

Bulgarian Pension Funds' Assets Review

Summary report

February 2017

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1. Background

Background for the PFAR

On 26 February 2015, the European Commission (EC) published its Country Report for Bulgaria. The analysis of EC gave grounds to conclude that there are macroeconomic imbalances in Bulgaria. A part of country specific recommendation required performing a portfolio screening for the pension funds sector.

With a view to guarantee efficient functioning for the financial system and the need to ensure better transparency of transactions on the local financial market and in accordance with the National Reform Program - 2015 update to reach the objectives of Europe 2020 strategy adopted with the Council of Ministers decision No. 298 of May 2015 and on the grounds of § 10 of the Transitional and Final Provisions of the Law on Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF), the Financial Supervision Commission (FSC) organized a review of the pension funds' assets ("PFAR") with the participation of independent external parties and institutions ("independent external reviewers"/IER) of high professional reputation.

The review was overseen by a Steering Committee (SC) that included representatives from the FSC, (member of the SCI) the Bulgarian Ministry of Finance (Observer), the Bulgarian National Bank (Observer) the European Commission (Observer) and the European Insurance and Occupational Pensions Authority (EIOPA; member of the SC). The FSC had selected a consultant, hereinafter referred as Project Manager (PMO) to provide support in organizing and coordinating the PFAR, as well as support in the quality assurance process. This support included drafting the PFAR methodology further approved by the SC, and ensuring a harmonized application of the review's methodology by the IER performing the reviews as well as a similar treatment of the participating pension funds by the respective IER.

The review covered the universal, professional and voluntary pension funds in Bulgaria. The voluntary pension funds with occupational schemes did not participate in the review.

The review of the assets of the pension funds was carried out by 3 independent external reviewers ("IER"), which were selected according to the criteria included in the terms of reference for the PFAR, as follows: KPMG Audit SRL, PricewaterhouseCoopers Audit OOD, HLB Bulgaria OOD. One reviewer was initially selected and subsequently rejected from the exercise due to irregularities found (RSM Bulgaria OOD).

A number of 27 undertakings including universal, professional and voluntary pension funds participated in the exercise (please find the list in Appendix I).

The implementation of the review included the following steps:

- ▶ In January 2016 the Terms of Reference for the review was approved by the SC and the FSC.
- ▶ As a result of the public procurement, conducted in 2015, a contract was concluded with the PMO for preparing the methodology for the review and for carrying out the project management.
- ▶ On 15 February 2016 the Follow-up actions to be taken by FSC towards strengthening the supervision and legislation of the pension funds, following the results of the review of the assets of the pension funds, were published on FSC's website, as agreed in the SC.
- ▶ In March 2016 an invitation was published for the IERs and in May 2016 the list of the eligible IERs was approved.
- ▶ In May 2016 the methodology for the review was approved and published on the website of the FSC.
- ▶ In June 2016 the IERs for the respective undertakings were appointed by the FSC.
- ▶ Following these organizational and preparatory steps the review of the assets of the pension funds commenced on 15 July 2016.
- ▶ In September 2016 (after the exclusion of RSM from the list of the eligible IERs) new IERs were appointed for the PFs which had concluded contracts with this IER, which lead to prolongation of the implementation of the review.
- ▶ The reviews were completed in January 2017 with the presentation of the IERs' final reports and the preparation of this report summarizing the key findings of the review.

Purpose and scope of the PFAR

The main objectives of the review of the assets of the pension funds were:

- ▶ To verify whether the assets of the pension funds kept by the custodian banks exist;
- ▶ To perform a valuation of the assets in the pension funds' portfolios in accordance with the provisions of Ordinance 9 of the FSC of 19.11.2003,;
- ▶ To assess the appropriateness of the recognition and valuation principles of the assets in the pension funds' portfolios in accordance with the provisions of the applicable legal framework with a special focus on the impact of operations and transactions with natural or legal persons with close links to the funds and the companies managing the funds checking whether there are investments of the pension funds in securities, issued by parties related to the PIC managing the fund within the meaning of par.1, sub section 2, item 3 of the Supplementary provisions of the Social Insurance Code;

- ▶ To review the risks of the pension funds in accordance with the provisions of the applicable legal framework and further identifying main risks not captured or not fully captured by the legal framework;
- ▶ To provide insight and raise awareness of the pension funds' sector risks and vulnerabilities including potential contagions to the rest of the financial sector and the real economy.

Context of this report and limitations

The PMO drafted this summary report, summarizing the conclusion of the IER as presented in their reports ("the Summary report). The Summary report was subsequently endorsed by the SC and approved by FSC.

This report provides an overview of the approach and presents the results of the PFAR in relation to the 27 PFs with total assets of BGN 9.845m as of 30 June 2016.

The IER carried out procedures of an audit nature which as a minimum were those described in the methodology, but also were asked to exercise judgment, where necessary in order to report on factual findings and their overall conclusions. The findings refer to the financial information of PFs' assets as well as to non-financial information relating to applicable regulatory framework and of the risks of the sector. Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements or International Standards on Assurance Engagements (or relevant national standards or practices), the IER do not express any assurance on the financial statements of the PFs as of 30 June 2016. Had they performed additional procedures or had they performed an audit or a review of the financial or non-financial information in accordance with International Standards on Auditing or International Standards on Review Engagements or International Standards on Assurance Engagements, other matters might have come to their attention.

This summary report includes the following:

- ▶ Background including objectives of the PFAR exercise
- ▶ Methodological Overview
- ▶ Summary of the Quality Assurance procedures performed by the PMO
- ▶ Summary of the IER's findings and recommendations and proposed adjustments
- ▶ Consistency procedures performed by the PMO
- ▶ Summary of the IER's findings on investments in related parties
- ▶ Summary of the IER's findings on risk assessment

In this report the PMO have summarized the comments of the IER which the PMO considered more important and more relevant for exercise.

This report has been prepared both in Bulgarian and English.

2. Executive Summary

Proposed adjustments under Ordinance 9

The results of the PFAR exercise, as proposed by the IER, had an effect of 0,3% reduction in the total assets of the Pension Fund sector, which amounted to BGN 9.845m as of 30 June 2016. The adjustments proposed by IER by PF ranged from 0% to 3,4% of their total assets. More information on the proposed adjustments are included in section 5 of this Summary report.

Results of the PFAR exercise by topic

The PMO summarizes below the key conclusions / findings for each section included in the methodology. These statements are based on the results of the procedures performed and communicated to the PMO by the IER:

Corporate Governance, processes and internal control framework, accounting policies

On a general basis, the IER concluded that the system of corporate governance in the PFs is appropriate and controls are in place and operate effectively. The IER identified that the accounting policies were general and in some cases quite brief and do not fully capture the policies followed by the PFs, especially for their IFRS financial statements. The IER recommended that the accounting policies be updated to include more detail particularly regarding the valuation of the assets. In some cases, the IER identified some deficiencies in the implementation and operation of the IT and entity level controls and recommended implementation of Code of Ethics and a change management policy and test recoverability back-ups.

Reliability, quality, sufficiency and relevance of data

The IER concluded that the data used for the PFAR exercise was reliable, sufficient and relevant.

Valuation (Ord.9) and Existence of financial instruments

The IER identified no issues with the existence of financial instruments.

The IER concluded that although the valuations are in compliance with Ordinance 9 certain PICs applied less conservative risk premium in their DCF valuations for corporate bonds, as a result, the IER proposed adjustments for the overstated corporate bonds. A reduction in the total assets of BGN 10.200k was proposed by the IER as a result. The SC decided to enforce the results post PFAR considering the consistency checks made by the PMO and taking the adjustment with the most favourable impact among IERs for the same equity or bond (please see more details in section 6).

Valuation (ord.9) and Existence of investment properties

The IER identified no issues with the existence of investment properties.

The IER concluded in general that the PICs have appropriately valued the investment properties with certain exceptions. In general the IER used the market approach, while in certain cases, the PICs had

used a combination of income and cost approach or did not use comparable properties for the valuation, which resulted in proposed adjustments by the IER. The reduction in the total assets of the Pension Fund sector as a result was BGN 22.740k.

Valuation and Existence of other assets

The IER identified no issues with the existence and valuation of other assets.

Investments in related parties

The IER concluded based on the procedures performed that there are no investments in related parties as of 30 June 2016 per the definition of SIC. The IERs performed specific procedures, however, in certain cases the entities and persons associated were significant in number, thus there were limitations in identifying possible other related parties, other than the ones disclosed by the PICs, as identifying a related party requires a broader set of information to be analysed. Refer also to risk assessment section below.

Risk Assessment

Risks in accordance with the provisions of the current legal framework

No issues were reported by the IER regarding the monitoring by the PICs of compliance with the quantitative restrictions regarding investments categories, as provided by the SIC.

Risks not captured or not fully captured by the current legal framework

Synchronization of assets and liabilities

The scope of the PFAR included only the total assets of the pension fund sector. As the pension liabilities, which are reported by the Pension Insurance Companies were not in scope, there is the risk that there is no synchronization of assets and liabilities, which is an additional potential risk of the sector.

Different valuation approaches between IFRS and Ordinance 9

The valuation of financial instruments under IFRS differs from that reported for Ordinance 9, for a number of PICs. As regards the valuation of financial instruments under IFRS, the IERs proposed adjustments to bonds admitted and not admitted to trading, identical to those proposed for Ordinance 9 (mainly due to understatement of the risk premium used in DCF valuations). In addition, they proposed adjustments to shares and rights admitted to trading, due to different valuation approach used for IFRS compared to Ordinance 9. More information is presented in section 5 of the Summary report.

Active market of investments

Certain inconsistencies were identified between IER in the classification of a security as being traded on an active vs inactive market, which resulted in inconsistencies in values reported under IFRS. Under IFRS there is guidance however, no hard rules to assess an “active market”, which leaves room for interpretation and different judgment. Moreover, the investment environment in Bulgaria poses challenges to the assessment of fair value of investments, due to the following reasons: most securities on Bulgarian Stock Exchange are thinly traded; several small transactions might be sufficient to maintain relatively high stock price on the stock exchange; transactions between related parties are not easily identifiable in order for their effect on the price to be considered; there are

few active investors on the Bulgarian Stock Exchange, as well as on the government bonds market and trades are not frequent. At the same time there are challenges for the use of alternative valuation techniques, in identifying available relevant market information to be used.

Low yield environment

Yields in Bulgaria and generally in Europe remain at historical lows and risks concerning the low profitability of financial entities pose key concerns to the financial system. Financial institutions intend to reduce costs and adjust their business models which may bring threats to the sustainability of the business model.

Concentrations of risks

Overall, no significant concerns were reported concerning the potential exposure of the PFs to excessive credit risk, interest rate risk, liquidity risk, or foreign exchange risk. In the majority of PFs, the concentration is in investments in the Government sector (53% in total PF sector), in investments denominated in Euro and BGN (87% of the total PF sector), and in terms of geographical sector in Bulgaria (45% of the total PF sector) and Western Europe (28%).

Related Parties

Differences exist in the definitions of related parties between IAS 24 and the SIC (which prohibits investing the assets of the PFs in securities issued by parties related to the PIC) and it is recommended that the definition of related parties under SIC be expanded to include the related parties defined under IAS 24, in order to eliminate any discrepancies, and monitor under a single definition.

Moreover, it is recommended to some PICs to implement procedures for identification of close members of the family of all of the members of the Board of Directors of the PIC and the parent company of the PIC and subsequent identification of entities controlled or jointly controlled by those persons. Since that kind of information is not publicly available, the IER were not able to perform an independent examination for existence of investments in entities controlled or jointly controlled by such close family members.

Certain PICs have no formal procedure for maintaining a complete list of related parties, as well as for providing formal trail that newly created exposures or existing ones are not to related parties. Certain IER reported high concentration in certain groups of companies. In general the IER suggest that the PIC conduct and document more in-depth research into the persons that actually exercise control over these issuers.

The IERs were also asked to examine whether there could be differences in the related parties identified arising from the amendments in the definitions for related parties in the SIC that entered into force on 12 August 2016. The IER did not identify circumstances that indicate investments of the PFs in securities, issued by related parties to the respective PIC.

Minimum credit ratings

Certain IER identified that there were no restrictions relating to minimum credit ratings of the issuers of debt securities identified. The IER recommended the PICs should consider the enforcement of minimum credit ratings of financial instruments in which the PFs are allowed to invest in order to avoid the exposure to undue high risks.

3. Methodological overview

Methodology

The methodological guidance for the PFAR, which was published by the FSC, describes the main assumptions and parameters (including reference date and applicable framework, planning materiality and sampling criteria), the key tools and deliverables and the detailed procedures to be applied by the IER to conclude on each area.

The methodology described the minimum procedures to be followed by the IER and the IER were requested to use their professional judgment to determine the extent and nature of any additional procedures or information considered appropriate taking into account the scope of work requested in this exercise and their assessment of the specific characteristics of the respective pension funds under review.

After the publication of the methodology and the appointment of IER, there was a joint meeting to clarify aspects of the methodology, the timeline and deliverables.

Reference Date

The reference date for the PFAR exercise was 30 June 2016. The IER were requested to consider any subsequent event relevant to the analysis performed, including application of supervisory measures or provision of recommendations by the FSC or any other relevant information as applicable. Subsequent events were included in the final report together with an analysis of their impact over findings.

Applicable Framework

For the performance of the review of pension funds' assets, the relevant regulatory framework applied and in particular the Social Insurance Code, Ordinance No. 9 of the FSC, Ordinance No. 29 of the FSC, the Accounting Act, and Ordinance No. 36 of the Bulgarian National Bank on the custodian banks pursuant to the Social Insurance Code.

The IER were requested to consider the applicable legal framework and the applicable International Standards on Auditing ("ISA") for the performance of the review of the financial information.

Corporate Governance, processes and internal control framework, accounting policies

This topic in the methodology included the review of the appropriateness of the system of governance including the internal control mechanisms in place commensurate to the risks and

complexities of the PFs, according to the legal framework. The PFs were expected to have in place an internal control framework commensurate to the risks arising from the activities and processes to be controlled. The IER also focused on whether the PFs had a robust set of clearly defined policies and processes for the correct interpretation of accounting rules as imposed by the relevant legal framework and best market practices in the pension fund sector. Significant processes for which understanding and testing of controls was performed by the IER, included at a minimum the selection of new investments, monitoring performance and risks of the investment portfolio, investments in securities issued by related parties with the PIC, monitoring restrictions on investments according to the regulatory framework, and valuation of pension funds' assets.

Reliability, quality, sufficiency and relevance of data

An objective of the PFAR was to ensure in general that the medium of keeping the information on prices and their sources used as a basis for measuring the assets (valuation), is appropriate and in line with the requirements of Ordinance 9. The IER documented the process for collecting and processing of data, and checked completeness and accuracy of data used in the valuations.

Valuation and Existence of Assets

The methodology required IER to follow specific procedures per main category of the pension funds' assets in order to examine their existence and their valuation. The IER were asked to perform additional procedures to the extent necessary, based on their judgment. The main categories of the pension funds' total assets as of 30 June 2016 are Financial Instruments (mainly debt securities investments and equity investments), Bank deposits, Investment Properties and Other Assets.

As regards financial instruments, the IER were requested to select a sample, per category of financial instruments, covering at least 90% of the value of the category, and perform procedures to assess valuation performed by the undertaking. The IER were asked to analyse all types of financial instruments and understand and comment on the valuation approach followed by the PICs, per guidance of Ordinance 9. In each case, the IER were requested to provide comments as to whether the valuation approach was appropriate and in line with Ordinance 9, as well as whether a proper hierarchy was followed, in all cases explaining their rationale. In cases where a valuation technique was used by the PICs, the IER was requested to review (using licensed appraisers as considered appropriate) other than the methodology also the inputs and comment on their reasonability, by making also reference to the IFRS guidance and fair value hierarchy. Where (further to the above procedures), deviations to the valuation method selected were identified, the IER were requested to quantify the effect, to the extent possible.

For investment properties, the IER were requested to examine whether, after initial acquisition, the investment property was measured at fair value as required by article 10 of Ordinance 9. Based on a selected sample the IER reviewed supporting documents in respect of ownership and valuation. For the selected sample the IER reviewed the valuation report obtained by the undertaking (from a qualified valuer), including the valuation methodology and assessment in respect to the market value considering the applicable framework. The IER were asked to use independent valuers with the necessary capacity under the Independent Valuers Act, either employees of the IER or subcontractors, to perform the assessment in order to evaluate the methodology and the assumptions used by the undertaking's valuer.

For both financial instruments and investment properties the IER were requested to specific procedures to ensure their existence.

Review of investments in related parties

The scope of the PFAR included a review of the process the PICs have in place, for identification of related parties to the PIC managing the pension fund, as well as of the nature of the relationship between the PICs and these related parties, and inspection of whether there are investments of the pension fund in securities issued by parties related to the PIC. Related parties are defined in accordance with par. 1, sub-section 2, item 3 of the Supplementary provision of the Social Insurance Code.

Risk assessment

One of the additional key objectives of the Pension Funds' Assets Review (PFAR) was the review of the risks of the pension funds in accordance with the provisions of the applicable legal framework and the identification of main risks not captured or not fully captured by the legal framework.

In this respect, the identification of investments in securities issued by parties related to PIC managing the fund was very important. The IER were requested to examine whether there are investments of the pension fund in securities issued by parties that may not qualify as a related party to the pension insurance company under par. 1, sub-section 2, item 3 of the Supplementary provision of the Social Insurance Code but may qualify as a related party under IAS 24. The IERs were also asked to check whether there could be differences in the related parties identified arising from the amendments in the definitions for related parties in the SIC that entered into force on 12 August 2016.

As an additional assessment of risk, the IER were asked to comment based on the procedures performed for the valuation of financial instruments, to what extent the policies selected for the valuation of the instruments are in line with the provisions of IFRS 13 in relation to fair value measurement. The IER were asked to comment on the differences identified between current policies for the valuation of financial instruments and IFRS, taking into account the IFRS 13 fair value hierarchy. For assets which according to the IER were not valued in accordance with IFRS, the IER was asked to perform an IFRS-compliant valuation and document the valuation technique used (including assumptions used and their justification) and the rationale behind selecting the specific technique.

In addition, the IER were required to perform procedures, for securities admitted to trading on Bulgarian market, to identify any deals made with related parties, and ensure that these deals are disregarded in considerations for valuation method.

Another objective of the exercise was to ensure consistency, to the extent possible, of the valuation principles followed across the different participating companies, for same/similar instruments.

Therefore, the IER were requested to determine adjustments, as a result of an assessment of (in)active markets including in terms of frequency and volume of transactions.

4. Quality Assurance

The achievement of standardized quality requirements of the PFAR exercise required an integrated approach. Quality assurance and progress tracking were two complementary processes with a joint goal to ensure accurate and timely delivery of the Project results in a standardized manner across all the parties involved.

Particular attention was focused on the following quality issues during the PFAR:

Monitoring and evaluation system

During the PFAR exercise, the PMO shared with the Steering Committee frequent updates on the overview and monitoring of the project progress against work plan.

The monitoring and evaluation system was a management tool ensuring in particular efficient management of activities. The monitoring and evaluation system contributed to:

- ▶ Monitoring the project management cycle so project goals are met; (e.g. progress reports submitted by IER to inform the SC and PMO about the status of their work, as a result the SC and PMO could support IER timely by providing feedback comments)
- ▶ Transparency and responsibility in implementing the project;
- ▶ Integration of the information collected as the project was implemented

The monitoring and evaluation system made it possible to improve performance of activities:

- ▶ Through increased awareness of the problems of stakeholders
- ▶ By identifying good practices

It ensured a rapid and tailor-made response with:

- ▶ Activity results and deliverables (e.g. the SC and the PMO provided clarifications to any questions that arose by the IER, using the Q&A tool);
- ▶ Solutions adapted to the needs of the different participants in the project (e.g. detailed guidance provided in related parties, in corporate bonds' valuations, active/inactive market).

The above was achieved through the following commitments:

- ▶ Presence of experienced staff to evaluate the quality of implementation;
- ▶ Providing a clear view of project execution by emphasizing both its strong points and its weak points.

Definition of a quality assurance plan

The quality assurance plan focused on processes, by identifying the levels and stages relevant to project implementation. This made it possible to intervene in each process, if necessary, to guarantee its quality.

The quality assurance plan included the following stages, which were intended to ensure high quality both in the administrative implementation of the project (preparatory work, reports, information and communications) and in carrying out project activities (experts, working tools, etc.):

- ▶ Definition of the phases in activity implementation (standard timeline communicated to the IER from the starting date of the project setting the deadlines of the deliverables);
- ▶ Definition of norms and standards (specific guidance provided in IFRS 13 in methodology);
- ▶ Definition of indicators/sources of information (it was communicated to the IER to consider in their procedures publically available sources such as the Apis, bse-sofia site for prospectus);
- ▶ Discussion and integration of results for immediate and long-term corrective steps for meeting the preset deadlines in case of unforeseen circumstances, through:
 - Timely identification of unforeseen events and circumstances (e.g. inconsistencies identified among the IER and discussed in SC meetings)
 - Understanding and quantification of impact on specific cases and consideration of global impact, if any, on all PFs under review (e.g. quantification of the impact of the inconsistencies)
 - Early communication with all stakeholders of the Project to reach decisions on Ad-hoc basis.

Communication and coordination

Regular conference calls were arranged between PMO and the IER and SC for timely resolution of issues. Key experts also participated to SC meetings, as considered necessary.

Evaluation and reports

Each report was subject to quality control to check its content, language and form (consistency checks performed among all final reports and feedback comments provided to the IER how to proceed with open items by providing guidance, e.g. risk assessment, related parties).

The PMO and the SC ensured that there is consistency in the application of the methodology by all IER through:

- ▶ Reviewing the Blueprints and progress reports and providing timely feedback
- ▶ Reviewing the progress and final reports and provide feedback
- ▶ Performing consistency checks

- ▶ Assessing significance of issues reported by the IER and the remedial actions proposed
- ▶ Delivering answers through the Q&A tool

The SC discussed the interim results during the monthly meetings and conference calls. In addition, several meetings and conference calls were organized between the SC, PMO and the IER with a view to address concerns, questions, limitations and proposed alternative approaches.

The IER were expected to design quality assurance and control procedures to ensure that the intended results are achieved to the satisfaction of the FSC and SC. The ultimate goal was a consistent application of the Methodology to achieve to the greater extent a similar treatment of participating PFs by the respective IER. IER were asked to comply with the procedures and guidelines established in the Methodology; in case of deviations, these issues were addressed and discussed by the PMO, with the involvement of the SC.

5. Pension Fund Assets Review – results under Ord.9

The basis for these results is the final reports of the IER, which are summarized in separate section below:

(in '000 BGN)

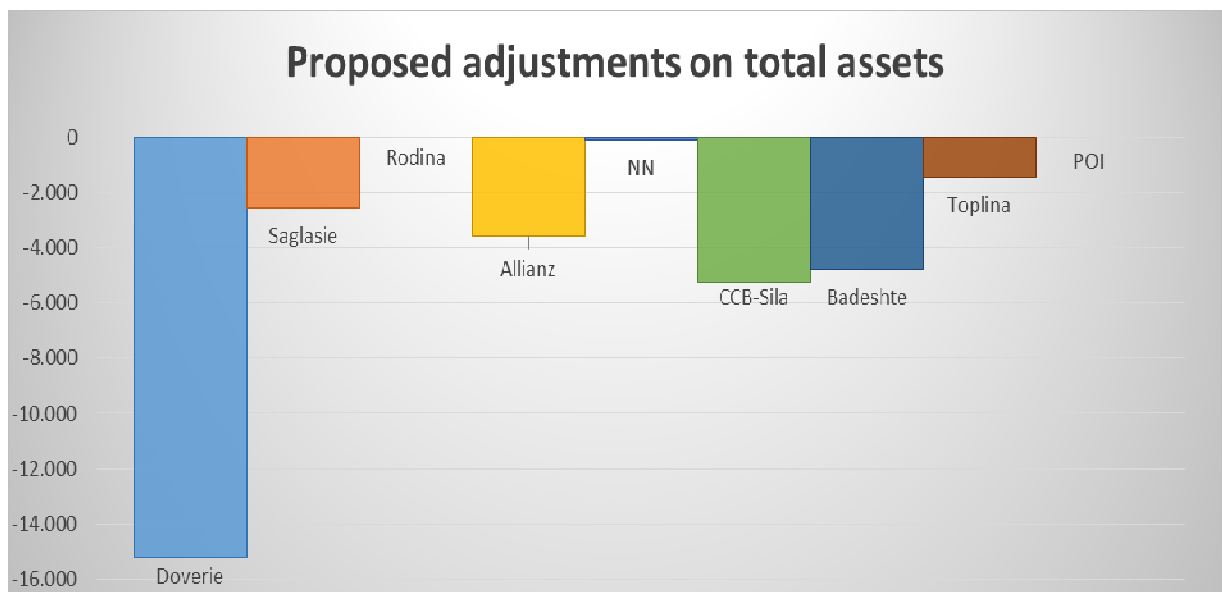
Pension Fund	Total assets	Financial instruments adjustments	Investment properties adjustments	Total proposed adjustments	Total Assets after adjustments	% per total assets
Doverie Universal Pension Fund	2.266.708	-	(10.912)	(10.912)	2.255.796	-0,5%
Doverie Professional Pension Fund	216.091	-	(2.441)	(2.441)	213.650	-1,1%
Doverie Voluntary Pension Fund	132.254	-	(1.866)	(1.866)	130.389	-1,4%
Saglasie Universal Pension Fund	936.548	(2.349)	-	(2.349)	934.199	-0,3%
Saglasie Professional Pension Fund	153.816	(174)	-	(174)	153.642	-0,1%
Saglasie Voluntary Pension Fund	67.592	(42)	-	(42)	67.550	-0,1%
DSK - Rodina AD Universal Pension Fund	1.159.743	-	-	-	1.159.743	0,0%
DSK - Rodina AD Professional Pension Fund	112.730	-	-	-	112.730	0,0%
DSK - Rodina AD Voluntary Pension Fund	68.338	-	-	-	68.338	0,0%
Allianz Bulgaria Universal Pension Fund	1.741.668	-	-	-	1.741.668	0,0%
Allianz Bulgaria Professional Pension Fund	153.476	-	-	-	153.476	0,0%
Allianz Bulgaria Voluntary Pension Fund	382.606	-	(3.563)	(3.563)	379.043	-0,9%
NN Universal Pension Fund	847.152	-	-	-	847.152	0,0%
NN Professional Pension Fund	62.368	-	-	-	62.368	0,0%
NN Voluntary Pension Fund	109.986	(105)	-	(105)	109.881	-0,1%
CCB-Sila Universal Pension Fund	814.321	(994)	(2.698)	(3.691)	810.630	-0,5%
CCB-Sila Professional Pension Fund	99.528	(152)	(472)	(624)	98.904	-0,6%
CCB-Sila Voluntary Pension Fund	70.353	(153)	(790)	(943)	69.411	-1,3%
Badeshte Universal Pension Fund	185.070	(4.525)	-	(4.525)	180.545	-2,4%
Badeshte Professional Pension Fund	11.876	(148)	-	(148)	11.728	-1,2%
Badeshte Voluntary Pension Fund	2.775	(95)	-	(95)	2.680	-3,4%
Toplina Universal Pension Fund	91.739	(927)	-	(927)	90.812	-1,0%
Toplina Professional Pension Fund	41.780	(439)	-	(439)	41.341	-1,1%
Toplina Voluntary Pension Fund	10.272	(96)	-	(96)	10.176	-0,9%
Pension Insurance Institute Universal Pension Fund	89.362	-	-	-	89.362	0,0%
Pension Insurance Institute Professional Pension Fund	16.482	-	-	-	16.482	0,0%
Pension Insurance Institute Voluntary Pension Fund	737	-	-	-	737	0,0%

Source R4 template

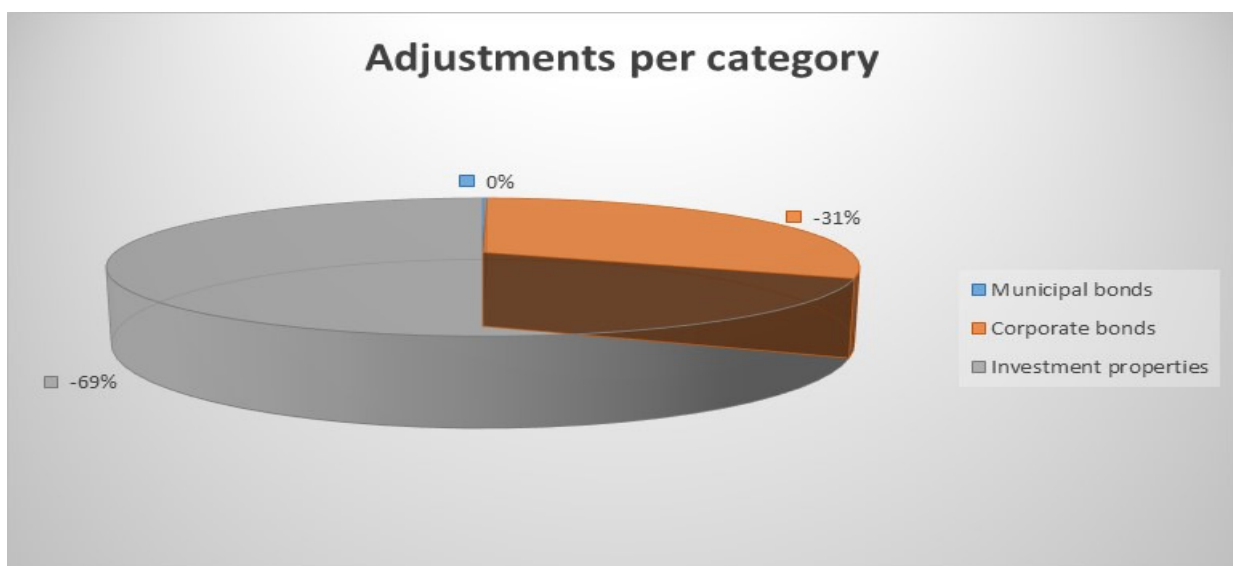
The total amount of IER's proposed adjustments amounts to BGN 32.940k, which relates by BGN 10.200k to adjustments on the valuation of financial instruments and by BGN 22.740k to adjustments on investment properties' valuation.

The adjustments are presented cumulatively for the PFs managed by the same PIC in the chart

below:



A summary of the proposed adjustments by category of assets is as follows:



Valuation of financial instruments (Ord. 9)

Based on the analysis of the reports of the IER on the valuation of financial instruments, issues were reported specifically relating to understatement of the discount rate used in the DCF valuation of bonds admitted to trading and bonds not admitted and not traded on regulated securities market.

As a result of the above findings reported by the IER, the proposed adjustments in respect of Ordinance 9 valuation are as follows per category of financial instruments:

(in '000 BGN)

Categories of financial instruments	Financial instruments before adjustments	Ordinance 9 adjustments	Financial instruments after adjustments	% per category
Bonds admitted to trading	617.397	(7.151)	610.247	-1%
Bonds not admitted and not traded on regulated securities	24.293	(3.049)	21.244	-13%
Debt securities	3.850.156	-	3.850.156	0%
Locally issued government securities	658.242	-	658.242	0%
Foreign shares and rights admitted to trading	770.750	-	770.750	0%
Shares and rights admitted to trading	680.668	-	680.668	0%
Foreign shares/units issued by collective investment schemes	728.567	-	728.567	0%
Shares/units issued by collective investment schemes	246.194	-	246.194	0%
Derivatives	1.888	-	1.888	0%
Total	7.578.157	(10.200)	7.567.957	0%

Source R5.1

Valuation of investment properties (Ord. 9)

Based on the IERs' reports, the total adjustments proposed by IER for the investment properties for PFs managed by 3 out of 6 PIC, are summarized as follows:

(in '000 BGN)

Pension Fund	Balance of investment properties 30/06/2016	Proposed Adjustments	Investment properties after adjustments	% per category
Doverie Universal Pension Fund	66.082	(10.912)	55.170	-17%
Doverie Professional Pension Fund	8.136	(2.441)	5.695	-30%
Doverie Voluntary Pension Fund	7.242	(1.866)	5.376	-26%
Saglasie Universal Pension Fund	34.758	-	34.758	0%
Saglasie Professional Pension Fund	5.951	-	5.951	0%
Saglasie Voluntary Pension Fund	3.395	-	3.395	0%
Allianz Bulgaria Universal Pension Fund	15.430	-	15.430	0%
Allianz Bulgaria Professional Pension Fund	776	-	776	0%
Allianz Bulgaria Voluntary Pension Fund	23.934	(3.563)	20.371	-15%
CCB-Sila Universal Pension Fund	36.525	(2.698)	33.828	-7%
CCB-Sila Professional Pension Fund	4.272	(472)	3.800	-11%
CCB-Sila Voluntary Pension Fund	5.086	(790)	4.297	-16%
Badeshte Universal Pension Fund	6.608	-	6.608	0%
Badeshte Professional Pension Fund	219	-	219	0%
Badeshte Voluntary Pension Fund	183	-	183	0%
Toplina Universal Pension Fund	1.440	-	1.440	0%
Toplina Professional Pension Fund	922	-	922	0%
Toplina Voluntary Pension Fund	688	-	688	0%
Total	221.648	(22.740)	198.908	-10%

Source R4 template

The proposed adjustments arose mainly as a result of different approaches followed by the PICs and IER valuers. The independent valuers hired by the PICs followed mainly either the market approach or the income approach or a mixed approach of market and cost, while the IER valuers applied the market approach.

6. Consistency procedures

Consistency checks were performed between IERs and PICs and also with the IBSR stream as regards, mainly the valuation of financial instruments but also the valuation approaches for the investment properties.

Ordinance 9

The most significant inconsistencies in valuations among IER were in respect of bonds admitted to trading. Starting from the information submitted by the IER and restricted to the instruments selected by the IER for review (in accordance with methodology), the PMO assessed the potential impact of common instruments' valuation differences for cases where the difference was above 10% for corporate bonds.

The SC decided to enforce the results post PFAR considering the consistency assessment made by the PMO. The PMO made an assessment of the situations where the assumptions used in the DCF valuations varied among IER and the difference was above 10%. Considering the need to ensure a level playing field, FSC will enforce in these situations a consistent adjustment across undertakings, namely the adjustment with the most favorable impact resulting from consistency checks across all undertakings in PFAR and IBSR exercises (i.e.: the most favorable among all the values used by the IER for one bond).

It is noted that the DCF valuations mentioned above are in line with those used for IFRS valuation purposes.

(in '000 BGN)

Pension Fund	Total assets	Total proposed adjustments Ord. 9 by IER	Consistency Effect of favourable values	Total assets after IER's adjustments and consistency effect
Doverie Universal Pension Fund	2.266.708	(10.912)	-	2.255.796
Doverie Professional Pension Fund	216.091	(2.441)	-	213.650
Doverie Voluntary Pension Fund	132.254	(1.866)	-	130.389
Saglasie Universal Pension Fund	936.548	(2.349)	681	934.880
Saglasie Professional Pension Fund	153.816	(174)	123	153.765
Saglasie Voluntary Pension Fund	67.592	(42)	-	67.550
DSK - Rodina AD Universal Pension Fund	1.159.743	-	-	1.159.743
DSK - Rodina AD Professional Pension Fund	112.730	-	-	112.730
DSK - Rodina AD Voluntary Pension Fund	68.338	-	-	68.338
Allianz Bulgaria Universal Pension Fund	1.741.668	-	-	1.741.668
Allianz Bulgaria Professional Pension Fund	153.476	-	86	153.561
Allianz Bulgaria Voluntary Pension Fund	382.606	(3.563)	-	379.043
NN Universal Pension Fund	847.152	-	-	847.152
NN Professional Pension Fund	62.368	-	-	62.368
NN Voluntary Pension Fund	109.986	(105)	-	109.881
CCB-Sila Universal Pension Fund	814.321	(3.691)	437	811.068
CCB-Sila Professional Pension Fund	99.528	(624)	83	98.987
CCB-Sila Voluntary Pension Fund	70.353	(943)	99	69.510
Badeshte Universal Pension Fund	185.070	(4.525)	885	181.430
Badeshte Professional Pension Fund	11.876	(148)	55	11.783
Badeshte Voluntary Pension Fund	2.775	(95)	22	2.702
Toplina Universal Pension Fund	91.739	(927)	242	91.053
Toplina Professional Pension Fund	41.780	(439)	131	41.473
Toplina Voluntary Pension Fund	10.272	(96)	27	10.203
Pension Insurance Institute Universal Pension Fund	89.362	-	-	89.362
Pension Insurance Institute Professional Pension Fund	16.482	-	-	16.482
Pension Insurance Institute Voluntary Pension Fund	737	-	-	737
Total	9.845.372	(32.940)	2.872	9.815.305

In case the consistency checks were applied for the PFAR exercise only (i.e. excluding IBSR) , the consistency effect would amount to BGN 1.302k in total (vs BGN 2.872k in the above table).

IFRS

The two main areas of inconsistencies identified refer to valuation of equities and bonds (where differences were mainly the result of different assessment of active versus inactive markets and source of information and assumptions considered for valuation) and the valuation approach followed by the PIC valuers and the IER's valuers for the valuation of the investment properties.

IFRS provide guidance on market activity assessment and prescribe the use of observable and unobservable inputs and required adjustments. The IER were required to make maximum use of the market inputs and to rely as little as possible on specific inputs. Adjustments need to be made to reflect the specific factors and inherent risk in the specific valuation technique. In application of this paragraph, clarifications were also issued to the methodology to require compliance with article B44 from IFRS 13.

Valuation was performed by the PFs and reviewed by the IER. Such valuations were based on application of International Valuation Standards, International Financial Reporting Standards and if, more conservative, the locally established best practices, the selection of the most appropriate method/technique being at the discretion of the appraiser and requiring exercise of expert judgment. It was the responsibility of the IER to ensure that the assumptions and the techniques used in the valuation are adequate and accurate.

As a consequence of the significant level of expert judgement required in this assessment, inherent differences resulted between valuation for similar instruments between different IER and PFs (due to different assessment of active versus inactive markets, sources of information used or different quotations as allowed by IFRS, different alternative valuation approaches or assumptions, subsequent sales of portfolios).

Certain IER assessed the market as being inactive for specific instruments listed on Bulgarian Stock Exchange, therefore applying adjustments based on other methods for valuation, different from the quotation on the respective market. Other IER have assessed the market active and used the transaction prices for the same instruments from the Bulgarian Stock Exchange.

Starting from the information submitted by the IER and restricted to the instruments selected by the IERs for review (in accordance with methodology), the PMO assessed the potential impact of common instruments' valuation differences for cases where the difference was above 2% (equities and government bonds) and 10% for corporate bonds.

The SC decided to enforce the results post PFAR considering the consistency assessment made by the PMO. Considering the need to ensure a level playing field, FSC decided to enforce in these situations a consistent adjustment across undertakings, namely the adjustment with the most favorable impact resulted from consistency checks across all undertakings (i.e.: the most favorable among all the values used by the IER for one bond). The effect of these consistency checks are presented in the table below:

(in '000 BGN)

Pension Fund	Total assets	Total proposed adjustments IFRS by IER	Consistency effect of favourable values	Total assets after IER's adjustments and consistency effect
Doverie Universal Pension Fund	2.266.708	(10.912)	1.988	2.257.784
Doverie Professional Pension Fund	216.091	(2.441)	262	213.912
Doverie Voluntary Pension Fund	132.254	(1.866)	167	130.555
Saglasie Universal Pension Fund	936.548	(2.140)	2.199	936.607
Saglasie Professional Pension Fund	153.816	(720)	877	153.972
Saglasie Voluntary Pension Fund	67.592	413	319	68.324
DSK - Rodina AD Universal Pension Fund	1.159.743	-	442	1.160.185
DSK - Rodina AD Professional Pension Fund	112.730	-	52	112.782
DSK - Rodina AD Voluntary Pension Fund	68.338	-	47	68.386
Allianz Bulgaria Universal Pension Fund	1.741.668	-	2.664	1.744.332
Allianz Bulgaria Professional Pension Fund	153.476	-	258	153.734
Allianz Bulgaria Voluntary Pension Fund	382.606	(3.563)	463	379.506
NN Universal Pension Fund	847.152	288	0	847.440
NN Professional Pension Fund	62.368	26	7	62.401
NN Voluntary Pension Fund	109.986	(58)	-	109.929
CCB-Sila Universal Pension Fund	814.321	(8.209)	8.019	814.132
CCB-Sila Professional Pension Fund	99.528	(2.258)	2.633	99.903
CCB-Sila Voluntary Pension Fund	70.353	(2.524)	2.276	70.105
Badeshte Universal Pension Fund	185.070	(5.727)	4.040	183.384
Badeshte Professional Pension Fund	11.876	(303)	573	12.146
Badeshte Voluntary Pension Fund	2.775	(103)	22	2.695
Toplina Universal Pension Fund	91.739	217	500	92.455
Toplina Professional Pension Fund	41.780	93	243	42.117
Toplina Voluntary Pension Fund	10.272	(37)	66	10.301
Pension Insurance Institute Universal Pension Fund	89.362	36	385	89.784
Pension Insurance Institute Professional Pension Fund	16.482	6	105	16.594
Pension Insurance Institute Voluntary Pension Fund	737	1	4	741
Total	9.845.372	(39.779)	28.611	9.834.204

Source R5.1 template

7. Investments in Related Parties

The IERs concluded based on the procedures performed that there were no investments in related parties as of 30 June 2016 according to the definition in the SIC. The main sources used by IER were minutes of shareholders' meetings, communication with regulators, available public information (Trade Register).

As a general conclusion, the PICs have appropriate control mechanisms regarding the identification of related parties and the investment policies are in line with the restrictions of current legislation for the investments in related parties.

In some cases, the IER identified that there was no formal policy for maintaining a complete list of related parties, thus recommended: (a) a comprehensive checklist to be completed as part of the process for authorization of new investments, (b) conduct and document more in-depth research into the persons that actually exercise control over the investments.

In certain cases, the researched entities were significant in number. Given this, there were limitations regarding the identification of possible other related parties than the ones disclosed by the PICs, as identifying a related party requires a far broader set of information to be analysed.

8. Review of the risks of the PFs

Based on the performed procedures, and their best knowledge of the Bulgarian market and of international practices, the IER identified and raised key risks that are considered as being capable of affecting the entire pension fund sector or financial market. This risk assessment included not only a compliance with the provisions of the applicable legal framework, but also involved the identification of the main risks not captured or not fully captured by the legal framework.

Risk assessment - provisions of the applicable legal framework

The IER examined whether the investments of assets of the PFs comply with the quantitative restrictions of the SIC, and also examined and commented on the controls the PICs have implemented in order to ensure compliance with the said restrictions. In general no breach of the limits were identified, however, in limited cases, the IER identified that the PF continue to invest close to the limit, which made the PFs vulnerable to even small price changes which could easily passively breach the limit. The IER recommended that the PICs keep larger buffers for each category of the investments.

Compliance of valuations of Financial Instruments and Investment Properties to IFRS principles

Although the PICs report on a regular basis to the FSC based on Ordinance 9, the PICs are required and do prepare the financial statements of the PFs in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Analysis on the basis of IFRS requirements

The IER were requested to assess, based on the procedures performed for the valuation of financial instruments, to what extent the policies selected and applied for the valuation of the instruments are in line with the provisions of IFRS 13 in relation to fair value measurement. They were also asked to comment on the differences identified between current policies for the valuation of financial instruments and IFRS. Thus, the IER performed procedures in their selected sample from the PF portfolios for the valuation of the financial instruments, with the purpose of ensuring conformity with the requirements of IFRS.

Some IERs have assessed and confirmed that the policies that PICs selected for the valuation of the financial instruments are in line with the provisions of IFRS 13 in relation to fair value measurement.

Other IER commented that none of the financial instruments of the PFs are valued on a daily basis (and accordingly also on 30 June 2016) in accordance with the requirements of IFRS due to the fact that the requirements of Ordinance 9 do not include taking into consideration all of the circumstances which should be taken into consideration in a fair value estimation under IFRS 13 and which might respectively have an impact on the estimation of this value.

Additional potential differences between Ordinance 9 and IFRS valuations were identified by IER, in respect of:

a) **debt securities**, where the brokered market (determined by the PIC as a principal market under the requirements of IFRS 13) presents information on the bid price also on days that are not working days in Bulgaria. In respect of this exercise, there is no difference in the valuation of those financial

instruments at 30 June 2016, since the measurement date of the fair value under IFRS 13 (30.06) is a working day;

b) **Shares accepted for trading in Bulgaria**, where although there is information for the last price of concluded transaction (the closing price) and it might be considered that the price of the last transaction is the most representative for the fair value of the financial instrument at the measurement date, the PICs follow the valuation under Ord.9 which requires the use of the weighted average price of transaction concluded with them on the previous working day (primary method) or average of the published in the stock exchange bulletin highest “bid” price from the offers active at the end of the trading session of the regulated market for the previous working day and the weighted average price of transaction concluded for the respective securities on the same day (first alternative method).

Other IER merely mentioned that the applicable framework requirements on valuation of the financial instruments are not based on IFRS 13, but on Ordinance 9.

Investment property valuation under IFRS provisions

The IER confirmed, based on the procedures performed for the valuation of investment properties that the policies selected for the valuation of the properties are in line with the provisions of IAS 40 (fair value model) and IFRS 13.

Nevertheless, the IER reported the following proposed adjustments on investments properties’ valuation, which are in line with the proposed adjustments for Ord. 9:

(in '000 BGN)

Pension Fund	Balance of investment properties 30/06/2016	Proposed Adjustments	Investment properties after adjustments	% per category
Doverie Universal Pension Fund	66.081,60	-10.911,89	55.169,71	-17%
Doverie Professional Pension Fund	8.136,36	-2.440,91	5.695,45	-30%
Doverie Voluntary Pension Fund	7.241,62	-1.865,61	5.376,02	-26%
Saglasie Universal Pension Fund	34.758,06	0,00	34.758,06	0%
Saglasie Professional Pension Fund	5.951,37	0,00	5.951,37	0%
Saglasie Voluntary Pension Fund	3.395,36	0,00	3.395,36	0%
Allianz Bulgaria Universal Pension Fund	15.429,93	0,00	15.429,93	0%
Allianz Bulgaria Professional Pension Fund	775,90	0,00	775,90	0%
Allianz Bulgaria Voluntary Pension Fund	23.933,90	-3.562,60	20.371,30	-15%
CCB-Sila Universal Pension Fund	36.525,46	-2.697,54	33.827,93	-7%
CCB-Sila Professional Pension Fund	4.271,80	-472,08	3.799,72	-11%
CCB-Sila Voluntary Pension Fund	5.086,45	-789,59	4.296,86	-16%
Badeshte Universal Pension Fund	6.608,46	0,00	6.608,46	0%
Badeshte Professional Pension Fund	218,59	0,00	218,59	0%
Badeshte Voluntary Pension Fund	182,76	0,00	182,76	0%
Toplina Universal Pension Fund	1.440,40	0,00	1.440,40	0%
Toplina Professional Pension Fund	922,00	0,00	922,00	0%
Toplina Voluntary Pension Fund	688,40	0,00	688,40	0%
Total	221.648	(22.740)	198.908	-10%

Source R4 template

Financial Instruments valuation under IFRS provisions

In cases, where, as indicated above, financial assets were not valued in compliance with IFRS, the IER aimed to perform an IFRS-compliant valuation and determine the differences in valuation.

Some of the differences reported by the IER for IFRS purposes were similar to the adjustments proposed for Ord. 9 purposes (mainly for bonds where a DCF approach was followed), while differentiations arose in the category Shares and rights admitted to trading and Local issued government bonds.

The below table presents a snapshot of the above observations:

(in '000 BGN)

Categories of financial instruments	Ord 9 Adjustments	Additional adjustments for IFRS purposes	Total adjustments IFRS
Bonds admitted to trading	(7.151)	0	(7.151)
Bonds not admitted and not traded on regulated	(3.049)	-	(3.049)
Locally issued government securities	-	(1.322)	(1.322)
Shares and rights admitted to trading	-	(5.517)	(5.517)
Total	(10.200)	(6.840)	(17.039)

Source R5.1 template

Locally issued government securities relate to Bulgarian governmental bonds which are traded on a secondary dealer's market (OTC) which is not regulated. The main dealers of such securities are the Bulgarian banks. Certain IER considered the same valuation approach as the primary one under Ord.9 as acceptable for IFRS, while others considered the valuation method followed by Ord.9 not compliant with IFRS and therefore used the last bid price available as at 30 June 2016 to propose adjustments.

Shares and rights admitted to trading include shares issued by Bulgarian companies, which are traded on the Bulgarian Stock Exchange. In accordance with IFRS, these should be measured at fair value in accordance with IFRS 13. The most reliable source of fair value for securities is the existence of active market for the same or similar assets. In the absence of an active market, alternative valuation models should be applied based on reliable and as much as possible, observable information. The IER used their judgment to determine whether the market for individual securities were active or inactive, using mainly the frequency of trades and trade days, in some cases reaching different conclusions.

In cases where the market was considered active the IER followed in most cases quoted price valuation for the same asset and in most cases the valuation method was identical to that followed for Ordinance 9 purposes. Others referred to mid-market pricing (par.71 of IFRS 13), or best bid price valuation (par.70 of IFRS 13).

In cases where the market was considered inactive by the IER, they followed different approaches:

- mid-market pricing
- best bid price
- market multiples valuation approach
- cost approach with net assets value
- capitalization of earnings

To address the above inconsistencies, the PMO agreed with the SC to focus on differences above 10% deviation among PFs for cases of bonds valued under DCF method and above 2% deviations in all other cases. The effect of this consistency check is presented in section 6. Consistency Procedures.

Assessment of investment (or other) risks which may not be (fully) captured by the legal framework.

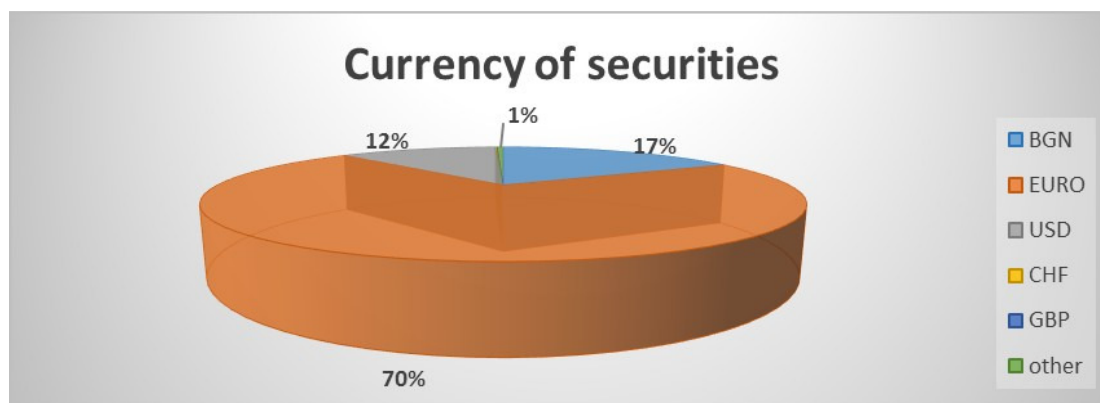
The IERs were requested to present their conclusions around the risks they identified for the pension fund sector, taking into account the procedures they have performed but also the work done around the PICs' risk assessment process.

They were also asked to consider sensitivity analysis and comment on the existence of concentrations of more than 10% per category.

Credit risk

a) Currency profile

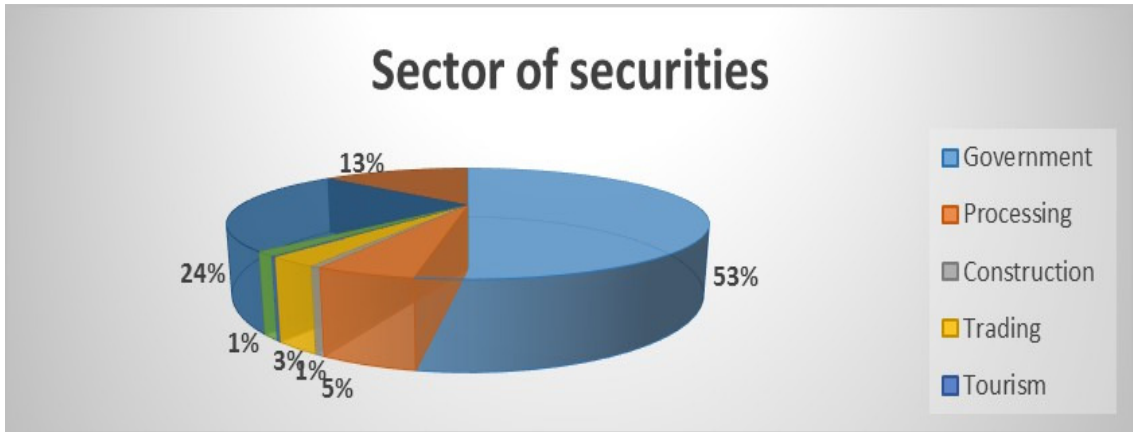
Based on IERs reports the investments of the PFs in terms of concentration by currency are summarized and presented in the following chart:



The PFs mainly have assets denominated in BGN and EUR as of 30 June 2016, while in some cases exposure to USD was also significant (up to 20% per PF). In these cases the IER commented that the PFs use currency forward contracts to hedge the exchange rate risk.

b) Sector profile

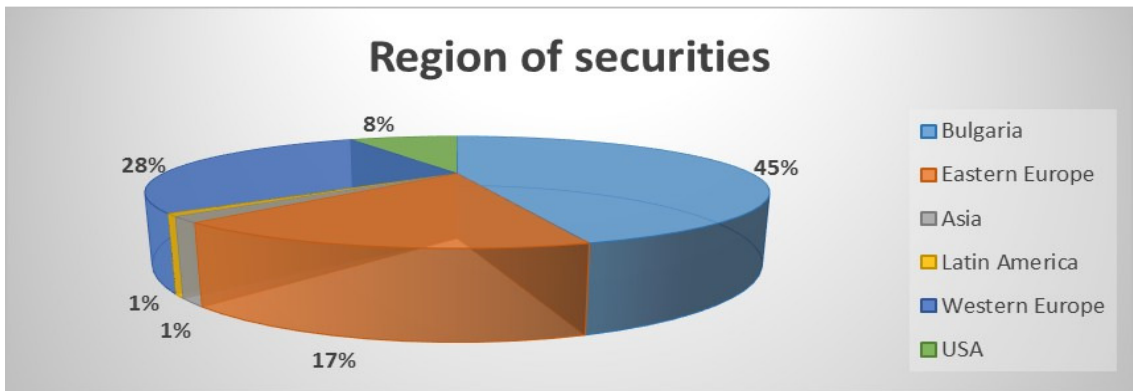
Based on IERs reports the investments of the PFs in terms of concentration by sector are summarized and presented in the following chart:



As a general observation, all PFs have invested significant part of their portfolio in government bonds. IER consider this type of investment as risk free or with limited risk. Also, significant part of the PFs' portfolio was invested in collective investment schemes and special investment purpose JSC (which are classified as "financial services").

c) Region profile

Based on IERs reports the investments of the PFs in terms of concentration by region are summarized and presented in the following chart:



As can be seen from the chart, the majority of the investments of the PF sector are in the local market (Bulgaria). This ranged from 32% to 99% of the total investments in securities per PF. Investments in Western Europe cover as of 30 June 2016, 28% of the total investments in securities of the PF sector (ranging from 1% to 41% of total investments per PF). In terms of individual concentrations, other than the above, one PF invested 41% of its portfolio in Eastern Europe, while another 20% of its portfolio in USA.

Interest risk

According to the reports of the IERs, all PFs have mainly invested in securities with fixed interest rate, therefore, the interest rate risk has generally been considered by IERs as ignorable.

Liquidity risk

Based on IERs reports, below is a summary of the analysis of liquidity of the PFs' total assets:

(in '000 BGN)

Liquidity risk	
Total assets	9.845.372
Maturity ranges:	
Within 1 month	29%
Between 1 month and not later than 3 months	2%
between 3 months and 6 months	1%
between 6 months and 1 year	3%
between 1 and 2 years	2%
3-5 years	13%
over 5 years	51%
Total	100%

Source R5.1

In general the comments provided by the IER, consider that the PFs have invested mostly in liquid instruments which can be settled in short period of time if needed. For example all collective investment schemes can be liquidated in a month's period, cash on hand is available immediately and bank deposits are available in three months. Apart from that, shares which are traded on the BSE can be liquidated, according to the IER, in a few months' period. On the other hand, the debt securities are structured so that all corporate bonds have maturity up to 5 years. The major part of the assets: the governmental securities are predominantly with longer maturity above 5 years, while the rest are with shorter than 5 year maturity.

Also, according to certain IER, the long term character of members' savings, the increasing fund membership and pension funds contribution, the low average age and the relatively small number of occasions leading to withdrawal of the accumulated resources, lead to higher cash inflows into the PF compared to the outflows and therefore currently low liquidity needs. According to IERs reports, the PICs will develop synchronization of assets policy and strategies once the pension payment schedule has been decided and confirmed by the regulatory bodies.

Exchange risk

As indicated above, the majority of the assets are denominated in BGN and EURO. Since BGN is pegged to the EURO, the currency risk is considered as ignorable.

An analysis of investments in foreign currencies is presented earlier in this section. As indicated above, in cases where the PFs have some exposure to the USD, the PICs have policies to cover that risk, either through hedging instruments, or the investments are highly liquid.

Related parties

The IER performed procedures to examine whether there were investments of the PF in securities issued by parties that may not qualify as a related party to the PIC under the SIC, but may qualify as a related party under IAS 24..

To this respect, in one case, such a situation was identified, where it was considered by the IER that there is a related party relationship under IAS 24, which did not exist under the definitions of SIC.

In addition, the IERs commented also on the differences in the definitions of related parties between IAS24 and SIC (or the scope of the persons from whom the PF cannot purchase assets) and

recommend that the definition of related parties under SIC be expanded to include the related parties defined under IAS 24, in order to eliminate any discrepancies, and monitor under a single definition. Thus, for example, the possibility for the PFs to invest in financial instruments issued by companies controlled or jointly controlled by close members of the families of the key management personnel of the PIC or the parent company of the PIC will be avoided.

Moreover, it was recommended to some PICs to implement procedures for identification of close members of the family of all of the members of the Board of Directors of the PIC, the PIC and the parent company of the PIC and subsequent identification of entities controlled or jointly controlled by those persons. Since that kind of information is not publicly available, the IERs were not able to perform an independent examination for existence of investments in entities controlled or jointly controlled by such close family members.

The IER were also requested to perform independent procedures to identify related parties that were not reported as such by the PICs. In certain cases, the IER identified exposure in entities related between them (but not to the PIC). The IER made recommendations that the PIC carefully check the issuers of securities for the participation of groups of related parties and to make in-depth analysis for the expected return on investment in such companies. This recommendation was given due to the fact that entities participating in these groups were subject to impairment.

In other cases, given the number of links the IER identified between the PIC and/or a Group and/or its related parties, the IER suggest that the PIC conduct and document more in-depth research into the persons that actually exercise control over the respective issuers. This exercise requires the PIC to request specific detailed documentation from the issuers, including voting records from shareholder meetings, investment records and shareholder and management information. It also entails requesting detailed information from other entities in the Group to establish among other things their shareholding and their investments in the investees. Management and key shareholders should also be requested to provide information about their relatives, and their investments, as defined in the referenced frameworks.

The IER also recommend that the PIC reviews its policy and procedure for assessing and identifying related parties with respect to investments in issuers. This process should include a process for third party integrity vetting consistent with international better practice.

The IERs also checked whether there could be differences in the related parties identified arising from the amendments in the definitions for related parties in the SIC that entered into force on 12 August 2016. The IER did not identify circumstances that indicate investments of the PFs in securities, issued by related parties to the respective PIC managing the funds.

In certain cases, the researched entities were significant in number or the structure of the Groups was complex. Given this, there were limitations regarding the identification of possible other related parties than the ones disclosed by the PICs, as identifying a related party requires a far broader set of information to be analysed.

9. APPENDICES

Appendix I – Undertakings participating in the PFAR and respective Independent External Reviewer

S/N	Pension Fund	Referred to as	Approved IER
1	Doverie Universal Pension Fund	Doverie UPF	PricewaterhouseCoopers Audit OOD
2	Doverie Professional Pension Fund	Doverie PPF	PricewaterhouseCoopers Audit OOD
3	Doverie Voluntary Pension Fund	Doverie VPF	PricewaterhouseCoopers Audit OOD
4	Saglasie Universal Pension Fund	Saglasie UPF	HLB Bulgaria OOD
5	Saglasie Professional Pension Fund	Saglasie PPF	HLB Bulgaria OOD
6	Saglasie Voluntary Pension Fund	Saglasie VPF	HLB Bulgaria OOD
7	DSK - Rodina AD Universal Pension Fund	Rodina UPF	PricewaterhouseCoopers Audit OOD
8	DSK - Rodina AD Professional Pension Fund	Rodina PPF	PricewaterhouseCoopers Audit OOD
9	DSK - Rodina AD Voluntary Pension Fund	Rodina VPF	PricewaterhouseCoopers Audit OOD
10	Allianz Bulgaria Universal Pension Fund	Allianz UPF	PricewaterhouseCoopers Audit OOD
11	Allianz Bulgaria Professional Pension Fund	Allianz PPF	PricewaterhouseCoopers Audit OOD
12	Allianz Bulgaria Voluntary Pension Fund	Allianz VPF	PricewaterhouseCoopers Audit OOD
13	NN Universal Pension Fund	NN UPF	HLB Bulgaria OOD
14	NN Professional Pension Fund	NN PPF	HLB Bulgaria OOD
15	NN Voluntary Pension Fund	NN VPF	HLB Bulgaria OOD
16	CCB-Sila Universal Pension Fund	CCB-Sila UPF	KPMG Audit SRL
17	CCB-Sila Professional Pension Fund	CCB-Sila PPF	KPMG Audit SRL
18	CCB-Sila Voluntary Pension Fund	CCB-Sila VPF	KPMG Audit SRL
19	Badeshte Universal Pension Fund	Badeshte UPF	HLB Bulgaria OOD
20	Badeshte Professional Pension Fund	Badeshte PPF	HLB Bulgaria OOD
21	Badeshte Voluntary Pension Fund	Badeshte VPF	HLB Bulgaria OOD
22	Toplina Universal Pension Fund	Toplina UPF	HLB Bulgaria OOD
23	Toplina Professional Pension Fund	Toplina PPF	HLB Bulgaria OOD
24	Toplina Voluntary Pension Fund	Toplina VPF	HLB Bulgaria OOD
25	Pension Insurance Institute Universal Pension Fund	POI UPF	HLB Bulgaria OOD
26	Pension Insurance Institute Professional Pension Fund	POI PPF	HLB Bulgaria OOD
27	Pension Insurance Institute Voluntary Pension Fund	POI VPF	HLB Bulgaria OOD

Appendix II - Definitions

Art.:	Article
BD:	Board of directors
BSE:	Bulgarian Stock Exchange
CAPM:	Capital Asset Pricing Model'
CEO:	Chief Executive Officer
CFO:	Chief Financial Officer
DCF:	discounted cash flow
EC:	European Commission
ECB:	European Central Bank
E.g.:	exempli gratia/for example
EIB:	European Investment Bank
EIOPA:	The European Insurance and Occupational Pensions Authority
EU:	European Union
EU MS:	Member States of the European Union
FED:	Federal Reserve
FSC:	Financial Supervision Commission
i.e.:	id est ("it is").
IAS:	'International Accounting Standard
IER:	Independent External Reviewers
IFRS:	International Financial Reporting Standards
ISA:	International Standard on Accounting
NAV:	Net asset value
Ord.	Ordinance
P.:	Paragraph
PIC:	Pension Insurance Company
PF:	Pension Fund
PFAR:	Pension Funds' Assets Review Exercise
PM:	Planning Materiality
PMO:	Project Management Office / Project Manager
Q&A:	Questions and Answers
SC:	Steering Committee
SIC:	Social Insurance Code
ST:	Significance Threshold
RA:	Risk Assessment
RT:	Reporting Threshold
TB:	Trial Balance