abroad, is done:

- a) under the final price of a transaction concluded with them on the valuation day when closing the regulated market where they are traded.

b) if there are no concluded transaction during the present day, the market value is determined under the price of closing the regulated market for the day closes to the two-month-period prior to the day from subparagraph a).

c) when on the relevant market, a net price for bonds is declared, their subsequent valuation is done by adding the coupon payment due for the date of doing the revaluation to this price.

d) if subparagraphs a) and b) cannot be applied, the valuation of the type of securities is done by applying relatively Article 19, Paragraph c) or Article 20, Paragraph d).

24. The subsequent valuation of security derivatives admitted to trading on internationally recognized and liquid regulated markets of securities abroad, is done in accordance with Article 23, Paragraphs a) and b). Where it is impossible to apply the previous sentence, the subsequent valuation is done under the methods described in detail in Application 4

25. When marketing on a regulated market in state's working days does not take place or when particular securities are temporarily suspended from trading, for subsequent valuation of securities admitted to trading on a regulated market, is considered the valuation valid for the day of the last trading session. At subsequent valuation of bonds under sentence one, the accrued interest for the relevant days is taken into account, too.

The rule is not applied when on the regulated market trading sessions do not take place for more than 5 working days. In such case, the subsequent evaluation is done by applying Par.19, Points c) and k), Par.20, Point d), Par.23, Point d) and Par.24, sentence 2.

26. Bank deposits, cash, as well as cash on current accounts and short-term receivables are valued towards the valuation day as follows:

a) bank deposits – by their nominal value and the accrued interest corresponding to the agreement;

b) cash – by nominal value;

c) cash on current accounts – by nominal value;

d) short-term receivables without certain interest rate or income – by their value;

e) short-term receivables with certain interest rate or income – by their value increased with the corresponding accrued interest or income in accordance with the agreement.

27. The financial assets, denominated in the foreign currency are converted to their equivalent in leva determined by the central rate of the Bulgarian National Bank valid for the day to which the valuation applies.

VI. TERMS AND CONDITIONS OF STORING INFORMATION WITH REGARD TO THE VALUATING CLIENTS' ASSETS

28. The information received and prepared with regard to the application of the present rules is stored on accessible and suitable for using place and in such a way that ensures its preservation on a second carrier or recovery in the event of its loss due to technical reasons.

29. Documents and information which establish rights and obligations of the investment intermediary or of a client with regard to the provided services or the conditions at which the investment intermediary provides services to its clients, are stored for the whole period of existence of the relations with the client, but not less than 5 years.

In exceptional circumstances and by order of the Vice-President of Financial Supervision Commission, the investment intermediary is obliged to preserve documents and data for a longer period with view to the substance of the instruments or transactions if this is needed for exercising the supervisory powers of Financial Supervision Commission.

30. Keeping of the documentation and data is done in a way that allows:

30.1. Financial Supervision Commission and respectively the Vice-President to do returns, to have quick access to it and to be able to receive the information;

30.2. Defence against any manipulations and counterfeiting.

31. The employees of the intermediary, who enter data to the records kept on an electronic carrier, are determined by order of the Board of Directors. Records kept on an electronic carrier enable generating returns containing the data of every client.

32. By the loss of information caused by technical fault, the investment intermediary takes immediately actions to prevent the fault and recover the data in accordance with the internal rules and procedures and inform B of D for the taken actions as well as their result.

33. Where any infringement of the legal acts or these Rules, non-execution of orders by the B of D with regard to preserving information or terms, conditions of erasure or amendment of data is discovered, then the relevant employee of the intermediary informs immediately the head of "Internal Control" Unit who takes the appropriate actions under jurisdiction.

VII. ADDITIONAL PROVISIONS

34. "Closure price" of financial instruments admitted to trading on a regulated market for a particular day is the price announced by the regulated market or another place of trading after completing the trading session for this day which is determined under a methodology worked out and announced by the trading venue.

35. "Trading venue" is a regulated market, multilateral trading system or systematic internaliser acting as such and a system out of the European Union, pursuing similar functions on a regulated market and multilateral trading system.

VIII. FINAL PROVISIONS

§1. Board of Directors reviews and values the compliance of the current Rules every year until 31st of January with the services and actions taken by the investment intermediary and/or the need of improvement of the internal organization accepts amendments and additions in the Rules. Regardless of the requirement under the previous sentence, the governing body accepts amendments and additions in the current Rules provided that there is a need to do this.

§2. When certain questions are not settled in the current Rules, the internal acts of "BenchMark Finance" JSC are applied additionally.

§3. Board of Directors can issue orders and instructions with regard to the application of the current Rules.

§4. The current Rules are provided for the knowledge and execution of the employees of the intermediary.

These Rules are accepted with a decision by Board of Directors in accordance with Protocol from 04.12.2014.

APPLICATION Nº 1**Price-Earnings Ratio Method of comparable company**

1. The price-earnings ratio method of a comparable company consists of:

1.1. Calculating the value of the shares of the valuated company by multiplying its share profit with a market multiplier. The market multiplier represents the ratio between the price of a comparable company and its share profit.

1.2. The profit of a comparable company and the valuated company is determined on the basis of financial reports covering the closest one-year period. The share profit is determined by dividing the net profit of the company to the total number of shares.

1.3. The multiplier is calculated on the basis of average price of the transactions concluded with them for the present working day.

1.4. The source of the primary information for completing the indicated calculations is the financial statements of the public companies from the register of the Financial Supervision Commission and Bulgarian Stock Exchange – Sofia JSC, or reliable source of information for the relevant foreign regulated market.

1.5. Methods and criteria for determination of a comparable company:

a) A comparable company is such a company which provides good enough base for comparison compared with other investment features of the valuated company.

b) The choice of comparable companies should be justified by comparative analysis and valuation of their features and the degree of similarity with the features of the valuated company.

c) The comparable company is chosen in accordance with the indicated criteria firstly among the companies traded on a regulated market of securities in the headquarters of the issuer and at the lack of such comparable company among the companies traded on regulated markets of securities in countries members of EU.

d) The criteria for determining comparable companies are:

- ▶ Sector of economy in which the company operates;
- ▶ Similar product range;
- ▶ To have published financial statements enabling the coverage of the closest one-year period;
- ▶ To have concluded transactions with the shares of the company during the current working day.

e) Other criteria which are used at the arguments for the choice of a comparable company are comparable basic capital and similar financial indicators.

APPLICATION № 2**Method of the asset net book value**

The method of the asset net book value consists of calculating the cost of shares of the valuated company as the personal capital of the company (on the basis of the last financial statement) is divided to total number of shares in circulation.

$$P = \frac{A - L - PS}{N}$$

where:

P – the cost of ordinary shares of the valuated company

A – assets

L – bonds

PS – cost of preferential shares

N – total number of the ordinary shares in circulation

APPLICATION Nº 3**The method of the discounted net cash flow**

The method of the discounted net cash flow is used to determine the cost of an ordinary share of the company by dividing the capital cost of the owners of the ordinary shares to the number of ordinary shares in circulation.

The capital cost of the owners of ordinary shares is calculated in two ways:

1. The method of the discounted net cash flow for the ordinary shareholders (Free Cash Flows to Equity) - via discounting the net cash flows which remain for the shareholders after meeting the cost, financial obligations, necessary investments and changes in the working capital:

a) With this method net cash flows which remain after meeting all expenses, covering the financial debts (including principal amounts and debt interests of the company), necessary investments and the changes in the working capital.

b) The net cash flows are calculated when the estimate net profit after interests and taxes on the income:

- ▶ is increased by the estimated expenses for depreciation,
- ▶ is reduced / increased by the absolute value of the estimate change in the net working capital,
- ▶ is increased by the estimate value of a new debt and revenues from issuing emissions of preferential shares,
- ▶ is reduced by the estimate investments in long-term assets,
- ▶ is reduced by the estimate repayments of the principal amounts of the debt,
- ▶ is reduced by the estimate dividends for preferential shares.

The following formula is used:

$$FCFE = NI + Dep - FCInv - \Delta WCIInv - PP - PD + ND,$$

where:

FCFE – net cash flows for ordinary shareholders

NI – net income

Dep – depreciation

FCInv – investments in long-term assets

ΔWCIInv – change in the net working capital

PP – repayments of principal amounts

PD – dividends for preferential shares

ND – new debt and revenues from the issuance of emissions of preferential shares

c) With this method, the net cash flows are being discounted with the price of own capital financing.

d) The price of own capital financing is the required rate of return of the ordinary shareholders and is defined in the following way:

- ▶ via the risk-free interest rate plus risk premium:

$$k_e = k_{RF} + RP$$

where:

k_e – price of own capital financing,

k_{RF} – risk-free interest rate,

RP – risk premium..

- ▶ via Capital Asset Pricing Model - CAPM:

$$k_e = k_{RF} + (k_m - k_{RF}) \times \beta$$

where:

k_e – price of own capital financing,

k_{RF} – risk-free interest rate,

$(k_m - k_{RF})$ – market risk premium,

β – beta coefficient,

- ▶ via the discounted cash-flow method:

$$k_e = \frac{D_1}{P_0} + g$$

where:

k_e – price of own capital financing,

D_1 – anticipated subsequent dividend for an ordinary share,

P_0 – price of an ordinary share,

g – anticipated average growth.

2. Discounted cash-flow method for the firm (Free Cash Flows to the Firm) - via discounting the net cash flows for all shareholders and other investors, deducted by all debts of the company and other receivables of the investors different from the shareholders. Net cash flows are used for all investors in the company – holders of shares, debt and preferred shares. Net cash flows are calculated in two ways:

a) The first way is to calculate net cash flows as the estimate earnings before interests and after taxes on the earnings:

- ▶ are increased by the estimate expenses for depreciation,
- ▶ are deducted by the estimate change in the net working capital,
- ▶ are deducted by the estimate investments in long-term assets.

The following formula is used:

$$FCFF = EBIT \times (1 - TR) + Dep - FCInv - \Delta WCIInv$$

where:

$FCFF$ – net cash flows for the company

$EBIT$ – earnings before interest and taxes

TR – tax rate for the company

Dep - depreciations

FCInv – investments in long-term assets

$\Delta WCIInv$ – change in the net working capital

b) The following formula is used for the second manner:

$$FCFF = FCFE + Int \times (1 - TR) + PP - ND + PD$$

where:

FCFF – net cash flows for the company

FCFE – net cash flows for the ordinary shareholders

Int – interest expenses

TR – tax rate for the company

PP – repayments for principal amounts

PD – dividends for preferential shares

ND – new debt and revenues from the issuance of emissions of preferential shares

c) Net cash flows are discounted with the average capital price of the company. In order to determine the relative proportions of different capital sources, their market values are used.

d) The average capital price of the company is determined via the following formula:

$$WACC = k_e \times \left(\frac{E}{E + D + PS} \right) + k_d \times (1 - t) \times \left(\frac{D}{E + D + PS} \right) + k_{ps} \times \left(\frac{PS}{E + D + PS} \right),$$

where:

WACC – average price of the capital,

k_e – price of financing with own capital,

k_d – price of financing with debt before the tax effect from the interest expenses is reported,

t – tax rate for the company,

k_{ps} – price of financing with preferential shares,

E – market value of company shares,

D – market value of company debt,

PS – market value of the preferential company shares.

3. Each method to determine the value of the shareholder capital can use one of the two discounting models:

a) Permanent growth rate where it is accepted that the growth of the company is permanent and stable.

The used formula is:

$$P_0 = \frac{FCF_1}{r - g},$$

where:

P_0 – the present value of the free cash flow;

FCF_e is either FCFE or FCFF;

r – relevant discount limit;

g – permanent growth rate of the company .

b) Two-step growth rate where it is accepted that there are two periods. For the first period a forecast for the net cash flows for each year is done separately. For the second period it is accepted that the net cash flow will grow with steady rate or will remain constant.

The used formula is:

$$P_0 = \sum_{t=1}^{t=n} \frac{FCF_t}{(1+r)^t} + \frac{P_n}{(1+r)^n},$$

where:

P_0 – the present value of the free cash flow;

FCF_t is either FCFE or FCFF during year t ;

r is relevant discount limit during the first period;

P_n is the value of free cash flows at the beginning of the second period of steady rate; P_n is calculated in the following way:

$$P_n = \frac{FCF_{n+1}}{r_n - g_n},$$

where:

r_n is the relevant discount limit during the period of steady growth;

g_n is the constant growth rate of the company. When it is accepted that the net cash flows will remain constant during the second period, then $g_n=0$.

APPLICATION Nº 4**Derivate pricing methods**

Pricing of options traded on regulated markets of securities is done by using the Black-Scholes approach to determine a price of option. Black-Scholes model treats the valuation of options for buying (call options). Due to this, forming of the put-option will be a function of the price of the call-option for the relevant asset at the same conditions.

The formula used to determine the price of a put-option is:

$$P=C+Xe^{-rT}-S_0$$

where:

C – the price of the call-option calculated under the Black-Scholes model.

X – price of exercising the option (Strike price).

e – 2.71828, the base of the natural logarithmic function.

r – risk-free interest rate.

T – expiration date of the option in years.

Xe^{-rT} = PV (X) – present value of the option exercising price.

S_0 – present price of the underlying asset (the one for which the option is constructed).

Calculating "C" – the price of the call-option of the relevant asset with the same parameters (Black-Scholes formula):

$$C_0=S_0N(d_1)-Xe^{-rT}N(d_2)$$

where:

$$d_1 = \frac{\ln(S_0/X) + (r + \sigma^2/2)T}{\sigma\sqrt{T}}$$

$$d_2 = d_1 - \sigma\sqrt{T}$$

and where:

C_0 – present value of the call-option

S_0 – present price of the underlying asset

N(d) – the probability of a random attempt on the standard distribution to have a value less than d. The relevant values can be found in tables with the values of the standard distribution.

X – option exercising price

e – 2.71828, the base of the natural logarithmic function

r – risk-free interest rate

T – option expiration date in years.

Xe^{-rT} = PV (X) – the present value of the option exercising price.

ln – natural logarithm function

σ - standard deviation of rate of return on annual basis (constantly capitalised) of the underlying asset (volatility).

The standard deviation of the rate of return for n observation is calculated under the following formula:

$$\sigma^2 = \frac{n}{n-1} \sum_{t=1}^n \frac{(r^t - \bar{r})^2}{n}$$

where \bar{r} is the average return for the sampling period. The rate of return on the t day is determined in accordance with the constant capitalisation where $r^t = \ln(S_t/S_{t-1})$.

Pricing of futures traded on regulated markets of securities is done in the following way:

$$F = \{S - PV(D,0,T)\} * (1+Rf)^T,$$

where:

F – price of futures contract;

S – spot price of underlying asset;

PV(D,0,T) – present value of an anticipated dividend;

Rf – risk-free interest rate;

T – number of days of the contract, divided by 365.

¹This document is a translation of the Bulgarian original. The Bulgarian version shall be the sole authentic version and, in the event of discrepancies, shall prevail.