



FINANCIAL SUPERVISION COMMISSION

2005 ANNUAL REPORT

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Address of the Commission's Chairman

Ladies and Gentlemen,

It is my pleasure to present to you the Annual Report on the Financial Supervision Commission's operation in year 2005.

The past year was one of the remarkable for the financial services market. A growth in the indicators for the financial intermediation depth was observed in all segments of the non-banking sectors of the financial industry. The improving efficiency of the institutional investors and of the market as a whole acquired a more significant role for the enhancement of the competitiveness of the Bulgarian economy on the eve of our accession to the single European market.

After its nearly three-year history, the Financial Supervision Commission has established itself as a modern and efficient supervisory authority. The strengthening of the internal integration and the changes in the approaches to the supervisory functions realization have assisted for more efficient utilization of the institution's resources. The FSC is also developing successfully as a regulator of the market, maintaining a flexible regulatory environment, aiming at promoting and supporting the financial market development in conformity with the latest tendencies on regional and world scale, which simultaneously ensures maximum investor protection according the specific conditions of the national economy.

The report has been divided in three major parts, presenting different aspects of the FSC's activities. The first part presents the activities, carried out by the FSC in 2005 in its function of a regulatory, licensing and supervisory authority for the non-banking financial sector. Also outlined is the human resources policy, as well as the activities and the processes within the international and internal cooperation. The income statement gives a financial picture of the FSC's activity in 2005.

In its second part the report contains the strategy for development of the Commission as a regulatory and supervisory body. Described are the goals, which FSC endeavors to achieve, in the elaboration and improvement of the legislative framework concerning the activities and functioning of the non-banking financial sector, as well as in the supervision exercised over it.

The last part of the report submits the information on the development of the non-banking financial sector in 2005. Data and analysis have been included for the state of the capital, insurance and health insurance markets, as well as the market of the supplementary pension insurance.

I hope that the report will be interesting and useful for the readers.

Apostol Apostolov

I. FSC' Activities in 2005

1. Regulatory Activity

In relation to the Commission's powers laid down in the Rules of the Commission's Structure and Operation² and in the Financial Supervision Commission Act (FSCA), the statutory acts adopted by the Commission in 2005 were in consistence with the *Program of the Legislative Activities for the Period 1 January – 31 December, 2005*.³

In 2005 substantial amendments and supplements were made to the legislative framework, which also included proposals for amendment to the hitherto existing statutory acts, in order to bring them in compliance with the best practices and achievements of the *acquis communautaire*. As a result of it, an improvement of the Bulgarian legislation in the field of the non-banking financial sector has been attained, aiming at promoting the development of the capital market, the market of social insurance and insurance services. A clear indication for the fulfillment of this objective during the past year were the improved indicators of the financial markets, which was achieved mainly by the amendments rendered to the legislative framework, governing the insurance, health insurance, investment activity and the supplementary pension insurance. The long-term policy of the Commission is connected with the updating of the Bulgarian legislation and its harmonization with the *acquis communautaire*, in view of the commitments undertaken by Bulgaria, concerning the forthcoming accession to the European Union (EU). To that end, in 2005 the Commission passed a number of sub-statutory acts, and some of them are already part of the legislative framework, regulating the insurance activities, investment and social insurance activities.

1.1. Amendments to the Legislative Framework

1.1.1. Amendments to the Legislative Framework, Regulating the Investment Activities

In connection with commitments, undertaken in the negotiation process, as well as with a view to overcoming some imperfections in our internal legislation, the Commission elaborated a draft of *Law on Amendment and Supplement of the LPOS*⁴ (LASLPOS). Thus harmonization has been achieved of the Bulgarian legislation with the EU achievements in the securities field and more particularly with Directive 93/22/EEC on the investment services in the securities field, Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions and with the partially transposed Directive 2004/39/EEC on the markets of financial instruments with regard to the investment intermediaries' operation. With the amendments to the Law, compliance with the prescriptions of Directive 97/9/EC was achieved in regard to the investor-compensation schemes by the setting up of Investors in Securities Compensation Fund, whose major aim is to ensure indemnification to the investment intermediaries' clients, where the investment intermediary cannot fulfill its obligations to them. Simultaneously with that the provisions of Directive 85/611/EEC have also been complied with, concerning the undertakings for collective investment in transferable securities by the setting up of a new type of scheme for collective investment in securities, namely – the contractual fund. *Appendix 1.1.1* gives a complete list of all directives, transposed until presently in the Bulgarian legislation.

² Art. 13, para 2

³ The Program was adopted by Protocol № 65 as of 29 December, 2004 and Protocol № 25 of 15 June, 2005.

⁴ LASLPOS (promulgated SG, issue 39 from 10 May, 2005)

The amendments to the LPOS with respect to the public companies were also directed to consistence with the amendments to the Commercial Law in relation to the transformation of the said companies. By the implemented amendments the capital requirements towards the management companies have been increased, and as with the investment intermediaries, for the management companies the so called “single passport” has been also introduced for pursuing business within the EU and the European Economic Area. A part of the amendments to the draft law have been directed to elimination of the existing discrepancies between the FSCA and the LPOS concerning the powers of the Commission and of the Deputy Chair in charge of Investment Activities Supervision Division.

1.1.2. Amendments to the Legislative Framework, Regulating the Insurance Activities

In view of the necessity of codification of the whole legal framework, governing the insurance relations in a single statutory act, as well as targeting to achieve full harmonization of the Bulgarian insurance legislation with that of the EU, and in accordance with the Additional Information to the Negotiation Position under Chapter 3 Freedom to Provide Services, the Commission elaborated an Insurance Code (IC), which presently is a part of the acting legislation. The IC⁵ supersedes the Law on Insurance.

By the IC adoption, some imperfections and omission have been overcome, found out in the implementation practice of the hitherto prevailing legislative framework and a higher efficiency has been ensured in the prudential and current supervision with a view to more thorough protection of the insured persons interests. The provisions of 23 European Directives have been transposed in the IC, regulating the activities of insurance, reinsurance as well as the activity of insurance and reinsurance intermediation (stated in *Appendix 1.1.2* hereto).

Significant changes were made by the IC in the legislative framework, regulating the insurance market, where for the purpose the so called „**single passport**“ has been envisaged to be introduced, or pursuance of insurance business in the conditions of the right of establishment and freedom to provide services.

The new legal points, introduced by the IC can be summarized along the following lines:

Insurance Undertaking

In the sphere of *organization and management of the activities*, the code for the first time obligates the insurers to abide by the good practices in the field of the *corporate governance*. The management bodies must prepare, assess on an ongoing basis and reconsider the activities plan, adopt managerial and internal structure of the insurer. The insurer must inform the Commission about the adopted documents, as well as about their subsequent amendments.

An obligation has been introduced the insurer to establish an *internal control (compliance) office*, accountable directly to the shareholders general meeting, in principle independent of the executive bodies, which is to find out the weak points in the management of the insurer and to warn its bodies and the Commission whenever certain violations are found.

Established is an *extended application of internal rules in the organization and management of the insurer* (rules for organization of the operative control, of the information system, internal control, liquidation of claims, risk management), which are filed in the supervisory institution, including also any amendments and supplements that have been rendered thereto. These rules aim at creating flexible standards for the insurer’s conduct in certain spheres, which have to

⁵ IC (promulgated in „SG“, issue 103 from 23 Dec., 2005, in effect as of 1 January, 2006)

account for its individual specifics, establishing at the same time binding rules for the pursuance of its business.

The figure of the **responsible actuary** has been introduced, where it has been envisaged for the first time the recognition of legal capacity to become after passing an examination before the Financial Supervision Commission. By this regulation further recognition of the significance of the actuary profession has been guaranteed, ensuring compliance with high general standards. The responsible actuary is a relatively independent authority for actuary control, accountable directly to the shareholders' general meeting and with an obligation to be responsible for the correct utilization of the actuarial methods in the insurer's practice, as well as to warn the Commission about any irregularities found out.

The Code sets new requirements to the **members of the management and supervisory bodies** of the insurer and the persons representing it, relating mostly to their qualification and reputation. A new in principle approach has been introduced for their assessment by the Commission, the accent in the assessment being shifted from formal establishment of the prerequisites or the hindrances for occupying a certain position, to examination in substance and estimate of the persons within the frameworks laid down by the law. It is for the first time also that requirements are laid down in Code to the qualification and good reputation of the persons, holding managerial positions, other than in the bodies of management and representation.

New requirements have been laid down towards **the insurers' capital**. The shares of the joint-stock companies are already only registered, dematerialized. The minimal amount of the registered capital is limited by the amount of the minimal guarantee capital, which grows up to two or threefold depending on the offered insurance services.

The requirements to the insurers' **financial integrity** have been heightened. Regulation has been introduced of the insurance premiums. The regulation of the insurance reserves has been settled on a legal level, the matter has been rendered in detail and a requirement for adequacy of the reserves has been introduced.

Introduced are **new assets for cover of the technical reserves**, rules for their territorial allocation and their currency equivalence, accent has been placed on the diversification and quality of the assets, insofar as this is of important significance for the insurers' financial integrity. Investment of the reserves in receivables from reinsurers has been allowed when taking into account their rating. This measure aims at exercising control through the reinsurance over the quality and stability of the insurers' portfolio. Failure to provide enough assets for cover of the reserves leads to imposition of coercive administrative measures by the FSC. The financial **indicators for stability of the financial undertaking** have been regulated – solvency margin and guarantee capital. The Code authorizes the Commission to recalculate the financial indicators in case any doubts arise for their trustworthiness and to find out their actual financial situation. Where the recalculated financial indicators signal for breach of the Code provisions, coercive administrative measures are imposed.

In the sphere of the financial indicators for stability **additional supervision over the solvency of insurers, participating in an insurance group** has been envisaged. In case of finding inadequate solvency, the Commission has the powers to impose coercive measures on the insurer, including an order for drawing up of a plan for the achievement of the solvency or a short-term plan for raising additional own funds. In case of failure to execute the plans, the insurer shall be considered insolvent, its license will be withdrawn and it will be declared bankrupt

The Code introduces for the first time **a reorganization plan** in case of instable financial situation of the insurer as a measure, which is to stabilize it and is to prevent the need of its license withdrawal.

An important place in the Code is taken up by the matter, related to the *consumers interests protection*. By the Code's provisions specific requirements of the European Directives have been introduced concerning protection of insurance services consumers interests, additional mechanisms being envisaged in addition to them, which ensure a high level of transparency in the insurers activities, in the treatment of the insured with them persons. Imperative requirements have been introduced about the procedure of filing claims, the evidence that may be demanded for their settlement, the time-limits for pronouncement of the insurer on the filed claims, a procedure has been envisaged for rendering of assistance by the Guarantee Fund, the National Bureau of Bulgarian Motor Insurers (NBBMI) and other state bodies. The insurer is obligated to adopt internal rules for settlement of the claims, which shall be presented at the supervisory institution and published in Internet.

The matter concerning *insurance intermediaries* is also regulated in a new way. With the purpose of consumer interest protection, guarantees have been introduced for the activities of the insurance broker and the insurance agent. Upon conclusion, amendment or renewal of an insurance contract they are obligated to provide to the consumer certain information, to comply with his requirements and needs and to assist him in the conclusion of the insurance contract, as well as during its period of validity.

The novelties in the regulation on the *insurance undertaking* target to increase its financial integrity, efficiency and competitiveness on the national market and to prepare it to function in the conditions of the single European market.

Insurance Contract

The IC elaborates an overall legal framework on the insurance contract: form and contents, pre-contractual relations, conclusion of an insurance contract, obligations of the parties in the contract execution. A part of the matter for the insurance contract has been carried over from the Commercial Law, being systematized and supplemented. In parallel with that the regulation of two new, required by the European Directives insurances has been brought in: Travel Assistance – the only insurance with which the insurer is entitled to provide indemnification in kind (in the form of services) and Legal Expenses Insurances, which targets avoidance of an eventual conflict of interests between an insurer and insured.

Obligatory Insurance

An important place in the legal regulation of the insurance contract is taken up by the obligatory insurance. The Code transposes wholly the directives, governing the matter of the obligatory *Third Party Liability Insurance of Motorists*.

A *single premium* is introduced of the insurance on the territory of the Community, whereby in essence the domestic third party liability and the third party liability for abroad are united in the part covering the Community member-states. The limits of liability are increased (with envisaged deferred terms). The insurance cover is determined in respect to all persons who drive motor vehicles on legal grounds. A new classification of the indemnifications has been presented – for non-property and property damages, caused by death or bodily injuries and damage of a third party property. A quarterly payment term has been introduced for payment of the indemnification, considered from the date of filing the claim.

In relation to the legal framework of the insurance, new institutions have been established, such as: Information Center to the GF and a representative for settlement of claims, to assist the injured persons to receive the insurance indemnifications on the EU territory. New functions have been assigned to NBBMI, related to the assistance rendered for the functioning of the Green Card System and Third Party Liability Insurance of Motorists. The communication has been regulated for providing of information on Third Party Liability Insurance among the

NBBMI, the Ministry of Interior and the Guarantee Fund. The measure aims at enhancing the control over the uninsured motor vehicles in movement and reducing their number to minimum.

Insurance Supervision

The IC regulates the powers of the supervisory authority, the procedures, time-limits, the acts and the procedure of protection against unlawful acts. The system of the Coercive Administrative Measures (CAM) and the procedure of their application has been improved. Powers have been given to the supervisory authority to require entry of CAM in the commercial register. New plans have been provided for (for solvency recovery, short-term plan, reorganization plan), as a measure which is to stabilize the insurer and prevent the need of its license withdrawal. In greater details have been regulated the transformation, liquidation and the bankruptcy of insurers, the place of the supervisory authority being outlined and mechanisms for consumer protection within these proceedings being envisaged. The legal regulation of the questor, liquidator and trustee has been improved.

Special Preconditions for Pursuing Business Within the EU

The IC creates a special legal regulation whereby it *removes the barriers for the freedom to provide insurance services and free movement of capitals* within the EU. Rules have been introduced for a „single license“ of the insurers in the Community, the freedom of establishment, freedom to provide services, rules of licensing the branches of insurers from third countries, preferences for the insurers from third countries, consolidated financial supervision within the Community.

In regard to the single supervision *accent has been placed on the supervision of the financial integrity of insurers* (solvency, formation of insurance reserves, assets for cover of the reserves). A single financial supervision has been introduced over the insurers on the territory of the whole EU. The foundations have been laid down for interaction between the supervisory institutions, introducing provisions for exchange of information among them and for the conduct of inspections within the jurisdiction of the national supervision.

These rules govern the *legal preconditions for taking up and pursuing insurance business by foreign insurers* on the territory of the Republic of Bulgaria and by Bulgarian insurers – on the territory of EU member-states and in third countries, as well as the conditions under which supervision over their activities will be exercised.

1.1.3. Other Amendments to the Legislative Framework

During the past 2005 amendments were also made to the act on the structure and operation of the Commission. The amendments were made by § 13 of the TFP of the IC (*promulgated in State Gazette, issue 103 of 23 Dec., 2005 in effect from 1 January, 2006.*) and related mostly to the Commission's structure and powers. For the purpose, a new paragraph 4 has been created to Art. 10 of the FSCA and according the text of same it is envisaged in case of *pre-term termination of the mandate of a deputy chairman of the Commission* on the proposal of the Commission's Chairman, another member to be appointed for his/her replacement, who will perform his/her powers until the coming into office of the new deputy chairman. Significant amendments have also been made in respect to the appealability of the acts of the Commission and the Deputy Chairs in charge of the three Divisions, where the acts can be appealed against through court channels before the Supreme Administrative Court as of the date of coming into effect of the EU Accession Treaty of the Republic of Bulgaria. With the amendments rendered to Art. 24 and Art. 25 of the LPOS, the scope of the concept „professional secret“ is determined, as well as the cases in which information constituting such type of secret may be used, disclosed or provided under the procedure and to the authorities, as

specifically laid down in the Law. Changes have also been made in the Appendix to Art. 27, para 2 of the LPOS and they came into force from 1 January, 2006.

The Commission participated in task forces together with other institutions in connection with the elaboration of other draft of laws as well, such as the Draft of *Financial Conglomerates Act*. The proposal for the drawing up of the draft-law has been made in connection with the commitments undertaken by the Commission, included in the 2006 Action Plan to the Strategy for Acceleration of the EU Accession Negotiations of the Republic of Bulgaria.

By the adoption of Financial Conglomerates Act, the time-limit for its passing being 29 September, 2006 *Directive 2002/87/EC* will be implemented concerning the *supplementary supervision of credit institutions*, insurance undertakings and investment firms, belonging to one financial conglomerate. The Act will regulate the manners of identification of the financial conglomerate, the areas on which a supervision is exercised on group level (capital adequacy and methods of their calculation, risk concentration, intra-group transactions, internal control and risk management mechanisms), the procedure of notification to the parent undertaking and the interested government authorities in the member-states, exercising supervisory and regulatory functions over the bank sector, the securities market, insurance and the pension insurance, as well as the criteria for determining the powers of the coordinator (regulator, exercising the supplementary financial supervision).

1.2. Amendments to the Sub-statutory Acts

1.2.1. Amendments to the Sub-statutory Acts Regulating the Investment Activity

During the past 2005 the Commission continued to improve the legislative framework, regulating the state supervision of the investment activity and the activities of the persons related to the capital market, both by up-dating of the acting Bulgarian legislation and its harmonization with the *acquis communautaire*, in view of the commitments undertaken by Bulgaria, connected with the forthcoming accession to the EU, and by the removal of some imperfections in the existing legal framework. For the purpose the following statutory acts have been adopted:

➤ By **Ordinance for Amendment and Supplement to Ordinance No. 1 on the Requirements to the Investment Intermediaries Operation**⁶, amendments were made aiming at ensuring a higher extent of investor protection. Part of the amendments concern the requirements to the information which the investment intermediaries provide to their customers, including also in advertising materials and public statements, with the purpose of achieving transparency and protection of the investor interests. It must be reliable, correct and not misleading, not to accentuate on the potential benefits from investment in securities, without simultaneously indicating also the risk, related thereto. Furthermore, additional requirements have been laid down to the investment intermediary's office, targeting they to have equipment and software, ensuring the intermediary's operation. With the amendments to the ordinance additional requirements have been also introduced to the contracts, concluded between the investment intermediary and its clients as well as to the orders for execution of transactions in securities, given by them with the purpose of achieving greater safety for the intermediary's clients and prevention of the possibility for any abuses. The other part of the amendments relate to heightening of the internal control in the investment intermediaries, as well as the procedure for accounting to the investment intermediary's management body. The ordinance aims to govern in details the mechanism for conducting internal control in the intermediary, as well as to

⁶Ordinance for Amendment and Supplement of Ordinance № 1 on the Requirements to the Investment Intermediaries Operation (promulgated, SG, issue 49 of 14 June, 2005)

engage the responsibility of the intermediary's management for the lawfulness of the actions of the persons working under a contract for it.

➤ With **Ordinance No. 22 from 29 July, 2005 on the Conditions and Procedure for Entry and Deletion of Public Companies and Other Issuers of Securities and Securities Issues in the Register of the Public Companies and Other Securities Issuers**⁷ amendments were made aimed at establishment of the conditions and procedure for entry and deletion of the public companies and other issuers of securities in the register under Art. 30, para 1, item 3 of the LPOS. The ordinance also reflects the new developments, introduced by the latest amendments and supplements to this matter by the Law on Public Offering of Securities. The new points in the ordinance are further related to differentiation of the powers of the Commission and the Commission's Deputy Chair in charge of Investment Activity Supervision Division. Also reflected has been the introduced by Ordinance №2 on the prospectuses with public offering of securities and on the disclosure of information by the public companies and other securities issuers requirement for drawing up of a prospectus for secondary public offering, irrespective of the market on which the securities will be traded. The time has been regulated where the issue is entered, respectively the issuer upon an approval of the prospectus for public offering or exemption from the obligation to publish a prospectus, as well the procedure has been explicitly governed for filing in of an issue of securities, whose initial public offering has concluded successfully. Some new prerequisites have been also regulated for deletion of securities issues from the register of the public companies and other issuers of securities, as dictated by concrete matters and causes, arisen in practice. The ordinance supersedes the prevailing until its coming into effect Ordinance on the Conditions and Procedure for Entry and Deletion of Public Companies, Other Issuers of Securities and Securities Issues in the Registers of the Bulgarian National Securities Commission.⁸

➤ With the latest amendments and supplements to the LPOS a new Division IV Investor Compensation of Chapter Five has been created, which has led to the need of adoption of a constituent sub-statutory act. In this relation the Commission adopted **Rules on the Structure and Operation of a Fund for Compensation of Investors in Securities**, the same⁹ being presently a part of the acting legislation. The Rules govern the structure and operation of the Fund for Compensation of Investors in Securities (the Fund). The setting up of the fund aims at ensuring financial protection of the investment intermediaries' clients¹⁰, in the cases where the investment intermediary is unable to fulfill its liabilities to the clients due to reasons directly related to its financial situation. In consistence with the legislative framework, the powers of the management board are rendered in detail, same consisting of five members, including a chairman, deputy chairmen and three other members, who are nominated by the Commission. Defined are the manner and sources of raising the resources of the Fund and the payments which are made with them, the ways of cooperation with foreign institutions for compensation of the investors in securities. Provisions have been introduced, related to the shortage of funds for covering the fund's liabilities under the LPOS. The statutory act has been elaborated while complying with the requirements, set forth by Directive 97/9/EC and accounting for the experience in a number of European states. By a subsequent amendment to the Rules¹¹ a new §4

⁷ Ordinance № 22 from 29 July, 2005 on the Conditions and Procedure for Entry and Deletion of Public Companies and Other Issuers of Securities and Securities Issues in the Register under Art. 30, para. 1, item 3 of the LPOS (promulgated SG, issue 66 as of 12 August, 2005)

⁸ Ordinance on the Conditions and Procedure for Entry and Deletion of Public Companies, Other Issuers of Securities and Securities Issues in the Register of the Bulgarian National Securities Commission, adopted by a Decree of the Council of Ministers № 240 from 23 Oct., 2001 г., prom., SG, issue 93 from 30 October, 2001.

⁹ Rules on the Structure and Operation of the Fund for Compensation of Investors in Securities (prom., SG, issue 69 from 23 August, 2005)

¹⁰ Under Art. 54, para. 3 of the LPOS

¹¹ prom., SG, issue 97 from 2 Dec., 2005.

of the Rules TFP has been created, according to which the Fund may use to cover its administrative expenses for 2005 and 2006, the resources obtained from the collected in the Fund contributions.

➤ With the amendments rendered to the **Ordinance on Amendment and Supplement to Ordinance No.11 on the Licenses to Pursue Business as a Stock Exchange, Organizer of a Unofficial Securities Market, Investment Intermediary, Investment Company, Management Company and Special Purpose Vehicle**¹² the requirement have been settled in details for the issue of a license to organize and manage a contractual fund, including a comprehensive indication of the required data and documents, which have to be attached by the persons that have filed the application. In their major part the changes are mostly editorial and are directed to achieving uniformity with the adopted by the law terminology, introduced by the latest amendments and supplements to the LPOS in consistence with the requirements of the *acquis communautaire*. At the same time the amendments to the ordinance have also been complied with already made amendments to other statutory acts. Requirements have been introduced the bank documents, verifying that a person, that subscribed shares paid in the full amount of the due contributions, to be submitted at the Commission within a 14-day period from receiving the notification under Art. 203, para. 2 of the LPOS.

1.2.2. Amendments to the Sub-statutory Acts Governing the Insurance and the Voluntary Health Insurance

➤ With **The Ordinance on the Form and Contents of the Annual Financial Statement of the Insurance and Health Insurance Companies**¹³ uniform form and contents are established of the annual financial statements of the insurance and health insurance companies. In view of the lack of a unified regulation of this matter, the ordinances targets mostly the achievement of a higher extent of comparability between the financial statements of the individual insurers and health insurance companies, setting forth at the same time the requirements to the form and contents of the annual financial statement of the insurance and health insurance companies

➤ **The Ordinance on the Own Funds and the Solvency Margin of the Insurers and Health Insurance Companies**¹⁴ has laid down provisions, which for the first time regulate the methods for exercising supervision over the solvency of the insurers on a consolidated basis. Thus the requirements of Directive 98/78/EC have been implemented concerning a supplementary supervision over the insurers, participating in an insurance group. On the other side with the adoption of the ordinance the requirements of Directives 2002/13/EC and 2002/12/EC have been also wholly implemented concerning the determination of the insurance undertaking's solvency margins. Besides, some texts have been rendered precise and omissions and deficiencies have been removed of the acting until that time Ordinance on the Own Funds and Solvency Margin of the Insurers and Health Insurance Companies¹⁵, that were found out in the process of its application. The ordinance sets forth the elements, which are included in the calculation of the amount of own funds, solvency margin of the insurance and health insurance companies and the methods by which it is calculated, as well as the methods for carrying out a

¹² Ordinance on Amendment and Supplement of Ordinance №11 on the Licenses to Pursue Business as a Stock Exchange, Organizer of Unofficial Securities Market, Investment Intermediary, Investment Company, Management Company and Special Purpose Vehicle (promulgated SG, issue 84 from 21 Oct., 2005)

¹³ Ordinance on the Form and Contents of the Annual Financial Statement of the Insurance and Health Insurance Companies (prom., SG, issue 15 from 15 February, 2005)

¹⁴ Ordinance on the Own Funds and the Solvency Margin of Insurers and Health Insurance Companies (prom., SG, issue 29 from 05 April, 2005)

¹⁵ Adopted by decree of the Council of Ministers № 13 from 24 Jan., 2003, prom., SG, issue 10 from 4 Feb., 2003.

supplementary supervision over the solvency of the insurers under Art.34, para 1, item 1 and 2 of the Law on Insurance (repealed).

➤ With the latest amendments and supplements to the Law on Insurance¹⁶, last year the statute of the Guarantee Fund (GF) was changed, which led to the necessity of passing a new constituent statutory act. The **Rules on the Structure and Operation of the Guarantee Fund**¹⁷ has provided for that the GF will be managed by a management board in membership – a chairman and four members, nominated by the management board of the Association of the Bulgarian Insurers among representatives of the insurers, pursuing obligatory insurance under Art. 77, para 1, item 1 and 2 Law on Insurance (repealed). The rules has envisaged also new provisions, related predominantly to the fund's resources, which less the reserve for outstanding payments may not be less than BGN 3 million. Another novelty is the establishment of a minimum amount of the fund's resources and in case of shortage for more than one month the resources of the fund have to be supplemented by cash of the insurers, pursuing the obligatory Third Party Liability Insurance and Accident Insurance. A new points is also that the term for pronouncement on claims may not be longer than 30 days, and for the cases of delay, interest for delay has been envisaged due to the damaged person from the date on which the term for announcement of a decision on the claim expires.

➤ In 2005 several amendments and supplements were made also to **Ordinance No 18 from year 2004 on the obligatory insurance under Art. 77, para 1, item 1 and 2 of the Law on Insurance**. The amendments rendered to the ordinance were in compliance with the presently repealed Law on Insurance. By the most recent amendments and supplements to the ordinance¹⁸ the market of the obligatory Third Party Liability Insurance has been liberalized. The concept of "benefit" is defined for the purposes of the ordinance, with the objective to discontinue the practice of delivery of material benefits upon the conclusion of the obligatory Third Party Liability Insurance. The requirement has been introduced the minimum obligatory risk premium to be adequate, so as to ensure fulfillment of all insurer's liabilities, including the formation of adequate insurance reserves. In this relation Art. 14 of the Ordinance was also cancelled, which provided possibility the minimum risk premium to be corrected by coefficients reflecting the specifics of the risk, undertaken by the insurer under each insurance. It has been envisaged an insurer, offering an obligatory insurance, to file with the Commission twice weekly a check-up about the registered insurance contracts of obligatory Third Party Liability Insurance in a model form approved by the Deputy Chair of the Commission in charge of Insurance Supervision Division for the period from the ordinance coming into effect till 1 January, 2006.

1.2.3. Amendments to the Sub-statutory Acts, Regulating the Supplementary Pension Insurance

During the surveyed period the Commission adopted **Ordinance on Amendments and Supplement to Ordinance No. 12 from 10 Dec., 2003 on the manner and procedure for determining the minimum rate of return in the management of the supplementary obligatory pension insurance funds assets, on cover of the difference to the minimum rate of return and on formation and use of the reserves for guaranteeing the minimum rate of return**.¹⁹ The amendments are connected with a change in the formulas mechanism in some of the appendixes thereto.

¹⁶ Law on Insurance (repealed by SG, issue 103 from 23 Dec., 2005 in effect as of 1 Jan., 2006)

¹⁷ Rules on the Structure and Operation of the Guarantee Fund (prom., SG, issue 20 from 8 March, 2005)

¹⁸ Promulgated in SG, issue 101 from 16 Dec., 2005.

¹⁹ Ordinance for amendment and supplement to Ordinance № 12 from 10 Dec., 2003 on the manner and procedure for determining the minimum rate of return in the management of supplementary obligatory pension insurance funds assets, on covering the difference up to the minimum rate of return and on formation and use of the reserves for guaranteeing the minimum rate of return (prom., SG, issue 29 from 5 April, 2005)

➤ With the amendments and supplements made to **Ordinance No. 3 from 24 Sept., 2003 on the manner and procedure for switching of participation and on transfer of the accumulated funds of a socially insured person from one supplementary pension insurance fund into another relevant fund, managed by another pension insurance company** (the Ordinance), **prom., SG issue 50 in 2005.**²⁰ the application of a mechanism is envisaged whereby to guarantee that the insured person has expressed personally his/her will for switching of participation or for transfer of funds from one into another relevant pension fund. To that end a requirement has been introduced for notarial attestation of the signature of the insured person on the first copy of the filed by him/her application for switching of participation or for the transfer of funds, as a guarantee for the expression of his/her will. This accordingly results in the dropping off of the effective until now procedure for application filing – only personally by the insurer in the office of the new pension insurance company. With the amendments rendered to the ordinance, the problems in its application have been overcome, related to filing application for switching of participation or for transfer of funds from one into another pension insurance company, without the knowledge and participation of the insured person or by his/her being misled. For the purpose amendments were also made to the model forms. A prohibition has also been introduced for the pension insurance companies to offer, provide or promise privileges, gifts, services or other benefits to the insured persons. This prohibition renders concrete, for the purposes of the Ordinance, one of the general and basic principles underlying the Social Insurance Code (SIC) – the principle of loyal competition between the pension insurance companies, and targets at the achievement of safety and integrity of the social insurance market.

➤ With the amendments made to **Ordinance No. 9 on the manner and procedure for valuation of the assets and liabilities of the supplementary pension insurance funds and of the pension insurance company, of the fund's net asset value, on calculation and announcement of the value per unit and on the requirements to keeping the individual accounts**²¹, the manners of subsequent assessment of the supplementary pension insurance funds assets have been improved.

In relation to the commitments undertaken by Bulgaria with regard to the harmonization of the Bulgarian legislation with the *acquis communautaire*, towards the end of year 2005 work has begun on the transposition in the field of the supplementary pension insurance of three directives - Directive 2003/41/EO on the activities and supervision of the institutions for occupational retirement provisions, Directive 1998/49/EC on safeguarding of supplementary pension rights of employed and self-employed persons moving within the Community and Directive 86/378/EEC on the implementation of the principle of equal treatment of men and women in occupational social security schemes.

²⁰ Ordinance № 3 of 24 Sept., 2003 on the manner and procedure for switching of participation and for transfer of the accumulated funds of the insured person from one supplementary pension insurance fund into another relevant fund, managed by another pension insurance company (prom., SG issue 50 in 2005)

²¹ Ordinance № 9 on the manner and procedure for valuation of the assets and liabilities of supplementary pension insurance funds and of the pension insurance company, of the fund's net asset value, for calculation and announcement of the value per unit and for the requirements to the keeping of individual accounts (prom., SG, issue 57 of 12 July, 2005)

2. Licensing Activities and Authorizations Regimes

2.1. Licensing Activities and Authorizations Regimes in the Field of Investment Activity

2.1.1. Investment Intermediaries, Securities Brokers and Investment Advisors

- **New Elements in the Licensing Procedure**

By the LASLPOS amendments have been introduced, dictated by the need of the Bulgarian legislation harmonization of with the *acquis communautaire* in the field of securities and with the purpose of overcoming certain deficiencies and omissions of the LPOS, established in the practice of its implementation; as well as bringing the provisions of the law in compliance with the amendments to other laws, related to the governed by the LPOS matter.

The amendments in the part concerning the operation of the *investment intermediaries* are along the following lines:

The provisions about the licensing of the investment intermediaries have been amended in consistence with Directive 93/22/EEC on the investment services in the field of securities and in part with Directive 2004/39/EC on the markets of financial instruments. The scope of activities of the investment intermediaries retain the division of major and additional activities. It has been envisaged the investment intermediaries to be licensed according the transactions and activities which they intend to perform. A possibility has been provided to combine in various variants the pursuance of one or more of the laid down investment services and activities.

The possibility has been retained investment intermediaries to execute transactions with foreign means of payment, two hypothesis being envisaged in relation thereto:

Where an investment intermediary has obtained a license to pursue by occupation transactions for its own account and to underwrite issues, i.e. the highest license, it may execute transactions with foreign means of payment, regardless of whether they are related to the provided by him investment services, provided that such investment intermediary has obtained a license for it under the conditions and procedure of the acting legislation.

In cases when an investment intermediary is with a lower class of license, it may carry out transactions with foreign means of payment, only if they are related to the provided by it services. In this hypothesis a license is not required under the special legislation, as it does not concern pursuance of business by occupation, but for an additional service, provided by the investment intermediary of its instruments.

The license can be only for part of the possible investment services and activities, and it is impossible to be issued only for providing of the additional services.

The *capital requirements* towards the investment intermediaries according the services and activities carried out by them have been brought in compliance with Directive 93/6/EEC on the capital adequacy of the investment firms and credit institutions. It has been envisaged that:

- An investment intermediary which holds clients' cash and/or securities must own capital not less than BGN 250 000.
- An investment intermediary which executes transactions in securities for its own account and/or underwriting securities issues and/or offering for an

initial sale securities in the conditions of unconditional and irrevocable obligation for underwriting/acquisition of the securities must own at any time capital not less than BGN 1 500 000.

- In cases other than the above described, the investment intermediary's capital must be not less than BGN 100 000.

Another new development in the licensing procedure of the investment intermediaries is the requirement for submission of an **Activity Plan of the Company** and its intentions for the market sector, which it will occupy with its activity, and of rules on personal transactions with securities of the members of the investment intermediary's management and supervisory bodies, of the new employees and related persons.

More precise has also been rendered **the procedure of withdrawal of the license** of an investment intermediary, new grounds being set up, namely falling into a lasting worsened financial situation and respectively impossibility of the investment intermediary to fulfill its liabilities, as well as where the breaches under the chapter on inside dealing and unfair trade have been qualified as gross violations and have been put up as grounds for withdrawal of the license (it is natural such violations to be sanctioned by an act, penal warrant and the same to have been effectuated and confirmed by the court).

This is also valid for failure to fulfill an imposed coercive administrative measure or some other gross violation or systematic breached of the LPOS and the ordinances of its implementation, which are new additional grounds for license withdrawal.

The so called **single passport** has been introduced, which means that after the accession of Bulgaria to the EU, the investment intermediaries registered or with a seat in an EU member-state or in a state from the European Economic Area will be able to pursue activity on the territory of the Republic of Bulgaria without a license being required to be issued by the Commission. Including also Bulgarian investment intermediaries will be able to carry out activities on the territory of an EU member-state or a state from the European Economic Area without being additionally licensed by the competent authorities of the relevant state. The investment intermediaries will be able to pursue business by the establishment of a branch or under the freedom to provide services without the registration of a branch.

New requirements have been envisaged for the legal entities, owning 10 and over 10 per cent of an investment intermediary's capital, both in licensing procedure²², and in procedure²³ for the issue of an approval by the Deputy Chair in charge of Investment Activity Supervision Division, where the same have to present also financial statements for the last quarter, preceding the filing of an application, targeting at more precise estimate of the applicant's financial situation. To the set of documents the applicant²⁴ must also attach rules for the personal transactions with securities by the members of an investment intermediary's management and supervisory bodies, employees and related persons.

In connection with the established by the Law on Amendments and Supplement to the LPOS Investors in Securities Compensation Fund, a new requirements has been introduced for the payment of an **entry contribution** by the applicant in the Fund for Compensation of Investors in Securities, after the written notification by the FSC. The investment intermediaries that have obtained a license before the coming into force of the provisions of the LASLPOS paid in the contribution to the Fund in time.

²² Under Art. 54 of the LPOS

²³ Under Art. 74a of the LOPS

²⁴ On the grounds of Art. 62, para 2 item 6

- **Licensing and Authorization Activity**

Licenses Issued by the Commission

During the year the Commission issued a license to pursue the business of an *investment intermediary* to two companies – D.I.S.L. Securities AD and KD Securities EAD. The procedure of licensing of another company A1 Finance Ltd was not concluded at 31 December, 2005. By decision of the Commission a denial was given for the issue of a license to pursue the business of an investment intermediary to one company, i.e. SVIS Investment AD.

Within the period under review the license of four investment intermediaries has been supplemented. The license of three companies CEE Securities JSC, Capital Markets JSC and Inter Capital Markets JSC has been supplemented with „management of clients individual securities portfolios and/or cash with the exception of portfolios of investment companies and pension funds“, the first two companies having obtained a license to pursue this business also abroad. To another investment intermediary Benchmark Finance JSC, the Commission has issued a license to carry out as an investment intermediary certain transactions²⁵ abroad as well.

Within the surveyed period, the FSC conducted only one examination for the acquirement of a qualification of *securities broker and investment advisor*, respectively on 28 and 29 May. From 43 persons admitted to take the examination for securities brokers, 34 sat for it, 20 successfully passed the exam. At the same time 28 from 36 persons were admitted to the examination for investment adviser and 15 of them passed the examination. By decision FSC recognized the acquired qualification, satisfying the requirements covered by the thematic scope of the examination for an investment advisor, verified by a document issued by a competent foreign authority, to 6 persons and refused to acknowledge the acquired qualification of 3 persons.

Detailed information about the brokers and investment advisors may be found in *Appendix 2.1.1.*

Licenses withdrawn by the Commission

The FSC withdrew the licenses of five *investment intermediaries* in 2005, namely Darik Asset Investments Ltd., EX-PIT AND CO LTD, East Finance Ltd., Unity Invest 99 PLC on the basis of a voluntary denial to Bulinvest and Company JSC as well, due to violated requirements for capital adequacy. Two banks were deleted from the register of the investment intermediaries, kept by the FSC, because of the withdrawal of the licenses to carry out bank activity – Balkan Universal Bank and International Bank for Trade and Development. At the same time in connection with the need of bringing the minimum capital in compliance with the provisions of Ordinance № 6, the FSC withdrew the right to execute transactions in securities for own account and underwriting securities issues of six investment intermediaries – Sofia Invest Brokerage JSC, Makler 2002 JSC, Capital Finance Ltd, AVAL IN JSC, Real Finance JSC and DFK JSC.

During the period FSC withdrew the right to operate as an *investment advisor* of two persons and as a securities *broker* – of three persons.

Individual Administrative Acts, Issued by the Deputy Chair in Charge of Investment Activity Supervision Division.

In year 2005 the Deputy Chair in charge of Investment Activity Supervision Division issued an approval for the acquisition of 10 and more than 10 per cent of the votes in the General

²⁵ The transactions under Art. 54, para 1, item 1,3 and 4

Meeting of an investment intermediary to 15 applicants. Simultaneously during the year a refusal was issued to two applicants for the acquirement of 10 and more than 10 per cent from the votes in the General Meeting of an investment intermediary.

Amendments to the general conditions, applicable to contracts with clients were approved of 17 investment intermediaries. Three of the applicant companies changed their general conditions twice.

- **Number of Investment Intermediaries, Securities Brokers and Investment Advisors at 31 Dec., 2005.**

Thus on 31 Dec., 2005 the *investment intermediaries*, carrying out business on the territory of Bulgaria were 88, from which 29 were banks. The non-bank investment intermediaries were divided in three groups according the size of their capital, i.e.:

- With capital over BGN 1 000 000 – 21 investment intermediaries
- With capital between BGN 250 000 and BGN 1 000 000 – 33 investment intermediaries
- With capital between BGN 200 000 and BGN 250 000 – 5 investment intermediaries.

On 31 Dec., 2005 there were 362 persons filed into the FSC's register of the natural persons who directly under a contract execute transactions in securities and provide investment advise about securities, including 254 *brokers* and 108 *investment advisors*.

2.1.2. Collective Investment Schemes, Management Companies and Special Purpose Vehicles

- **New Elements in the Licensing Procedure**

With the adoption of the LASLPOS a new type of scheme for investment in securities has been introduced – the *contractual fund* in accordance with Directive 85/611 of the EU. In contrast to the investment company, which is the other type of collective investment scheme, the fund is not a legal entity. It is property separated with the purpose for collective investment in securities through moneys raised by public offering of units. The fund has not management bodies, but is managed by a management company, which must obtain a license from the FSC. There are a number of similarities between the investment company and the contractual fund. The money designated for investment in securities is raised by public offering of units, as it is with the investment company (the difference is that the investment company issues shares publicly). The principle of the activities management is also identical. A significant difference is that the contractual fund is managed always by a management company, that has obtained an authorization for the organization and management of a contractual fund by the FSC. The management company may start to offer publicly the fund's units after the Commission approves the fund's prospectus. Unlike the investment company, the contractual fund can be only of an open-end type. The contractual funds managed by the management companies are subject to entry in the public register²⁶ and are considered established with their filing into this register.

²⁶ under Art. 30, para 1, item 5 of the LPOS

Aiming at protection of investor interests, maintaining their confidence in the collective investment schemes and establishing compliance with the statutory requirements, the new para 3 of Art. 192 of the LPOS regulates *preliminary permission, confirmation or approval* by the FSC, respectively by the Deputy Chair in charge of Investment Activity Supervision Division, for the performance of certain actions by the regulated persons. A restriction has been introduced for an investment company not to be able to invest more than 10 % from its assets in securities issued by a public company or another issuer, whose securities have been admitted to trading on a regulated market. According the amended provision²⁷, the deputy chairman may allow on certain conditions to one investment company to invest up to 20 % of its assets in securities, issued by one and same public company or by another issuer, whose securities have been admitted to trading on a regulated market, provided that the total amount of these investments does not exceed 40 % of the investment company's assets.

In regard to the *management companies*, with the amendments to the LPOS as of May 2005, their scope of activities has broadened and they already can provide additional services, such as management according a concluded with the client contract, of an individual portfolio, including such of an institutional investor, holding securities at its own discretion, without special instructions by the client, as well as providing of investment advise on securities. To the management company, which provides the above mentioned additional services, the provisions of the law concerning investment intermediaries apply. The LASLPOS from May, 2005 has also laid down higher capital requirements to the management companies, as well as the obligation to issue only dematerialized shares with one voting right.

As a new element for the issue of license to pursue the business of a management company, with the amendments to the LPOS from May 2005 the requirement has been introduced for presentation in the licensing procedure of *rules of the personal transactions with securities* of the members of the management and supervisory bodies of the management company, of the investment advisor working under a contract for the management company, of the management company's employees and related persons. The adoption of such rules targets at the elimination or limitation of potential conflicts of interests and unacceptable practices.

With the amendments and supplements to the LPOS as of May, 2005 the so called „*single passport*“ has been introduced for the management companies when carrying out activities within the EU and the European Economic Area. Through the „single passport“ the issued by FSC and the relevant foreign regulatory institutions licenses to pursue the business of a management company will be mutually recognized without an additional license to be necessary.

Other requirements, brought in with the amendments to Ordinance № 11²⁸ from October 2005 are the submission in the course of the licensing procedure of an Activity Plan for the company, including market information, clients structure, the projected by the company financial performance, etc.; the system of keeping accounting and for data storage, as well as the measures for keeping the clients' securities and cash and for segregation of the investors' portfolios; rules on internal organization and internal control.

In relation to the implementation of the single passport for the management companies, an additional requirement has been introduced with the LSLPOS, namely until the coming into effect of the provisions for a single passport, a foreign collective investment scheme with a registered office or whose management company is with a registered office in an EU member-

²⁷ of Art. 196, para 3 of the LPOS

²⁸ Ordinance № 11 from 3 Dec., 2005 on the licenses to pursue the business of a stock exchange, organizer of unofficial securities market, investment intermediary, investment company, management company and special purpose vehicle

state or in another state, belonging to the European Economic Area, may offer publicly its securities in Bulgaria while complying with the provisions of the LPOS²⁹. On the other side, the foreign collective investment schemes, which at the time of coming into force of the LASLPOS from May 2005 were offering publicly their securities in the Republic of Bulgaria were obligated³⁰ to bring their activities in compliance with the LPOS³¹ within a 9-month period as of coming into effect of the LASLPOS.

- **Licensing and Authorization Activity**

Licenses Issued by the Commission

In 2005 the FSC has issued a license for the pursuance of business as an *investment company* of open-end type to Elana High-yield Fund AD. During the period under review one more application was filed to issue a license to pursue the business of an open-end investment company to BenchMark Fund 2 AD, the procedure of which was not concluded at the end of 2005.

With the latest amendments and supplements to the LPOS as of May 2005 the regime of a new type of a collective investment scheme has been regulated, i.e. the *contractual fund*. In this connection in the second half of 2005 the FSC's activity started for the issue of authorizations to the management companies for organization and management of such funds. The interest to their establishment has been extremely high, an eloquent testimony for which are the figures as well – only for the second half year of 2005 the FSC issued 15 licenses to 8 management companies for the organization and management of totally 15 contractual funds. During the same period one more application was filed for the issue of an authorization for the organization and management of a contractual fund, the procedure for which was not concluded at the end of 2005.

Thus two management companies DSK Asset Management AD and T B I Asset Management EAD manage 3 contractual funds each, another four management companies Sentinel Asset Management JSC, UBB Asset Management EAD, Elana Fund Management AD and Standard Asset Management AD manage two contractual funds each. The tendency which is observed is one MC to organize and manage minimum 2 contractual funds (conservative, aggressive or risk), but the objective in most of the cases is to be established 3 contractual funds (conservative, balanced and aggressive), which are to offer the complete range of services. The observed till now shows that the interest in the organization of contractual funds will continue during this year as well, which on its turn is also related with the establishment of new management companies.

In connection with the amendments and supplements to the LPOS, by which the scope of activity of the *management company* has been extended, including the possibility for discretionary management of an individual securities portfolio, as well as the organization and management of contractual funds, in 2005 the interest in establishment of new management companies heightened. During the period under survey, the FSC issued four licenses for the pursuance of business as a management company to Sentinel Asset Management JSC, BenchMark Asset Management AD, Standard Asset Management AD and Raiffeisen Asset Management AD. During the period 3 more applications were filed by newly established companies for the issue of a license to carry out activities as a management company, the procedures for which were not concluded on 31 Dec., 2005.

²⁹ compliance with the provisions of Art. 211k, para 1 and 3 of the LPOS in relation to § 156, para 2 from the TFP of the LASLPOS

³⁰ according to § 156, para 3 of the TFP of the LASLPOS

³¹ in accordance with Art. 211k, para 1 and 3 of the LPOS

According to the provisions of the LASLPOS³², the hitherto existing management companies were obligated to register their shares as dematerialized in the Central Depository and to bring their capital in consistence with the minimum required (BGN 250 thousand.), which obligations were fulfilled by all management companies.

In 2005 the FSC issued 8 licenses to pursue the business of a *special purpose vehicle*, simultaneously with that approving their prospectuses for public offering of shares in connection with the initial mandatory increase in capital. These are companies Real Estate Fund Bulgaria, Active Properties, Elana Agricultural Land Fund, Park, Advance-Terrafund, Intercapital Property Development, Quantum Developments, ERG Capital-2. Filed were 6 more applications for the issue of a license to carry out the activities as a special purpose vehicle, the procedures for which were concluded on 31 December, 2005.

During the year the company T B I - BAK – Real Estate JSC was renamed to Prime Property BG JSC.

Notifications are continuously received in the FSC about the incorporation and filing into the commercial register of special purpose vehicles, which speaks of the continued interest to the establishment of such companies, one reason for which are the tax preferences envisaged for them in the law, i.e. untaxable profit.

Within the period under review, FSC approved changes in the articles of association of two special purpose vehicles, took decisions for entry of issues of shares in the FSC's register with the purpose of trading on a regulated securities market, as a result of increase in the capital of 8 special purpose vehicles. The Commission also approved a prospectus for public offering of shares with the purpose of increase in the capital of 1 company and issued an approval for replacement of the servicing company of one company, as well as an approval of an amendment to the contract for depository services of the special purpose vehicle.

In relation to the fulfillment of FSC's powers, a *Practice on the Application of the Provisions of the Special Purpose Vehicles Acts* was elaborated and adopted in 2005 about the contents of the filed in the FSC declarations about the property and business interests of the persons, who manage and represent the special purpose vehicles.

An increased interest was noticed in 2005 on the side of *foreign collective investment schemes* for public offering in Bulgaria of the issued by them shares or units. In this connection during the reviewed period the FSC has approved the prospectuses for public offering of the units of two mutual funds, managed by Capital Invest, Austria and a prospectuses for public offering shares of SGAM FUND, Luxembourg with 7 sub-funds, managed by Societe Generale Asset Management. These approvals allow the foreign collective investment schemes to offer publicly their shares, or units. During the period, the offering of new 4 sub-funds of Pioneer Funds, Luxembourg started in Bulgaria. Also applications were filed in for approval of the prospectuses of 8 funds of Raiffeisen Kapitalanlage-Gesellschaft mbH, which were approved early in 2006. The expectations are that the interest on the side of foreign collective investment schemes will continue in future, too, taking into account also the facilitated regime for public offering in Bulgaria of shares and units of foreign collective investment schemes with a registered office in an EU member-state or in another state, belonging to the European Economic Area, introduced by the most recent amendments and supplements to the LPOS.

³² § 139 and § 140, para 1 of the Transitional and Final Provisions of the LASLPOS

Individual Administrative Acts, Issued by the Deputy Chair in Charge of Investment Activity Supervision Division

The Deputy Chair in charge of Investment Activity Supervision Division issued approvals for amendments to the articles of association of four *investment companies*, approval of changes in the Rules for Portfolio Valuation and Determination of the Net Asset Value of an Investment Company, an approval to three investment companies to invest up to 10 % in shares of one public company and an approval to one investment company to invest up to 20 % of the assets in securities of one issuer.

Also coordinated with the Deputy Governor of the Bulgarian National Bank, head of Bank Supervision, the Deputy Chair in charge of Investment Activity Supervision Division approved a list of the banks, which could be depositories of investment companies and contractual funds.

In relation to the exercising of her powers, in 2005 the Deputy Chair in charge of Investment Activity Supervision Division issued three approvals for the acquisition by one person of more than 10 % of the votes in the general meeting of two *management companies*.

During the period were reviewed the advertisement materials for six contractual funds, filed in FSC by nine investment companies, as well as by four management companies. The Deputy Chair in charge of Investment Activity Supervision Division did not issue a temporary or final prohibition, as a result of which the companies were informed that they may publish or disseminate in another way the advertisement materials about the managed by them contractual funds.

In relation to exercising her powers, in 2005 the Deputy Chair in charge of Investment Activity Supervision Division issued approvals of amendments to the Rules of 5 contractual funds and approvals to amendments to the Rules of Portfolio Valuation and Determination of the Net Asset Value of 4 *contractual funds*.

During the period the received in the FSC extended invitations were reviewed for increase in the capital of 5 *special purpose vehicles*. The Deputy Chair in charge of Investment Activity Supervision Division did not initiate procedure of applying a coercive administrative measure in connection with the increase in the capital, as a result of which the invitations were promulgated and published.

With regard to the *foreign investment schemes* during the period the filed in the FSC advertisement materials were reviewed of the Pioneer Funds, as well as a project of a TV advertisements for the same, as well as publicity materials about SGAM FUND. The Deputy Chair in charge of Investment Activity Supervision Division did not issue a temporary or final prohibition, as a result of which the advertisement materials were admitted to publishing or dissemination in some other way.

- **Number of Collective Investment Schemes, Management Companies and Special Purpose Vehicles on 31 Dec., 2005.**

At the end of December, 2005 on the capital market in Bulgaria services were offered by 10 *investment companies*, from which 8 of open-end and 2 of closed-end type. Also as a result of the registered interest to the establishment of *contractual funds* after the settlement of the legislative framework of their functioning, there were 15 contractual fund at the year's end. The investment profile from viewpoint of the risk and profitability of the contractual funds varied – four of them were aggressive, seven were balanced and four were conservative. With the four newly incorporated companies, in 2005 the number of the *management companies* reached 13.

From the thirteen *special purpose vehicles*, which offered services on the Bulgarian capital market, 12 carried out securitization of real estate and only one company dealt with securitization of receivables.

At the end of the reviewed period, shares and units of totally 29 *foreign funds and sub-funds* were offered publicly in Bulgaria, offered by 3 foreign collective investment schemes:

- Pioneer Funds (Luxembourg) with 13 sub-funds. A management company is Pioneer Asset Management S.A., and a distributor for Bulgaria is Bulbank AD;
- Capital Invest Funds (Austria) with 9 mutual funds. A management company is Capital Invest, and distributor for Bulgaria is HVB Bank Biochim AD;
- SGAM FUND (Lunembourg) with 7 sub-funds. A management company is Societe Generale Asset Management S.A., and a distributor for Bulgaria is SG Expressbank AD.

2.1.3. Public Companies and Other Issuers of Securities

- **New Elements in the Licensing Procedure**

In 2005 the FSC adopted *Ordinance № 22 from 29 July, 2005* on the conditions and procedure for entry and deletion of public companies and other issuers of securities and issues of securities in the register, whereby amendments were made, directed to establishment of the conditions and procedure for filing and deletion of the public companies and other securities issuers in the register. The time has been regulated where the issue, respectively the issuer is filed in, upon an approval of the prospectus for public offering or exoneration from the obligation to publish a prospectus, as well as the procedure has been explicitly regulated for entry of a securities issue, whose initial public offering concluded successfully. Also new preconditions have been introduced for deletion of securities issues from the register under Art. 30, para 1, item 3 of the LPOS, dictated by specific questions and cases that have arisen in practice.

The amendments to the LPOS, which have been rendered by the LASLPS with regard to the public companies were also directed to compliance with the amendments to the Commercial Law³³ in connection with same companies' transformation.

- **Licensing and Authorization Activity**

Prospectuses for public offering of securities

The procedure for approval of a prospectus for public offering of securities includes review of the submitted documents about the admissibility and lawfulness of the procedure. After a review of the filed in documents, analysis and estimate of the presented in the prospectus information, a position (proposal) is drawn up, in case of established inconsistencies and discrepancies, letters are sent to the applicant for their elimination. After the submission of the demanded documents and removal of the inconsistencies, the prospectus and the attached to it documents are reviewed again and a position (proposal) is drawn up in connection with the initiated procedure. After a decision has been taken by the FSC for approval or refusal to approve a prospectus, an individual administrative act is prepared, which is sent to the applicant with a cover letter.

³³ Commercial Law, prom. SG, issue 58 from 2003.

During the year 32 application for approval of prospectuses for public offering were considered in the FSC, from which 4 prospectus for initial public offering of shares, 5 for secondary public offering of shares and 23 prospectus for secondary public offering of bonds, from which 19 – for corporate bonds, 2 for mortgage and 2 for municipal bonds.

After consideration of the applications, the Commission issued 29 decisions of approval and 3 denials to approve the filed prospectuses. The FSC exonerated Societe Generale SA from the obligation to publish a prospectus for public offering of securities. Furthermore, by a decision of the Commission, the procedure started against an application for approval of prospectus for secondary public offering of securities of Eurobank AD, was terminated.

On 31 December, 2005 in the process of review were 7 applications for approval of a prospectus for secondary public offering. The application filed by Zlaten Lev Holding AD is in fulfillment of the provisions of the LASLPOS³⁴, envisaging that public is a joint-stock company, which has more than 10 000 shareholders in the last day of two consecutive calendar years.

More detailed information about the concrete prospectuses may be found in *Appendix 2.1.3A*.

Entered and Deleted Securities Issues in the Register Kept by the FSC

The process of *registration*, respectively *deletion* of the securities issues and issuers in the register, kept by the FSC, includes analysis and assessment of the filed in documents independently or as accompanying the applications for prospectus approval, in the cases where the issue is registered on the FSC's initiative simultaneously with the approval of the prospectus, respectively the filed documents to the applications for deletion of issues, preparation of positions, forwarding of letters for elimination of the found out incompleteness and inconsistencies. Upon taking of decision by the Commission for entry of the issue or refusal for registration, or taking of decision by the Deputy Chair in charge of Investment Activity Supervision Division for deletion of the issue from the FSC's registered, an individual administrative act is drawn up, which with an accompanying letter is sent to the applicant.

The entry of part of the issues is done on the Commission's initiative, respectively the deputy chairman, together with the procedure for approval of a prospectus or exoneration from the obligation to publish a prospectus.

During the year in the register, maintained by the FSC on the Commission's initiative simultaneously with approval of a relevant prospectus for public offering, 27 securities issues were filed in, from which 23 issues of bonds and 4 issues of shares. The concrete issues, entered in the register, tally accordingly with the approved prospectuses for a secondary public offering of securities.

Beside them, during the period under review 8 issues of shares were registered with the purpose of trading on a regulated market, from which 5 subsequent issues of shares, issued as a result of capital increase and 3 issues of shares after a successful conclusion of an initial public offering. On 31 December, 2005 two applications for registration of subsequent issues of shares, issued as a result of capital increase, were in process of consideration. At the same time during the year 7 issues of securities were deleted from the register kept by the FSC, 4 from which of corporate bonds, 2 issues of mortgage bonds and one issue of shares.

Appendix 2.1.3B contains information on the concrete issues, filed in and deleted from the register, maintained by the FSC in year 2005.

³⁴ § 141, para 1 of the Transitional and Final Provisions of the LASLPOS

Filed in and Deleted Public Companies and Other Securities Issuers

During the period under review 4 *public companies* and 8 companies in their capacity of an *issuer* were entered on the Commission's initiative in the register of the public companies and other securities issuers kept by the FSC, simultaneously with the approval of a prospectus for a secondary public offering of shares and bonds accordingly. Also filed were 3 companies as a result of entry into the commercial register of increase in their capital, executed in the conditions of an initial public offering.

At the same time 17 *public companies* were deleted from the register, from which 11 after a realized tender offer, 5 after an application filed by the company and one after deletion of the company from the Commercial Register. Another public company Novotel Plovdiv JSC was deleted from the register of the public companies and other securities issuers, kept by the FSC, after an effectuated decision of a five-member panel of the Supreme Administrative Court, whereby a FSC's decision for entry was repealed. Two other companies were denied deletion from the register, i.e. Metaloceramica I JSC and ZSK Lozovo AD, as the amount of the companies assets does not meet the legal requirements³⁵.

Along with the decision for deletion of an issue of corporate bonds, company Prosoft AD was deleted from the register of the public companies and other securities issuers in its capacity of an issuer.

Detailed information on the filed in and deleted companies may be found in *Appendix 2.1.3C*.

Tender Offers for Purchase of Shares

In 2005 FSC registered 22 tender offers for the purchase of shares to shareholders with a voting right. After review of the received documents the Commission initially issued 17 temporary bans on publishing offers and sent notifications to the offerors about the established incompleteness and inconsistencies. After a corrected tender offering, the FSC issued 5 final bans on publishing a tender offer towards the shareholders. For the period under survey, upon review of the received documents and the registered tender offers, respectively the corrected tender offers, the Commission did not take a decision for the imposition of a temporary or final prohibition and in practice the tender offers of totally 16 companies could be published to the other shareholders.

Appendix 2.1.3D contains comprehensive information about the published tender offers and those in respect to which the FSC issued a final ban.

Drafts for increase in the capital of public companies

The filed in for review drafts of invitations and announcements for public offer to increase the capital of public companies³⁶ are considered by FSC with a view to their lawfulness, positions are drawn up and in case of established inconsistencies and deficiencies a procedure is initiated in respect to the companies for the issue of an individual administrative act for the imposition of a coercive administrative measure³⁷ and a letter is sent in which the term is indicated within which the company may submit explanations and objections in relation with the procedure thus instituted. After an additional filing of explanations and documents by the applicants, the experts once again review the documents of the instituted procedure and prepare a position for enforcement, respectively termination of the procedure initiated³⁸, for which the applicant is informed by a letter.

³⁵ Art. 119, para 1, item 1. b from the LPOS

³⁶ under Art. 112a of the LPOS

³⁷ under Art. 212, para 1, item 1 of the LPOS

³⁸ under Art. 212, para 1, item 1 of the LPOS

8 drafts of invitations and announcements for public offering for increase in the capital of public companies were reviewed in FSC during 2005, in regard to which the FSC's Deputy Chair in charge of Investment Activity Supervision Division did not take a decision for initiation of a procedure for the issue of an individual administrative act, with a view to which the invitation could be promulgated. On 31 Dec., 2005 two drafts were in the process of being reviewed and the FSC's Deputy Chair in charge of Investment Activity Supervision Division did not pronounce finally on them. Detailed information about the invitations for public offering for increase in the capital of the companies is given in *Appendix 2.1.3E*.

Filing of Professional Investors in the Register, Maintained by the FSC

The procedure of entry of natural persons in the register maintained by the FSC as professional investors covers a review of the submitted documents regarding the admissibility and lawfulness of the procedure. After consideration, analysis and estimate of the filed in documents, an opinion (proposal) is prepared, in case of established incompleteness and inconsistencies, letters are sent to the applicant for their removal. Upon presentation of the required documents same are reviewed and an opinion (proposal) is drawn up in relation to the procedure instituted. After the FSC takes a decision for the entry or denial to enter the person in the register of the professional investors, an individual administrative act is drawn up which is sent to the applicant with an accompanying letter.

In 2005 there were filed in total 15 applications for entry of persons as professional investors. To 10 of the persons the FSC issued decisions for entry in the register of the professional investors, and the other 5 applications were in the process of being reviewed on 31 Dec., 2005. The concrete persons are listed in *Appendix 2.1.3F*.

- **Number of Public Companies and Other Issuers of Securities on 31 Dec., 2005.**

At the end of 2005 there were 361 regulated persons entered in the register of the public companies and other securities issuers, kept by the FSC, from which 327 public companies and 34 issuers. Five of the filed in public companies were also issuers of bonds, entered in the register with the purpose of trading on a regulated securities market.

2.2. Licensing Activity and Authorization Regimes in the Field of Insurance and Voluntary Health Insurance

2.2.1. New Elements in the Licensing Procedure

The Insurance Code governs in detail the procedures concerning the issue of licenses and clearly allocates the powers of the administrative bodies therein. It introduces new, heightened requirements to pursuance of insurance business (minimal guarantee capital, more detailed requirements to the management and supervisory bodies of the insurer, to the drawing up and fulfillment of the Activity Plan, etc.), targeting at the establishment of a stable, transparent and efficient insurance market. The Code also regulates thoroughly the requirements to the operation of the insurance intermediaries.

With regard to insurance brokers, a facilitated registration regime has been envisaged, with the purpose of promotion and development of the offering of insurance services. New requirements have been laid down to the intermediaries with a view to protection of the consumer interests and enhancement of the quality of the offered insurance services (guarantees for the insurance broker operation, a higher limit of liability under Professional Responsibility Insurance, providing of information, ensuring appropriate training, etc.).

2.2.2. Licensing and Authorizing Activity

Decisions Issued by the Commission

In 2005 the Commission issued licenses to pursue insurance business to two companies, one for non-life insurance and one for life insurance – to ZK DSK Garancia AD, covering activities of Fire and Natural Perils Insurance, Other Property Damages and Travel Assistance, as well as to Life Insurance Institute AD, including activities of Life Insurance, Supplementary Insurance and Accident. The Commission also issued an additional license to carry out activity on reinsurance to ZAD Armeec AD.

To ZK Lev Ins AD was issued a permission to invest 19,61 % of its own funds in shares of the capital of Life Insurance Institute AD.

Furthermore, during the reviewed period the FSC issued a license to pursue the activity of voluntary health insurance to Health Insurance Institute AD, including activities over three health insurance packages – Outpatient Medical Care, Inpatient Medical Care and Health Improvement and Protection from Illness.

Within the period under review 27 licenses were issued to pursue the business of an insurance broker.

Decisions Whereby the Commission Withdraws the Right to Pursue Activity

During the period the Commission withdrew the licenses for pursuance of insurance business of Bulgarian Mutual Insurance Cooperative Society, ZK Hildan AD and MZK Evropa AD.

Also withdrawn were the licenses to pursue activities of two insurance brokers.

Activities Related to Notification Regime

Considered and concluded were correspondences with the insurers in relation to amendments to the general conditions, tariffs and insurance-technical plans on various types of insurances and insurance products to them as well as exchange of letters related to change in the shareholding in insurers and health insurance companies.

Individual administrative acts, issued by the deputy chairman

159 individual administrative acts within the competence of the deputy chairman were issued in 2005.

3 supplementary licenses were issued for the offer of a new type of insurance; 2 licenses for the offering of new health insurance packages to two health insurance companies; 2 decisions for correction of the presented by ZK Balgarski Imoti AD and HDI ZAD tariffs of the obligatory Third Party Liability Insurance.

An approval was issued to ZAD Allianz Bulgaria Life to invest insurance reserves outside of the territory of the Republic of Bulgaria.

Two decisions were issued whereby additional to the presented in the Commission reports, check-ups and information were demanded from MZK Evropa AD; a procedure has been initiated for withdrawal of the license for pursuance of insurance business of the company.

Approved were the reinsurance programs of 21 insurers; amendments in the methods and parameters for formation of the technical reserves of 12 insurers; amendments to the general conditions concerning the health insurance packages, insurance-technical plans and the tariffs of 4 health insurance companies; the formation of supplementary reserve was approved under Life Insurances by ZAD Bulstrad Life AD; the samples were approved of the identification documents for the insurance agents of two insurance companies.

70 approvals and 3 denials were also issued to approve members of the management bodies and actuaries of insurers, health insurance companies and the guarantee fund.

An approval and the inclusion of a person in the list of the registered auditors, entitled to certify the insurers' annual financial statements was refused.

Withdrawn were the licenses for carrying out activity to two insurance brokers.

Also a prescription³⁹ was given to insurance company ZK Lev Ins AD.

2.2.3. Number of Insurers and the Health Insurance Companies

At the end of 2005 there were 31 insurers functioning on the insurance market. From them 19 were non-life insurance companies, 10 – life insurance companies and 2 – mutual insurance cooperative societies, whose activity was in the field of life insurance. For the same period 12 health insurance companies participated on the market of voluntary health insurance.

³⁹Under Art. 51, para 3 from the LI

2.3. Licensing Activity and Authorization Regimes in the Field of the Supplementary Pension Insurance

2.3.1. New Elements in the Licensing Procedure

In 2005 within the Social Insurance Supervision Division of the FSC a draft of Guidance on the Application of Art. 122 and Art. 122a of the Social Insurance Code (SIC) was drawn up on the procedure and documents to apply for a pension license, which was adopted by the Financial Supervision Commission⁴⁰. The Guidance systematizes the conditions for applying to obtain a license for pursuance business of supplementary pension insurance by newly established joint-stock companies, the procedure of applying is described, the documents that have to be submitted at the FSC and model samples for them are approved.

The amendments and supplements to the SIC⁴¹ changed the regulation about the actuary servicing of the pension insurance companies and the managed by them pension funds. The requirement according which the actuary of the pension insurance company must be licensed according the procedure of Ordinance № 14 of the FSC dropped out. The ordinance itself was tacitly repealed with the creation of new legal regulations for the same procedure. The new texts in the SIC introduce the figure of the responsible actuary – a natural person with recognized by the Financial Supervision Commission legal capacity to pursue activity for actuary servicing of a pension insurance company and the managed by it pension funds. It has been envisaged legal capacity of an actuary to be acknowledged under conditions and procedure, determined by a Commission's ordinance, for whose adoption a time-limit was set by the end of 2006. .

2.3.2. Licensing and Authorization Activity

Licenses Issued by the FSC

During the reviewed period in the Social Insurance Supervision Division the documents were reviewed and proposals were drawn up to the FSC for the issue of licenses to nine applicants for actuary of pension insurance companies and supplementary pension insurance funds managed by them. The FSC issued licenses to all applicants on the proposal of the Deputy Chair in charge of Social Insurance Supervision Division.

Individual Administrative Acts of the Deputy Chair in Charge of the Division

In 2005 the FSC's Deputy Chair in charge of Social Insurance Supervision Division issued 66 individual administrative acts, including:

➤ **39 decisions** for approval of amendments and supplements to the Rules for the organization and operation of the supplementary pension insurance funds with a view to complying the rules contents both with the amendments and supplements to Ordinance № 3 of the FSC, in force as of 1 October, 2004 and of 1 July, 2005, and with the passed by the Council of Ministers Ordinance on the Boards of Trustees of the supplementary mandatory pension insurance funds and on the consultative councils of the supplementary voluntary pension insurance funds, in effect as of 1 March, 2005.

⁴⁰ by decision under Protocol № 35 as of 24 August, 2005

⁴¹ SIC (prom., SG issue 103 from 23 Dec., 2006, in effect as of 1 Jan., 2006)

- **8 decisions** for approval of rules for valuation of the assets and liabilities of a pension insurance company and of the managed by it supplementary pension insurance funds⁴².
- **15 decisions** under Art.180a, para 2 of the SIC for giving a time-limit to pension insurance companies for bringing the assets of the managed by them supplementary pension insurance funds in consistence with the investment requirements of the provisions of Art. 178, para1 or para 8 of the SIC, violated due to objective reasons;
- **2 decisions** under Ordinance № 19⁴³ of the FSC, respectively for the approval of biometrical mortality tables, which are applied by the pension insurance companies in the calculation of the pension reserves of a universal pension fund and of a supplementary obligatory pension insurance fund and for fixing the size of the technical interest rate, which is applied by the pension insurance companies in the calculation of the pension reserves of a universal pension fund and of a supplementary obligatory pension insurance fund;
- **1 decision** for approval of model forms of annual statements from an individual pension insurance account on 31 Dec., 2004 for the socially insured persons in a supplementary obligatory pension insurance fund and in supplementary voluntary pension insurance fund⁴⁴;
- **1 decision** for approval of a new size of the technical interest rate, applicable by a pension insurance company when determining the amount of the annuity and term pensions, paid by the managed by it voluntary pension fund⁴⁵.

2.2.3. Number of the Pension Insurance Companies and the Supplementary Pension Insurance Funds

At the end of 2005 in the sphere of supplementary pension insurance, services were offered by 8 pension insurance companies (PIC), anyone of which manages three funds – two obligatory pension insurance funds, respectively universal and professional, as well as one for voluntary pension insurance. Thus the supplementary pension insurance funds came in number to 24 .

⁴² In relation to and within the term under §19 of the TFP to the Ordinance on Amendment and Supplement of Ordinance № 9 of the FSC (prom., SG issue 57 as of 12 July, 2005)

⁴³ under §4, para 2 of the TFP of Ordinance № 19

⁴⁴ under Art.123h, para 1, item 2 of the SIC

⁴⁵ under Art. 246, para 1, item 3 and para 2, item 3 of the SIC

3. Supervisory Activity

The Financial Supervision Commission exercises its supervisory activity by means of continuous off-site control and on-site inspections.

The off-site control, which the FSC exercised during the surveyed period over the regulated persons' operation was expressed in examination of the provided annual and periodical reports (monthly, quarterly and half-yearly), as well as other statutorily required documents, specific for the various regulated entities. Upon finding out any incompleteness or inconsistencies with the statutory requirements, the FSC demands from the regulated persons to eliminate the inaccuracies in the received documents, applying the appropriate actions.

The FSC carried out control over the regulated entities' operation by means of **on-site inspections** – planned or ad-hoc, and also in response to signals and complaints, received with reference of the regulated persons activities.

3.1. Supervisory Activity in the Field of Investment Activity

The supervision of the investment activity is carried out by the Investment Activity Directorate to Investment Activity Supervision Division and is expressed in exercising a specialized supervision in respect to the implementation and compliance with the provisions of the Law on Public Offering of Securities /LPOS/ and the sub-statutory acts of its implementation by the regulated securities market, the Central Depository, the investment intermediaries, collective investment schemes and management companies, brokers and investment advisors, public companies and other securities issuers and the shareholders of the special purpose vehicles /SPV/.

3.1.1. Investment Intermediaries, Central Depository and Securities Markets

The supervision of the investment intermediaries (II) during the period under review was carried out by examination and analysis of the reports for capital adequacy and liquidity, the balance sheets and the income statements of the investment intermediaries, received monthly in the FSC. This allowed to monitor currently the investment intermediaries' financial situation. When any incompleteness and inconsistencies between the records on the balance sheet, the income statement and the report on capital adequacy and liquidity was established, from the respective II was required by letters to eliminate the errors, filing in corrected documents. When any violations were established of the statutory requirements for capital adequacy and liquidity, additional inspections were conducted on site of the relevant investment intermediaries' activities, where upon their confirmation, acts were drawn up for establishment of an administrative violation /AEAV/ or the taking of specific measures was recommended.

- **Off-site Control**

During the reviewed period in total 197 **checks** of the received in the FSC documents were made. On the basis of the documentary reviews carried out during the period, procedures for imposition of coercive administrative measures /CAM/ were initiated with regard to four investment intermediaries – Euro Garant PLC, Faktori AD, Unity Invest JSC and Bora Invest PLC. As a result, by decision of the Deputy Chair in charge of Investment Activity Supervision Division, coercive administrative measures were imposed on the four companies. The first two intermediaries were required to submit at the FSC certain documents, as well as the imposition of measures for strengthening of the internal control in the second company. The FSC obligated the third investment intermediary to suspend the execution of transactions with shares, bonds, compensatory instruments and investment vouchers for a third party's account and the intermediation in the conclusion of such for a period of 3 months. The coercive

administrative measure in regard to the fourth investment intermediary concerned the accounting of the company in relation to the requirements to capital adequacy and liquidity.

At the same time an administrative procedure was instituted for the withdrawal of the issued license to pursue the business of an investment intermediary to CEE Securities JSC. Subsequently, the Commission took a decision to terminate the procedure brought up for the imposition of the coercive administrative measure towards the company.

As a result of the ongoing documentary inspection of the information received from the investment intermediaries about their activities, as well as from brokers and investment advisers about changes in the circumstances, entered in the FSC's register, directions were drawn up for filing in of 1 915 circumstances, 1 643 from which relating to the investment intermediaries' operation, 159 concerning the brokers and investment advisors and 113, related to the regulated securities markets.

- **On-site Inspections**

For the period 1 January, 2005 – 31 December, 2005 FSC's experts conducted 49 **inspections**, including 31 planned and 18 „ad hoc“ inspections, where 2 inspections were carried out jointly with the Financial Intelligence Agency.

As a result of the inspections carried out, overall 124 acts for establishment of administrative violations were drawn up. **The most often met violations** in the inspections conducted and the AEAV drawn up to the investment intermediaries in relation to compliance with the provisions of the LPOS, Ordinance № 1⁴⁶ and Ordinance № 6⁴⁷ were as follows:

- For breach of the provisions of Art. 12 from Ordinance № 1 – lack of concluded contract between an investment intermediary and a client, lack of statement for check of the client's identity, missing certification by a person from the internal control department whether the contract and the statement satisfy the legal requirements – 25 acts for establishment of administrative violations;
- For breach of the provisions of Art. 17, para 1 and para 4 from Ordinance № 1 – a contract was concluded between an investment intermediary and a client with unsigned all required documents according the ordinance, existence of documents with obvious irregularities or incomplete data, inaccuracies or contradictions in the submitted documents or the presence of some other circumstances, arising suspicion of undue identification or introduction – 26 acts for establishment of administrative violations;
- For violation of the provisions of Art. 3, para 3 and para 4 of Ordinance № 1 – failure to execute by an investment intermediary of an order given by a client on the best conditions and at first possibility (failure to exert due diligence) - 4 acts for establishment of administrative violations;
- For breach of the provisions of Art. 8, para 1, in relation to § 2 of AP from Ordinance № 1 – failure to fulfill an obligation by a member of a management body of the investment intermediaries and by other persons, working under a contract for an investment intermediary, to make purchases/sales of securities for their account only as its clients from the conclusion of the contract with the investment intermediary until the expiration of 6 months from its termination - 8 acts for establishment of administrative violations;
- For breach of the provisions of Art. 22 from Ordinance № 6 – failure to fulfill the obligation by an investment intermediary to monitor on an ongoing basis its large exposures

⁴⁶ Ordinance № 1 on the requirements to the investment intermediaries activities

⁴⁷ Ordinance № 6 on the capital adequacy and liquidity of investment intermediaries

and to notify within a 3-day term as from the arising of the large exposure the Deputy Chair in charge of Investment Activity Supervision Division with the FSC about any newly arisen large exposure - 18 acts for establishment of administrative violations;

- For breach of the provisions of Art. 40, para 2 and 4 from Ordinance № 1 – the investment intermediary must keep accounting in a manner, which excludes deletion or replacement of data; at the end of each working day to produce a printout of the entered during the day data under Art. 42, 43, 45 and 46 with indication of the date and time of the printout, which is certified by the person, that entered the data and by a person from the internal control department affixing date and signature of the persons – 22 acts for establishment of administrative violations;
- For breach of the provisions of Art. 54a, para 3 from Ordinance № 1 –the head of the internal control department may not be a member of the management or supervisory bodies, brokers, investment advisor or some other person, entrusted with the operating management of the investment intermediary or, who participates in the performance of activities or separate actions, towards which he/she exercises control – 3 acts for establishment of administrative violations;
- For breach of the requirements of Art. 72 of the LPOS – this provision requires the investment intermediary to make a record in a special book in the succession of their receiving of all orders of its clients, including the identical orders and to execute them whole observing this succession – 4 acts for establishment of administrative violations;
- For breach of the requirements of Art. 161, para 1 and para 2 of the LPOS. This provision prohibits: - the conclusion of transactions in securities, as well as the performance of other actions by the investment intermediary, aiming at creation of false idea about the price, its change or the volume of trade with these securities - execution of fictitious transactions in securities by the investment intermediary – 3 acts for establishment of administrative violations;

During the period 3 inspections of investment intermediaries were also conducted in which it was found out that persons working under a contract with the investment intermediary concluded contracts for transactions in securities with deceased persons (11 persons). In relation to it 5 acts for establishment of administrative violations were drawn up to the guilty officials.

- **Complaints**

In 2005, 2 **complaints against decisions of the Deputy Chair** of the FSC in charge of Investment Activity Supervision Division were received in the FSC for the imposition of coercive administrative measure to the investment intermediaries Unity Invest-99 PLC and Bora Invest PLC. The complaints were rejected as groundless.

3.1.2. Collective Investment Schemes, Management Companies and Special Purpose Vehicles

- **Off-site Control**

The documentary inspections are regular. For removal of inconsistencies and discrepancies in the submitted quarterly reports, 2 procedures were initiated for imposition of coercive administrative measures. Subsequently, same were terminated due to the dropping out of the grounds for their imposing, as the companies eliminated the incompleteness and inconsistencies in their reports.

- **On-site Inspections**

During the period under review 11 on-site planned inspections were concluded (5 of management companies and 6 of investment companies). The activities of the management companies were examined in parallel with the inspection of the relevant managed investment company or contractual fund. After the inspections' conclusion, 18 acts for establishment of administrative violations were drawn up to the management company.

The established violations and the relevant AEA V were as follows:

- For non-compliance with the investment restrictions, in relation to Art. 6, item 2 of the Ordinance on the Requirements to the Activities of the Management Companies /ORAMC/ – 5 acts for establishment of administrative violations;
- In relation to failure to maintain the minimum liquid funds under Art. 22 of the ORAMC – 2 acts for establishment of administrative violations;
- In relation to failure to maintain the minimum liquid funds under Art. 23 of the ORAMC – 1 acts for establishment of administrative violations;
- For failure to notify the Commission within the term set under Art. 24 of the ORAMC – 3 acts for establishment of administrative violations;
- For failure of the management company to comply with the rules for asset valuation and admitted deviations from the statutorily determined investment limitations under Art. 52, para 1 of Ordinance on the Requirements to the Activities of Investment Companies /ORAIC/ – 2 acts for establishment of administrative violations;
- For irregular documents under Art. 28 of the ORAMC - 5 acts for establishment of administrative violations;

During the period any significant for the investment community violations were not established, as well as joint inspections with other institutions were not conducted.

- **Complaints**

For the period there were no complaints **against decisions of the Deputy Chair**, in charge of Investment Activity Supervision Division, relating to the supervision of the collective investment schemes, management companies and special purpose vehicles

3.1.3. Public Companies and Other Securities Issuers

- **Off-site Control and On-site Inspections**

During the period, the FSC realized prudential, current and subsequent control over compliance with the provisions of the LPOS and the instruments of its implementation. The inspections of the companies' operation was conducted in the FSC's premises or at the respective public companies' place of seat. The attendance of FSC's officials in the holding of the regulated entities' general shareholders' meeting was part of the exercised supervisory functions.

Prudential Control

With the purpose of prevention and termination of administrative violations, the FSC exercises **prudential control**, instituting procedures of imposition of a coercive administrative measures, terminates or applies coercive administrative measures (CAM).

During the reviewed period 568 procedures in total were opened for the imposition of a CAM, 123 were imposed, and 384 terminated. From the imposed 123 CAM, 10 were opened during a

preceding period, and 113 – during the period under review. From the terminated in total 384 CAM, 11 were opened in a preceding period, and 373 – in the surveyed period. In summary the data about the number of opened, imposed and terminated CAM are given in *Appendix 3.1.3A*.

The most often opened procedures of imposition of CAM and respectively their applying or termination was done in relation to:

- Failure to file in the FSC and/or in BSE – Sofia AD of quarterly and annual reports by the public companies and other issuers of securities, as well as establishment of deficiencies and inconsistencies in them;
- Breach of the legally set time-limit for a regular convention of the general shareholders' meeting, failure to vote on an agenda item, failure to take actions on already voted item, exoneration from liability of members of the public company's management and supervisory bodies by the general shareholders' meeting;
- Other breaches of the LPOS – ban on disposal with assets, exoneration from liability of a member of a supervisory body by the general shareholders' meeting without the availability of a certified by a registered auditor financial statement, appointment of investor relations director, etc.

With the purpose of preventing perpetration of offences of the provisions of the LPOS and the instruments of its implementation, the documents filed in the FSC are examined and letters of reminder are sent to the regulated persons. Totally 1 028 letters were sent to the regulated entities in connection with demanded documents, letters of reminder, replies to inquiries, inspections carried out, etc.

Ongoing and Subsequent Control

In relation to compliance with the provisions of Art. 98, para 1 and Art. 99 of the LPOS and Art. 28, with reference to Art. 27 of Ordinance № 2⁴⁸ on disclosure of significant information, influencing the price of securities, a process of **ongoing monitoring of the publicly disclosed by the regulated persons information** "ad hoc" - information/ has been established. This process includes a daily review of the published in the mass media, including also the electronic media, information by and about the public companies and the other securities issuers. A documentary inspection is carried out on the basis of the available in the FSC documents about the disclosure of already announced information in consistence with the requirements of the LPOS and Ordinance № 2. In case that there exist some data about possible legal breaches, letters are sent to the relevant persons or a check-up is carried out. During the reporting period 132 inspections were carried out of the available in the FSC and of the BSE documents, where no violations were found out. Letters were also sent to 25 companies or natural persons with a request to submit additional information in connection with the checks made of publications in the press. 12 inspections were concluded during the period under review.

Where violations of the LPOS and the instruments of its implementation were established, the offenders were invited by a letter to the FSC for clarification of the factual circumstances and commitment of administrative penal liability.

During the reviewed period there were breaches of the provisions of the LPOS found out and respectively acts for establishment of administrative violations were drawn up. Overall 102 acts were drawn up during the reporting period for establishment of an administrative violation, 46

⁴⁸ Ordinance № 2 on the prospectuses with public offering of securities and on disclosure of information by the public companies and the other securities issuers

– in the absence of the offender. 98 Reports of Findings were drawn up. With all drawn up Protocols of Findings and Acts, beside the person drawing up the acts, also two witnesses participated – FSC’s officials. A summary of the data about the number of the acts drawn up for establishment of an administrative violation and the prepared reports of findings are given in **Appendix 3.1.3B**.

From the data, stated in the appendix, it may be noted that in comparison with the preceding year, a tendency is observed of decreasing in the violations of the LPOS and its implementing instruments, as a result of the actions taken by the FSC. Also when reviewing the data from **Appendix 3.1.3C**, a conclusion can be drawn that the **most frequently met violations** were related to:

- Failure to submit or submitting with a delay in the FSC and to the BSE – Sofia annual and quarterly reports by public companies and other securities issuers, which are violations of Art. 94, para 1 and/or Art. 99, para 1 with reference to Art. 94 and Art.95, para 1 and/or Art. 99, para 1 with reference to Art. 95 from the LPOS
- Failure to comply with the time-limit set by law for a regular convention of the general shareholders’ meeting, which is a breach of Art. 115, para 1 and para 3 of the LPOS
- Non-compliance with the coercive administrative measure imposed by the Deputy chair in charge of Investment Activity Supervision Division, whereby Art. 221, para 6 is violated, with reference to Art. 212, para 1, item 1 of the LPOS.

- **Inspections (ad-hoc extraordinary)**

For the period under review 11 inspections of companies and natural persons were opened, 10 inspection were concluded totally. After the end of the period under review, 1 inspection of a company still went on (Bulgarian Rose – Plovdiv JSC), which was opened in the reporting period and continued in year 2006.

Whenever any offences were found out, acts for established administrative violations were drawn up, same being stated in the summarized information in **Appendix 3.1.3B**.

Upon the arising of necessity, officials from the department participated in joint inspections, carried out by the other directorates in Investment Activity Supervision Division.

In connection with found discrepancies between the data in the Central Depository AD, BSE – Sofia AD and in the register, kept by the FSC, concerning the capital of the public companies and more particularly – inconsistency in the nominal value per one share and/or the number of issued shares, documentary checks were made of the published data and the presented at the FSC and to BSE documents, with the purpose of elimination of the inconsistency and publishing actual information. Inspections were conducted of totally 60 public companies, and actions were taken against 13 companies, from which the required documents were demanded.

In total for the period under review 4 962 entries of annual and quarterly reports were made, as well as of circumstances and changes therein into the register of the public companies and other securities issuers, kept by the FSC. During the year 2 625 entries were made of circumstances and changes therein, the process being related to a review and analysis of the filed in documents. Simultaneously, submitted at the FSC and entered in the register of the public companies and other securities issuers were 2 337 annual, quarterly and consolidated reports for year 2004 and 2005, as well as documents additionally filed to them.

According the provisions of the LPOS, the annual reports of the public companies must contain a program for application of the internationally recognized standards of good corporate governance, and the report on the management – the program’s execution, as well as the

consistence of the activities of the public company's management and supervisory bodies during the past year. Underlying the programs are various rules as a part of the standards for good corporate governance, such as: requirements to the members of the management and supervisory bodies to act with due diligence and to be loyal to the public company; rules for constituting and activity of the independent directors and for the activity of the investor relations director, etc.

In 2005 the annual reports of the public companies for year 2004 were filed in the FSC along with the adopted by the companies programs for application of the internationally recognized standards of good corporate governance. The said companies when holding the annual general shareholders' meetings for the preceding year, considered and adopted the fulfillment of these programs as a part of the report on management.

- **Complaints**

The FSC rejected as groundless a filed in **complaint against a decision of the Deputy Chair** in charge of Investment Activity Supervision Division for the deletion of Antikoroza AD from the register, maintained by FSC.

3.2. Supervisory Activity in the Area of Insurance and Voluntary Health Insurance

In 2005 supervision was exercised over the operation of the insurance and health insurance companies for compliance with the provisions of the law on Insurance (LI) and the Health Insurance Act (HIA), as well as of their implementing instruments.

- **Off-site Control**

The off-site control was carried out by documents, on the basis of the annual, quarterly and monthly reports of the regulated persons. In year 2005 the obligation was introduced for accounting on a monthly basis, whereby a higher reliability was ensured of the off-site control with regard to the insurers' financial integrity and the possibility was guaranteed for the Commission to strengthen its prudential role.

In 2005 the annual and periodical statements, reports and notes to them have checked of 45 supervised entities, including 21 non-life insurers, 11 life insurers, 12 health insurance companies and the Guarantee Fund.

- **On-site Inspections**

In 2005 the preparation began of a detailed manual on conducting on-site inspections. It ensured a high extent of predictability, transparency and applying of unified standards and criteria in the inspections conducting.

During the period overall 101 on-site inspections were conducted on regulated entities, from which:

- 17 inspections (planned and ad-hoc) of insurers;
- 3 inspections of health insurance companies;
- 16 planned inspections of insurance brokers;
- 65 ad-hoc inspections of insurance brokers and agents in the conclusion of obligatory Third Party Liability Insurance.

Joint inspections with other institutions were not conducted.

Established Offences and Their Impact on the Market and the Participants on it

During the off-site control and on-site inspections offences were found out, which could be systematized along the following lines:

- The total amount of the long-term tangible and intangible assets, required to carry out the insurers activity, exceeds the limit set by law, which is an offence of Art.48, para 4 of the LI. The offence is a result of the irrational asset structure and leads to decreasing of their liquidity.
- Shortage of assets was established under Art. 52, para 1 of the LI and Art.90e, para 1 of the HIA or violation of the structure of assets for cover of the technical reserves with some regulated persons. The violation is an indicator of inadequate technical solvency of the insurers and health insurance companies, inadequate liquidity and poor assets diversification, which exposes the relevant company to excessive risk, may result in mistrust in the consumers of services and is a premise for destabilization of the insurance and health insurance market. In the same direction was the influence exerted also by some established violations of the Ordinance on the Manner and Methodology for Formation of the Insurance and Health Insurance Reserves.
- In violation of Art. 90f, para 1 of the HIA, an authorization was not requested for investment of own funds in units and shares of other commercial companies. As a result of it the Commission was deprived of the possibility to pronounce on the influence of the investment over the financial situation and integrity of the offender.
- A shortage was established of the net property value towards the registered capital with two insurance companies, which resulted in violation of Art. 252, para 1, item 5 of the Commercial Law. The violation was a consequence of accumulated losses in the current, as well as in past periods and was a premise for imposition of a coercive administrative measure and withdrawal of the license to pursue an insurance activity.
- The annual and periodical reports of some insurers and health insurance companies were prepared incorrectly and arose suspicions about the true and fair presentation of their financial situation, which renders difficult taking adequate decisions by the Commission about those regulated entities.
- Some insurers did not fulfill the imposed coercive administrative measure under Art. 226, para 2 of the LI. The same had unlawfully denied payment, paid with delay both partially executable and liquid liabilities under insurance contracts. Significant offences of the law were established with them – violation under Art. 31, para 2, item 4 of the IL.
- Grounds for termination of the activity were found with two insurers.
- Violations were established in the conclusion of the obligatory Third Party Liability Insurance, expressed in the offering of non-allowed benefits.

Actions Taken in Respect of the Offenders

In relation to the established violations of the LI and the HIA during on-site inspections and as a result of the ongoing financial control, the envisaged by the law actions were taken. The licenses to pursue insurance business were withdrawn of two insurance companies – ZK Hildan and MZK Evropa. 7 coercive administrative measures and orders of the Deputy Chair in charge of Insurance Supervision Division were imposed. 60 acts for established administrative violations and 31 penal warrants were issued and served.

- **Complaints**

In 2005 four individual administrative acts, issued by the Deputy Chair in charge of Insurance Supervision Division were appealed against.

3.3. Supervisory Activity in the Field of the Supplementary Pension Insurance

The supervisory activity over the lawful operation of the pension insurance companies and the managed by them supplementary pension insurance funds, with the purpose of protection of the socially insured persons and guaranteeing the integrity of the market, is exercised by Supervisory Activity Directorate to Social Insurance Supervision Division by conducting off-site control and on-site inspections. For the legitimate carrying out of the activities, inspections are also conducted in the custodian banks of the supplementary pension insurance funds.

- **Off-site Control**

The off-site control is exercised on the basis of the financial statements and check-ups about the activities of eight pension insurance companies, twenty four supplementary pension insurance funds and seven custodian banks with the following periodicity of submission: on daily basis – on the activities of the supplementary pension insurance funds and the custodian banks; monthly, quarterly and annually – about the activities of the pension insurance companies and the supplementary pension insurance funds. Upon the exercised off-site control 84 offences were established, for which 24 acts for establishment of administrative violations were drawn up.

Daily Control

A daily review and analysis are carried out of the received information about the operation of the supplementary pension insurance funds and the custodian banks, monitoring for lawfulness of the concluded transactions with the pension funds assets, the proportion of investments in the separate financial instruments towards the pension fund assets, the manner of making asset valuation and their correct reflection in the pension insurance companies. Also controlled is the compliance with the statutorily set time-limit for investment of the received cash, change of the net assets value, correct deduction of the investment fee and the correct determination of the number of units, corresponding to the received and drawn amounts and of the value per unit, as well as announcement of information about the value per one unit in the manner and time-limits, provided for under Ordinance № 9⁴⁹ of the FSC.

As a result of the exercised off-site control during the year, in some supplementary pension insurance funds incorrect making of valuation of investment property and securities, admitted to trading on regulated markets were found out, violations of the legal restrictions for investment of the moneys of the pension insurance funds in securities, issued by a single company, in corporate bonds and in government securities, as well as violation of the types of investment instruments, in which the moneys of the pension funds can be invested, non-compliance with the provisions of the Social Insurance Code, requiring all cash of the fund to be deposited at the custodian bank, as well as failure to observe the statutorily set time-limits.

With the inspections conducted 40 breaches of statutory provisions were found out, for which 16 acts were drawn up for established administrative violations under the Social Insurance Code and Ordinance № 9 of the FSC.

⁴⁹ Ordinance № 9 from 19 Nov., 2003 on the manner and procedure for valuation of the assets and liabilities of the supplementary pension insurance funds and of the pension insurance company, of the fund's net asset value, on calculation and announcement of the value per one unit and the requirements to keeping the individual accounts.

Periodical Control

During the period the filed monthly, quarterly and annual financial statements and check-ups about the operation of any of the eight licensed pension insurance companies and the managed by them supplementary pension insurance funds were reviewed and analyzed. For each pension insurance company the levels of the statutorily set indicators, such as capital adequacy, liquidity, etc were established, through which the legitimate performance of their activities is monitored. The values of the normative indicators for assessment of the results from the operation of the pension insurance companies on 31 Dec., 2005 compared with those on 31 Dec., 2004 are shown in *Appendix 3.3*.

The minimal liquid finds of the pension insurance companies (PIC) and the managed supplementary pension insurance funds in 2005 significantly exceeded the regulated by law minimal amount. The amounts of the reserves, set aside with PIC funds, for guaranteeing the minimum rate of return in the supplementary obligatory pension insurance funds was in consistence with the legal provisions, and the moneys from the reserves were invested according the statutorily established procedure. The valuation of the assets, in which the reserve funds were invested was in compliance with the statutory requirements.

During the control over the operation of the pension insurance companies in 2005, no deviations from the statutory requirements were found out in respect to **the rate of the obligatory fees**, deducted by the supplementary pension funds in favor of the pension insurance companies. The fee, withheld in the voluntary pension funds were lower than the maximum statutorily set rates – the average amount of the initial fee for the opening of an individual account was BGN 9,25, with statutorily set amount of not more than BGN 10, and the average rate of the deductions from the social insurance contributions amounted at 3,92%, with legally established fee up to 7%.

The consistence with the legal requirements to the **average amount of the management fees** and the investment fees with the supplementary obligatory pension insurance funds was controlled on the basis of the daily information, provided electronically by the PIC in the FSC.

In 2005 the general financial and economic indicators, related to the capital, assets, incomes and expenses of the pension insurance companies, the assets, participants and rate of return of the pension funds were also analyzed.

Upon the inspection conducted of documents filed in the FSC, 44 violations were found out of the procedure for transfer or switching of participation of insured persons from one into another relevant supplementary pension insurance fund, provided for in Ordinance №3⁵⁰ of the FSC, for which 8 acts for establishment of administrative violations were drawn up.

Monitoring of the Advertising Activity of the Pension Insurance Companies

An ongoing monitoring of the web pages of the pension insurance companies is carried out in relation to compliance with the provisions of the Social Insurance Code and the Requirements to the contents of the advertising and written information materials of the pension funds and of the pension insurance companies, approved by a decision of the Deputy Chair of the FSC in charge of Social Insurance Supervision Division. During the period inconsistencies were found out between the published information and the requirements thereto, for which recommendations were given to the persons representing the pension insurance companies for strict compliance with the requirements and the provisions of the Social Insurance Code in this aspect.

⁵⁰ Ordinance №3 from 24 September, 2003 on the procedure and manner for switching of participation and for transfer of the accumulated cash of the socially insured person from one supplementary pension insurance fund into another relevant fund, managed by another pension insurance company.

- **On-site Inspections**

During the exercised in 2005 operating control over compliance with the provisions of the Social Insurance Code and the acting sub-statutory acts, Directorate Supervisory Activity conducted overall twenty nine on-site inspections. 26 inspections were carried out in licensed pension insurance companies and the managed by them supplementary pension insurance funds, from which 5 complete, 12 ad hoc and 2 in parallel with the Financial Intelligence Agency. Also three inspections were carried out of custodian banks for the legitimacy of the performed by them custodian activity jointly with Bank Supervision Division of the Bulgarian National Bank. In the course of the realized operating control, 202 offences were found out, for which 53 acts were drawn up for establishment of administrative violations.

Full Inspections

An overall inspection was carried out of the activities of PIC Saglasie AD, DZI – Pension Insurance AD, I N G PIC EAD, POAD CCB – Sila AD and of PIC DSK-Rodina AD. As a result of the inspections carried out, 49 breaches of statutory provisions were found out, for which 24 acts were drawn up for establishment of administrative violations of the Social Insurance Code, Ordinance № 3 and Ordinance № 9 of the FSC.

Ad Hoc Inspections

In seven companies (PIC Doverie AD, PIC Saglasie AD, PIC Rodina AD, PIC Allianz Bulgaria AD, POD Lukoil Garant Bulgaria AD, POAD CCB-Sila AD and I N G PIC EAD) thirteen ad-hoc on-site inspections were carried out over the lawfulness of the companies operation in applying Ordinance №3 of the FSC. In the process of the conducted ad-hoc inspections, 126 breached of Art. 6 para 2, item 1 of Ordinance №3 of the FSC were established in relation to illegitimate refusals by the pension insurance companies to review applications, filed by socially insured persons for switching of participation or transfer of moneys from one into another relevant fund for supplementary pension insurance. 26 acts were drawn up for establishment of administrative violations.

On site inspections were conducted in six pension insurance companies (PIC Doverie AD, PIC Saglasie AD, PIC DSK Rodina AD, PIC Allianz Bulgaria AD, POD Lukoil Garant Bulgaria AD and POAD CCB-Sila AD) for compliance with the provisions of Art. 144 and Art. 229 of the Social Insurance Code in relation to notification of the insured persons about any amendments and supplements to the Rules of the supplementary pension insurance fund.

In two pension insurance companies (PIC Doverie and POD Lukoil Garant Bulgaria AD) in parallel with the Financial Intelligence Agency on-site inspections were carried out concerning Ordinance № 9 of the FSC, with the purpose of establishing compliance with the ordinance provisions with regard to keeping of the individual accounts of the pension insured persons.

Inspections of Custodian Banks

Jointly with Bank Supervision with the Bulgarian National Bank, three inspections were carried out of custodian banks of the supplementary pension insurance fund (UBB AD, Bank DSK EAD and Bulbank AD). A breach was established of the provision of Art. 123a, para 6 of the Social Insurance Code, according to which the custodian bank must not fulfill an order by the pension insurance company for investment of the supplementary pension insurance fund's moneys in assets, other than those regulated in the Social Insurance Code. An act for establishment of an administrative violation was drawn up to the legal entity.

During the supervision exercised over the activities of the pension insurance companies and the managed by them supplementary pension insurance funds, several major **more significant groups of violations** were found out. Established were violations, related to the investments of

the supplementary pension insurance funds moneys, and violations of the regulated in the Social Insurance Code investment restrictions. Another established violation of the Social Insurance Code was failure to comply with the requirement all cash of the supplementary pension fund to be received at the custodian bank. A large number of violations were also found in connection with pronounced unjustified refusals by pension insurance companies to filed applications for switching of participation or transfer from one into another pension fund.

Penal Warrants Issued and Imposed Coercive Administrative Measures

In 2005 the officials from Social Insurance Supervision Division drew up overall 77 acts for establishment of administrative violations.

In relation to breaches of provisions of the Social Insurance Code, 26 acts for establishment of administrative violation were drawn up, whereby 41 perpetrated violations were found out.

In relation to breaches of provisions of Ordinance № 9 of the FSC, 10 acts were drawn up for establishment of administrative violation, whereby 31 perpetrated violations were established.

With regard to breaches of Ordinance № 3 of the FSC, 41 acts were drawn up for establishment of an administrative violation, whereby 214 perpetrated violations were established.

In connection with the acts drawn up for establishment of administrative violations, 64 penal warrants were issued and 18 resolutions for discontinuance of administrative and penal correspondence. With the issued penal warrants fines were imposed on natural persons at the total amount of BGN 58 100, and on legal entities – property sanctions at the amount of BGN 40 000.

31 penal warrants issued in 2005 were appealed before the court

For removal of established violations in 2005, by orders of the FSC's Deputy Chair in charge of Social Insurance Supervision Division, nine Coercive Administrative Actions were applied towards five pension insurance companies. By them 35 mandatory prescriptions were given to the companies managements. More significant violations, which had to be eliminated were related to violation of the investment limitations under Art. 176, para 3 and under Art. 251, para 2 of the Social Insurance Code and for performance of the procedures for consideration and taking all actions, regulated in Ordinance № 3 of the FSC, with regard to returned by the bodies of the prosecutor's office applications for switching of participation of socially insured persons. The imposed coercive administrative measures were executed by the pension insurance companies within the time-limits set by the FSC. During the period under review there were no unfinished procedures for imposition of coercive administrative.

8 decisions were issued by the FSC's Deputy Chairman in charge of Social Insurance Supervision Division for determination of the minimum rate of return from investment of the cash of the universal and occupational supplementary pension insurance funds and 1 decision for approval of a new model form of „Check-up on investment of the pension insurance company assets in shares.

- **Complaints**

In 2005 one complaint was filed against an individual administrative act, issued by the FSC's Deputy Chair in charge of Social Insurance Supervision Division. The complaint was against an imposed coercive administrative measure. The order was appealed against through administrative channels to the Financial Supervision Commission, which rejected the company's complaint as groundless and confirmed the order, by which the coercive administrative measure was imposed.

4. Protection of Consumers of Non-banking Financial Services

4.1. Informed Knowledge, ensured by the FSC

4.1.1. Access to Financial Information

The information policy is one of the main instruments of the FSC for achieving protection of the non-banking financial services consumers, expressed in providing of information about the market and the participants thereon. It is based on the principles of publicity, transparency and accessibility. As early as with the FSC establishment, a practice has been developed and established for the preparation and dissemination of the public information, generated by the institution. The work of the Commission in relation to the elaboration and improvement of the legislative framework, the decisions of the FSC and those of the Deputy Chairs in charge of the respective divisions, the periodical reports and the information on the regulated persons, as well as all initiatives of the FSC are subject of public disclosure. The efficient and timely dissemination of this information is one of the Commission's priorities.

The establishment and maintenance of good working **relations with the media** is of substantial significance, as it is through them that the information of the FSC reaches out to the general public. Announcements to the press are prepared and disseminated on a daily basis. They are also published on the FSC's web site. Regular briefings for journalists are held. Also press conferences are organized on the occasion of special events.

The web site of the Commission is intended to be used both by the general public and by the institutions, providing financial services. It has established itself as one of the most preferred and frequently used means of communication. The FSC's web site contains exhaustive and updated information about every aspect of the institution's activities, daily news, access to all public documents and to the public register. Moreover, useful and updated statistics and analysis of the non-banking financial sector is published for the consumers of financial information and the financial analyzers.

In 2005 the contents of the FSC's web site has been extended with a new **rubric Events**. One can find comprehensive information about the seminars, educational programs and discussions, organized by FSC in it, as well as about participation of the Commission's representatives in various public events. Posted are programs of the events, as well as presentations of the participants. The information in the new rubric gives an idea of the active public position of the FSC and the institution's efforts to increase the financial knowledge and skills among the various public groups.

According the statutory requirements, FSC keeps a **register of all regulated persons**, containing comprehensive information on their activities. The aim of the creation and maintenance of the public register is an access to be ensured of the interested persons to the information, which is of significant importance in taking financial decisions. The information in the register is maintained by specially developed electronic system, which is user friendly, it is characterized with functionality and flexibility and allows possibility for generation of various types of check-ups, which further facilitates the consumers and analyzers of financial information. The information from the public register is accessible in the FSC's premises or through the Commission's web site.

With the purpose of establishing more direct connection between the Commission and the general public, a **call center (on tel. 0900 32 300)**, operates with the FSC, through which the people can make requests and receive replies to issues within the competence of the

Commission, related to the capital, insurance and the social insurance market. This modern and dynamic service is a prompt, accessible and efficient means of communication, which offers to the customers professional advice on specific issues of the non-banking financial market.

An official publication of the FSC is the **monthly bulletin**, in which decisions, ordinances, guidance, reports are included, as well as comments on the most important developments and problems in the field of the non-banking financial sector.

A significant part from the information policy of the FSC are also the **regular meetings – discussions** on important for the business problems. On 14 October, 2005 the FSC jointly with the Bulgarian National Bank, the Institute of the Certified Financial Advisers and Club Capital organized a conference on the subject of Financial Knowledge and Protection of the Individual Financial Services Consumer. Dimana Rankova, FSC's Deputy Chair in charge of Investment Activity Supervision Division made a presentation on the subject-theme of Protection of the Financial Services Consumers with a View to the New Amendments and Supplements to the LPOS, and Ralitsa Againe, FSC's Deputy Chair in charge of Insurance Supervision Division presented The Challenges to the Insurance Market and New Mechanisms for Consumer Protection in Relation to Bulgaria's Accession to the European Union.

On 29 November, 2005 the Financial Supervision Commission organized a **round table** on the subject of the Future of the Financial Infrastructure in Bulgaria With a View to the Country's Accession to the European Union. The round table was attended by representatives of the business and institutions related to the capital market in Bulgaria. The possibilities and prospects for development of the financial structure were discussed, the experience of other countries in that respect, as well as the possibility foreign financial organizations to participate in the processes of integration on the Bulgarian capital market as partners, offering their experience, modern vision and innovations.

4.1.2. The FSC's Educational Policy

- **Education of the Non-banking Financial Services Consumers**

The Financial Supervision Commission as an institution regulating the non-banking financial sector in Bulgaria, considers as priority its activities, directed to enhancement of the general public and future investors' financial culture. In this relation the Commission has developed a program with educational initiatives, targeting at deepening the interest and the knowledge of various public groups in regard to the financial markets.

In the period 4-8 April, 2005 the third successive issue of the educational program The Non-banking Financial Sector in Bulgaria took place, oriented to students from economic schools from all over the country. The main aim of the program is the enhancement of the general financial culture of students and acquainting them with the financial sector of Bulgaria's economy, with the structure of the non-banking financial sector and the FSC's role as a regulatory authority. The major part of the program is dedicated to the capital, insurance and social insurance markets, and the participants will acquire fundamental knowledge about the principles and mechanisms of these markets.

The program has been provisionally divided into a theoretical and practical part. Every day lectures are read, depending on a preliminarily developed curriculum. The practical part includes visits to various institutions, related to the FSC's operation. The combination of theoretical and practical studies on one side will enrich the students knowledge, and on the other will permanently enhance their interest in the financial sector. The deepening of the knowledge in the sphere of finance management is a necessity for the young people, who are

the future „managers“ of Bulgaria. The program is realized with the assistance and support of the Ministry of Education and Science and Atanas Burov Foundation.

- **Seminars, Oriented to the Authorities Assisting FSC in Realization of Protection of Financial Services Consumers.**

On 22-23 April, 2005 in the town of Ihtiman a **seminar for the representatives** of the judiciary was conducted on the subject of Topical Problems, Related to the Realization of the FSC's Supervisory Functions, at which 15 representatives of the judicial power acquainted themselves with the FSC's powers in the exercising of its supervisory functions, a great number of practical aspects of their common work with the FSC were discussed.

A seminar for representatives of National Police Service; National Service for Combating Organized Crime; the Capital Investigation Service and the Financial Intelligence Agency – Topical Problems Related to the Realization of the FSC's Supervisory Functions took place in the period 13 – 14 May, 2005 in the town of Ihtiman. Again, over 15 representatives of the relevant services got familiar with the FSC's powers in exercising its supervisory functions, as well as a great number of practical aspects were discussed of their common work with the institution.

- **Educational Initiatives, Oriented to Groups With Significant Public Influence and an Access to the Wide Audience**

At a **seminar for journalists** The Challenges Facing the Non-banking Financial Sector in Bulgaria in the Process of EU Accession, held on 27 and 28 May, 2005 in Borovets, over 40 journalists from the national media acquainted themselves with the latest developments in the FSC's operation, a major accent being placed on the amendments to the legislative framework, necessitated with a view to harmonization of our legislation in the field of the non-banking financial sector with that of the European Community.

Two seminars for journalists from the regional media on the subject of Tendencies and Prospects for the Non-banking Financial Sector in Bulgaria were held on 28-29 October, 2005 in Plovdiv and on 4-5 November, 2005 in Pleven. At the organized seminars over 50 journalists familiarized with the FSC' activities and role as a regulatory authority, as well as with the development of the non-banking financial sector in Bulgaria.

During the year the FSC organized also **two seminars for teachers** in economics on the subject of Main Aspects of the Non-banking Financial Sector Development in Bulgaria. The seminars were carried out in Gabrovo and Stara Zagora, on 13 – 14 October, 2005 and 20 – 21 October, 2005 respectively. At them over 160 teachers from the whole country acquainted themselves with the latest developments in the financial sector and with the regulatory authority's role for maintenance of the market integrity and for protection of the financial services consumers rights. These seminars are part of the educational initiatives of the Financial Supervision Commission and the Ministry of Education and aim at extending the financial culture and knowledge, as well as to assist for the acquisition of practical skills.

4.2. Complaints Against the Regulated Persons and Actions Taken by the FSC

For the period from 1 January, 2005 to 31 Dec., 2005 in the FSC were received 1 245 **complaints and signals of citizens**, concerning problems, related to an illegitimate disposal by the investment intermediaries (in particular, by their officials) of shares of physical persons (145), compensatory instruments (75) and investment vouchers (1 025).

A considerable part of the inspections during the period were carried out exactly on occasion of **complaints against investment intermediaries** received in the FSC. Inspections were conducted with reference to 66 complaints in relation to missing shares, 36 complaints for missing compensatory instruments, 72 complaints for missing investment vouchers and 23 complaints in connection with carrying out inspection of the relevant investment intermediary for the availability of securities on account of the physical persons.

After conducting a check about any lodged in complaint, in relation to unlawful disposal with shares of public companies, investment vouchers and compensatory instruments, in case of any doubt for perpetrated crime, the FSC approaches the competent authorities. The complaints sent on for undertaking of relevant actions by competence are in the following distribution: to Court/Prosecutor's Office - 431, Ministry of the Interior – 71 and the Privatization Agency – 138.

During the period under review, 2 (two) filed **applications by citizens against an investment company**, in its capacity of a former privatization fund were processed.

During the past period inspections were carried out of the available in the FSC documents and information as a result of received in the FSC signals, complaints, letters, requests, etc. in regard to the operation of the **public companies and the other securities issuers**. As a result 137 letters were prepared, by which the respective persons were advised of the results of the inspections.

During the period overall 780 **complaints against insurers**, including insurers in liquidation and the Guarantee Fund were received. There were no complaints lodged in against health insurance companies. In comparison with the preceding year the number of complaints was reduced by 29,5%. From the total number of complaints - 312 complaints or 40% were filed in against one insurance company.

During the surveyed period totally 502 **complaints were received by insured persons** and 107 **signals and inquiries** by pension insurance companies. In 490 complaints socially insured persons made various complaints about breaches of Ordinance № 3 of the FSC about illegitimate switching of participation or transfer of funds of the insured persons from one supplementary pension insurance fund into another relevant fund, managed by another pension insurance company, or a denial to switching of participation, respectively transfer of funds. Inquiries on different issues, related to the pension insurance rights were made in 12 complaints. Explanations were required from the relevant pension insurance companies regarding the complaints, as well as additional documents, after which a reply was given to the complainants within the time-limit set by law.

Since the beginning of the year 107 **signals and inquiries by pension insurance companies** were also received, in part of which an interpretation was requested of the provisions of Ordinance №3 of the FSC. In others breaches of the same ordinance were indicated or violations of the requirements to the advertising and written information materials, disseminated by pension insurance companies.

Following all received signals, inspections by documents or on-site in the pension insurance companies were carried out. According the results of the inspections, relevant actions were taken. Replies to the pension insurance companies were prepared with respect to the inquiries made.

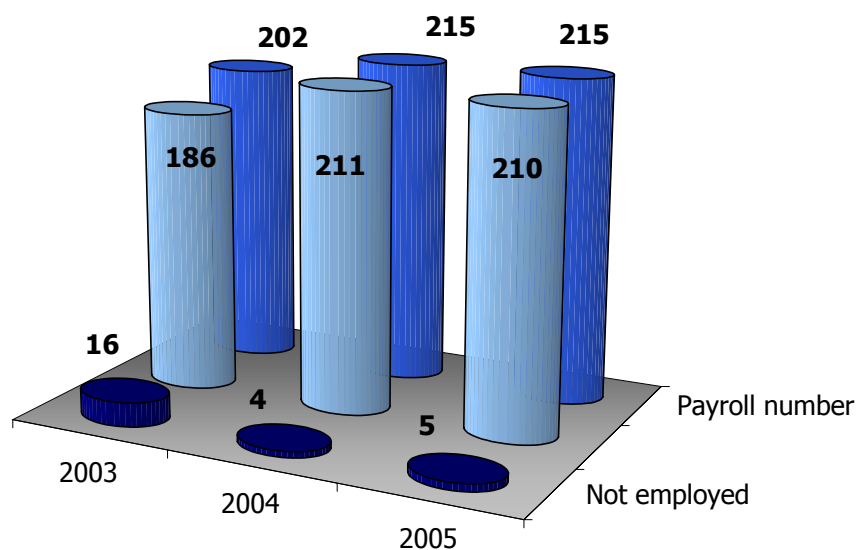
5. Human Resources Policy

The FSC pursues a consistent and purposeful policy in respect to its personnel. Its major priority is the improvement of the qualitative composition of the FSC's personnel by recruitment, selection and appointment of officials, as well as realizing initiatives for the officials potential development. To this end trainings were conducted and other possibilities offered for extension of the qualification, professional development and improvement of the skills; career planning, growth, assessment and development, as well as the building of a system for assessment of the performance, acknowledgement and stimulation of the labor participation. The Commission also endeavored to improve the communications and to create a stimulating organization climate.

Payroll Staff Number

Since March, 2004 the payroll number of the FSC's personnel according the adopted Rules on the Structure and Operation was 215 persons on the staff. In 2005 the tendency for efficient use of the payroll number was retained.

Dynamics in the number of personnel on the payroll in the last three years

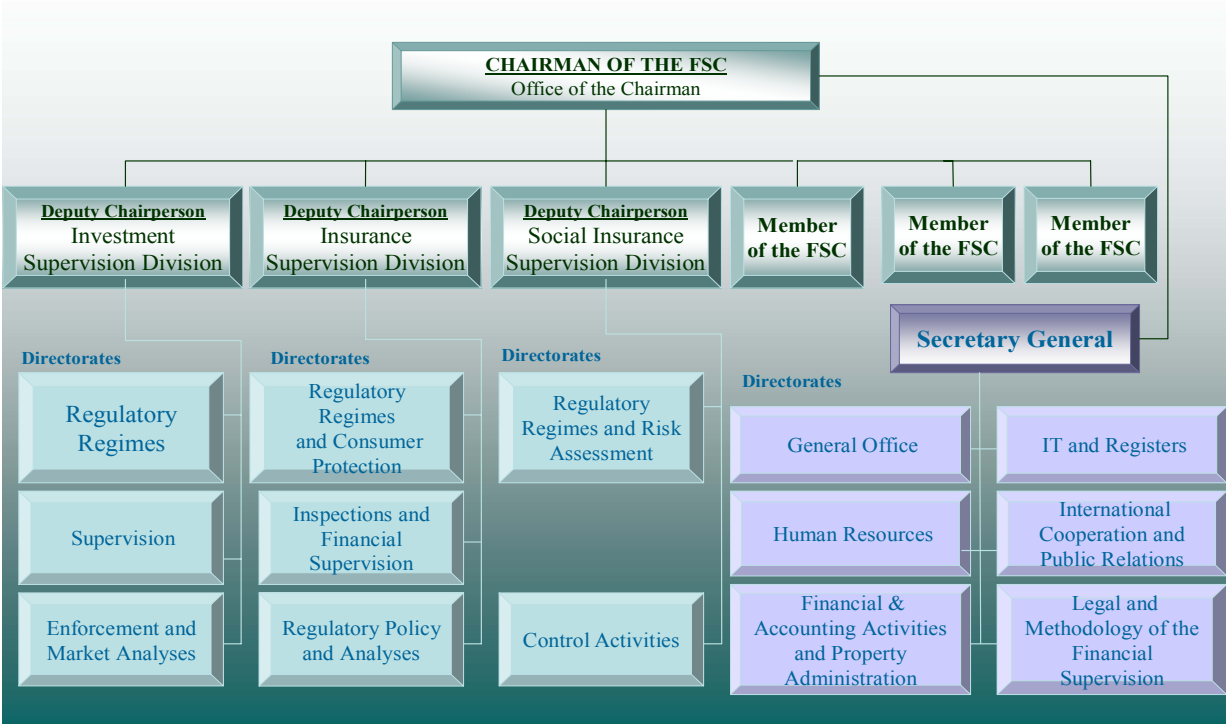


In spite of the five vacancies in 2005, which represented just 2,33% of the overall number of personnel, it must be noted that only one position from them was vacant for more than six month.

The Financial Supervision Commission is part of the state administration of the Republic of Bulgaria, but there are no positions, allocated to be occupied by civil servants in its structure. All labor legal relations have been regulated according the Labor Code. This allows certain freedom in the application of policies, related to human resources management and development.

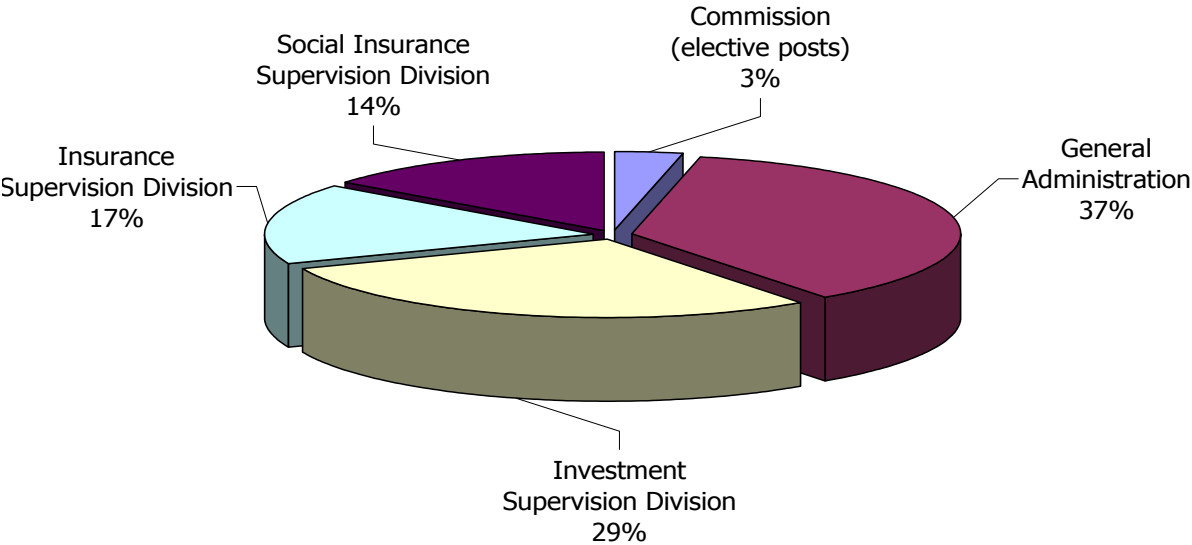
In 2005 the necessity arose for a principle change in the structure of the personnel organization. The new organizational-managerial structure became a fact in September. It reflects the understanding of the Commission for the need of work improvement and is based

on the recommendations from the report *Organizational Diagnostics of the FSC*, prepared in the second half of 2004 by Emerging Markets Group Ltd.



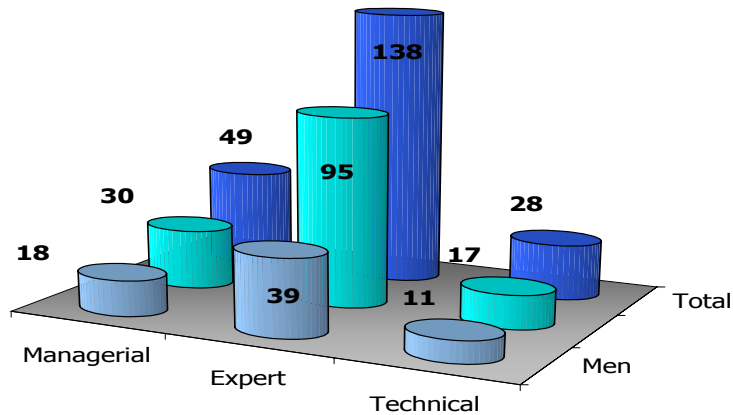
The new organizational structure of the FSC was introduced without altering the number of personnel on the payroll, employed in the separate divisions, as well as in the general administration of the FSC. That is why the structure of the personnel by divisions, viewed in the light of staff number on payroll did not change in comparison with 2004.

Structure of the personnel by divisions



The structure of the personnel by positions and their allocation by gender is presented on the following graph.

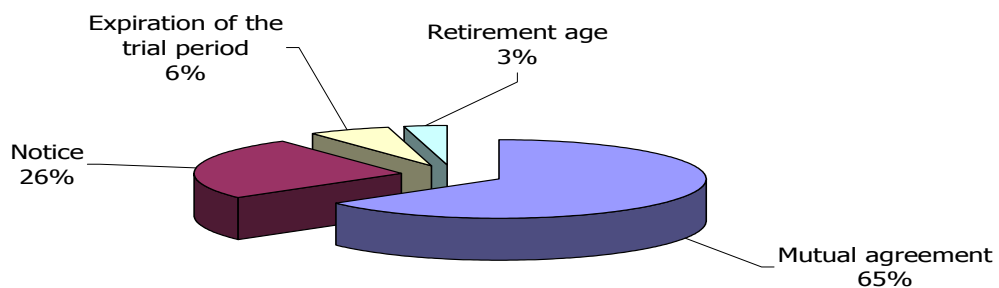
Structure of the personnel by sex and posts



For the period 1 January, 2005 – 31 December, 2005, 51 new employees joined the Commission, and 35 employees left. The FSC that year, too, was not an attractive enough place to work in, to be able to allow itself to draw in highly qualified and with wide professional experience officials. The level of salaries was too low, compared both with the regulated persons and the bank supervision. The FSC’s revenues covered only 40% of the budget, needed for the Commission’s support, due to which the increase of the salaries depended only on the amount of the allocated state budget. Due to these problems, the main source of new employees appeared to be the universities with freshly graduated students. This also predetermined the high expenses for human resources development. Not to lose the investments in employees development and to attract and retain highly qualified individuals, Human Resources Directorate oriented its efforts to taking actions, related to enhancement of the FSC employees’ motivation, as well as to elaboration and building up of a transparent system for career development of the FSC ‘s personnel.

Below are given the most frequently met grounds for termination of employment.

Reasons for termination of employment in 2005



For the past calendar year there were no contested in the court unlawfully terminated employments.

Educational Degree and Age of the Personnel

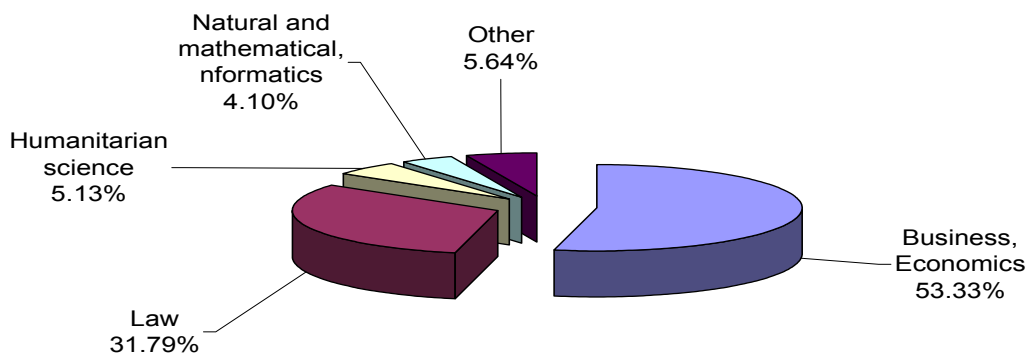
By performing the functions of selection and training, Human Resources Directorate aims at providing the Commission's operation with valuable specialists, who are able to meet adequately the high requirements for professionalism, team work, personal and organizational development.

During the past 2005, a considerable part of the labor relations arose after conducted selective procedures (mainly by conversation and written resolving of cases). Clear and transparent rules were applied in the appointment of the applicants. In process of development and adoption was a procedure of personnel selection.

The distribution of the specialists by educational level and type of education corresponded to the goals and tasks, which the Commission solved - 86% from the personnel was university educated; 14% - graduates from secondary schools.

Nearly 10% from the specialists with higher education also possessed a higher qualification – an academic degree/rank, a second higher education, etc. Among the specialists – university graduates 32% were educated in law, 53% - in economics, 15% - other higher education.

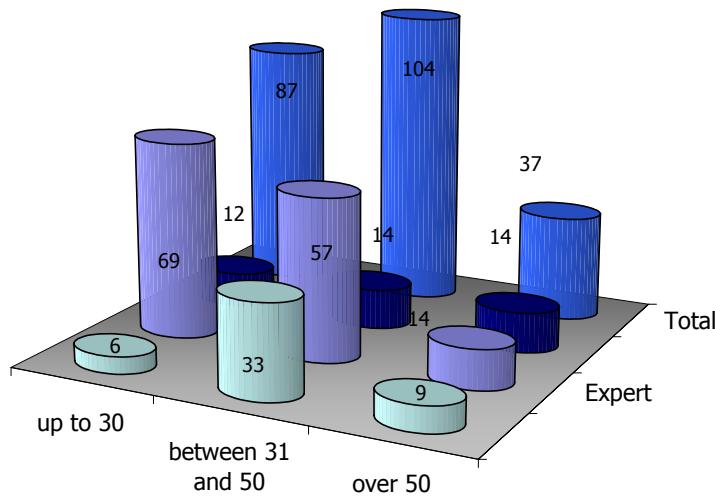
Structure of the personnel by education in 2005



The employees - higher education graduates possessing educational qualification Master's degree were 81% from the overall number of employed. The number of employees with Bachelor's degree decreased significantly - 5% and the number of employees secondary school graduates 14%. From all that the conclusion could be drawn that a large part of the employees extended their degree of completed education or qualification. There exist a high potential, which has to be used to the utmost for the realization of the Commission's priority goals.

There was a satisfactory balance of the personnel by age. The average age in the FSC was about 37. Largest percent of employees were at the age from 30 to 50 (46%), smallest number of employees were aged over 50 (16%). The employees up to 30 years old were 38%.

Structure of the personnel by age and posts



The total number of officials, occupying managerial positions in the FSC was 48. More than a half from them were managerial officials aged from 31 to 50 (69%), after them came managerial officials at the age of over 50 (19%) and least of all were the young managerial officials aged up to 30 (12%).

The age structure and the relevant sustainability of the personnel is a precondition for succession and reproduction of the organizational skills and knowledge.

Educational Policy, Conducted Seminars and Trainings

The system of training and extension of the qualifications contributes to improvement of the quality of the labor performance. It is a tool for promotion of the individual and team development, for formation and development of working organizational culture.

An *intragency survey* was conducted for the information supply of the decisions, related to the building of reasoned programs for training and qualification extension. It secured a reliable information on the needs of training, on important characteristics of the organization's culture, etc.

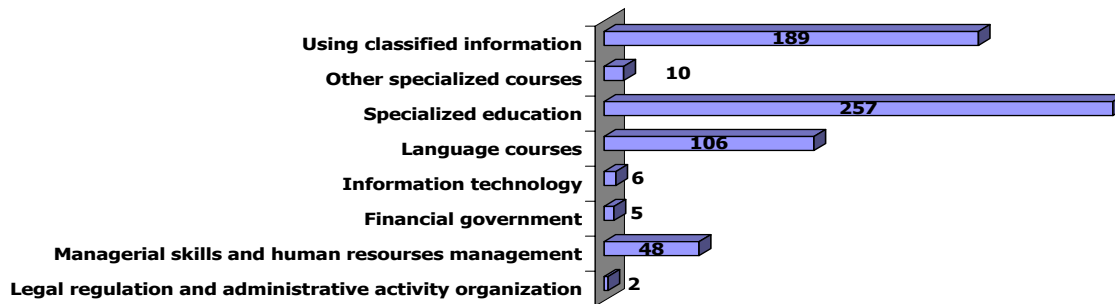
100% of the funds granted to us for specialized training of the officials were collected in 2005.

Appendix 5 presents information about the realized initiatives, aiming at extension of the professional qualification of the personnel in the Commission.

For the needs of the educational process we developed useful partners' relations with a number of institutions, namely – the Institute of Public Administration and European Integration, the Bulgarian Industrial Association, National Union of Jurisconsults, BAWHR, Bulgarian Actuarial Association, PC Trud I Pravo, British Council, etc. We used the services of eminent specialists. We also used actively the possibilities of various international projects and donor programs.

162 officials of the Commission participated in different forms of training and extension of qualification during 2005.

Number of persons, who have undergone training in the respective subject-theme in 2005



Systems for Personnel Stimulation

- Career Planning and Personnel Development

The career planning and personnel development is an important prerequisite for adequate satisfying of the requirements, related to the dynamics of the labor tasks. Through that system the needs of the organization are better bound with the personal plans of development and growth. The participation of the officials in the individual labor career planning increased. It aroused greater responsibility to the work.

In view of the comparatively early stage of the FSC's development, the system for career development planning is still in its initial phase of building. The impetus for the building of this system will be given by:

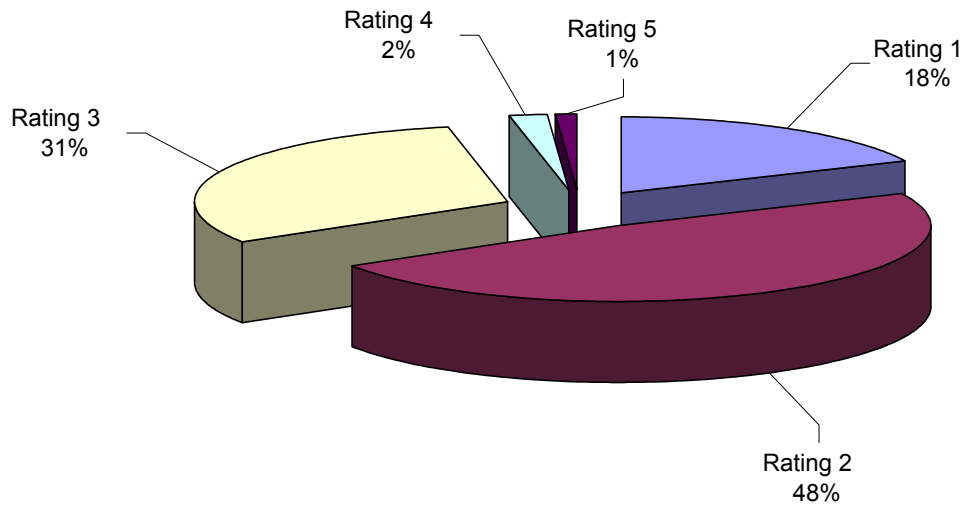
- defining of mission, vision, main valuables and project for the organization's development, such as benchmarks and instruments for strategic positioning and sustainability of the FSC;
- the possible stabilization of the officials' organizational status;
- greater awareness of the benefits for the organization and for the individual officials from more detailed and reasoned planning of the carrier development

- Building of System for Assessment of the Performance and Labor Participation Promotion

Two systems for appraisal of the officials' labor performance function in the FSC. The one is for annual attestation, arising from the Ordinance on Attestation of Officials in the State Administration. The second is the quarterly appraisal of the labor performance, which is oriented predominantly to distribution of bonuses to the basic monthly labor remuneration.

The application of the Ordinance on the Conditions and Manner of Attestation of Officials in the State Administration started in 2003. On 30 November, 2005 the employees received for a third time annual ratings for their labor performance. The percent of officials with given annual ratings was 86%. With rating 1 Exceptional Performance were appraised 18% from the attested officials, with rating 2 The performance exceeds the requirements were appraised 48% from the attested officials, with rating 3 The performance Meets the Requirements – 31% from the attested, with rating 4 The Performance does not fully meets the requirements, improvement is necessary – 2% from the attested officials, with rating 5 Unacceptable Performance – only one official.

Allocation of the assessment of the personnel in 2005



32% from the officials increased their rating in 2005 compared with 2004 to the overall number of attested.

There were no officially filed objections in the Commission in connection with the annual rating of the labor performance. As a whole, it must be noted, that the system for annual attestation was accepted by the officials formally and its efficiency was low. A final result, which we obtained from this rating was information about the personal needs from training of the individual officials.

A major task within the human resources policy, which will continue to be fulfilled next year, as well, is the binding of the system for quarterly appraisal with the system for annual attestation of the officials. Major priority is the simplification and ensuring of greater transparency of the appraisal process, which aims at creation of conditions for higher confidence in the appraisal system.

6. International and Internal Co-operation

The FSC strives to co-ordinate its activities with a number of local and foreign institutions, which directly or indirectly influence the functioning of the financial markets. The Commission directs its efforts toward co-operation with these in order to attain common goals, as well as to realize exchange of useful information and experience.

6.1. International Co-operation

6.1.1. Bilateral Co-operation

With the advance of the globalization processes, the amelioration of the business climate in the country and the ever increasing mass penetration of multinational financial companies on the Bulgarian market, as well as the always more active activities of Bulgarian persons, providing financial services outside the country, the necessity for co-operation with the foreign institutions regulating and controlling the financial markets has intensified. In order to exercise more efficient supervision over those financial companies pursuing international activities, prevention of market manipulation, unfair trade, money laundering and intercepting possible financial abuse, the FSC co-operates closely with partnership supervisors from countries with which most active cross-border exchange of financial services is realized.

During the reporting period, the FSC renewed its agreement on co-operation with the Hellenic Capital Market Commission, concluded a new agreement with the Croatian Securities Commission and commenced negotiations on conclusion of an agreement with the Cyprus Securities and Exchange Commission. Thus, the FSC already has agreements that have entered into force with almost all supervisors located in neighbouring countries, as well as with several other European countries. However, even without having formal contracts signed, in 2005 the FSC participated in several international investigations of financial abuse jointly with the US Securities and Exchange Commission, the UK's Financial Services Authority, the Hellenic Capital Market Commission, the Securities and Exchange Commission of the Republic of Macedonia, etc.

6.1.2. Membership in International Organizations

Being an inseverable part of the world's network of financial supervisory authorities, the FSC is a member of a number of international organizations. The FSC is an active member of the International Organization of Securities Commissions (IOSCO) and of the International Association of Insurance Supervisors (IAIS). Likewise, the FSC is a founding member of the International Organization of Pension Supervisors (IOPS). Representatives of the Commission participate in the fora of the aforesaid organizations, as well as in the task forces, which draw up the principles of the best practices in the field of investment, insurance and social insurance markets' supervision.

In 2005, after a two-day's period of assessing our candidature, the FSC was admitted to membership in *Annexe B* of the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (IOSCO Multilateral MOU). The agreement's purpose is to establish a relaxed regime of information exchange, frequently representing professional secret in order to achieve more efficient supervision over the companies; provision of financial services on a global scale; interception of cross-border abuse through the capital market and maintenance of the stability of the world's financial system. The agreement's main principles state that the co-operation shall only take place for the purpose of fulfillment of its members' supervisory functions and powers, to

promote reciprocity of the commitments undertaken and to guarantee safekeeping of the confidentiality of the information exchanged.

Despite lack of powers to become a full member under the agreement, the FSC has declared its readiness to work in order to overcome the existing impediments through perfection of the legislation. Therefore, it was listed in *Annexe B* of the agreement. Under the same *Annexe*, the list may be found of the supervisory authorities such as for instance the supervisory institutions of Cyprus, Switzerland, etc., that have undergone the application procedure and for whose acceptance to membership immaterial impediments have been established, which may be overcome and for which a commitment has been undertaken to be undertaken.

6.1.3. The FSC's Role in the European Integration Process

The main priority of the Republic of Bulgaria, and consequently of the Financial Supervision Commission, in 2006 is the preparation for accession to the European Union and adequate participation in the EU bodies and institutions, as well as furthering co-operation with international financial institutions. Bulgaria's expected accession date, which has also been set for the complete implementation of the EU legislation (*acquis communautaire*), is January 1st, 2007. Hence the necessity for the Financial Supervision Commission to participate more intensively in the EU activities and to take advantage of the direct participation in the structural and institutional bodies of the Union.

Upon signing the Accession Treaty, on April 25, 2005, pursuant to the provisions for the so-called "interim period" (between signing the Treaty and the accession), Bulgaria received an active observer status, also including participation in the task forces at the European Council, unofficial meetings of the European Commission and the advisory commissions with the same, which helps Bulgaria to follow the current decisions taken at the EU level. The aforesaid creates a good opportunity for smooth accession and acquaintance with the processes running within the Common Market.

The main prerequisite leading to increase in the number of tasks posed before the FSC with regard to the issues related to the EU is the role of observer and later the FSC's membership in the commissions on 2nd and on 3rd level of the Lamfalussy process, which process is a four-stage procedure on creation, introduction and implementation of the *acquis communautaire* in the Member States.

Since the FSC is concurrently a regulatory and supervisory agency, it participated in the activities on the 2nd (regulatory function) and on the 3rd (advisory function) levels (the so-called: "regulatory commissions"). The Committees on the 2nd level, in which the FSC already has its representatives, are the European Securities Committee (ESC) and the European Insurance and Occupational Pensions Committee (EIOPC).

For the purpose of smooth accession to the EU structures and adoption of the new measures that are currently being worked out in the field of financial services in the Union, at the present stage it was of exceptional importance to the FSC to commence participating in the decision taking process and working out the common practises on the implementation of the European legislation in the national legal framework. The work done on level 3 of the four-stage approach Lamfalussy is of utmost importance in this direction, which presupposes participation in the meetings of the Committee of European Securities Regulators (CESR) and of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

In spite of the fact that in year 2005 the FSC was solely an observer, it succeeded in taking up its condign place in the EU administrative structure among the partnership institutions of the remaining Member States.

6.1.4. Activities under Projects

- **FIRST**

In 2005 the Strengthening of Supervisory Capacity of the Financial Supervision Commission Project under the FIRST Programme ended as one of the successful projects of the FSC. The Commission applied for its prolongation and it was approved by the Steering Committee of the FIRST Initiative in the person of the World Bank, IMF and the governments of several of the most significant donor countries. In contrast to the Project's main part where the focus was on the development of the Commission's organizational model and its legal basis in connection with the exercise of supervisory activities, the aforesaid prolongation is a subsequent step in the development of the FSC, i.e. the stress falls on the already accumulated experience in order to continue with the building on the existing staff's skills through a number of trainings.

In order to enhance the staff's supervisory skills, a training was held on the following subject: "Problems of the Integrated Supervision and Risk-based Supervision Systems", given by Mr. Anthony Sinclair, Director, Strengthening of Supervisory Capacity of the Financial Supervision Commission Project. The training was held in two parts and it was attended by representatives of all Divisions of the specialized supervision and the FSC's general administration.

- **Financial Sector Integrity**

In 2005 the experts continued their work at the Financial Supervision Commission under a USAID (United States Agency for International Development) Project on rendering technical assistance to the Bulgarian financial sector. The Project's aim is to extend the process of strengthening the financial institutions in Bulgaria. It is expected that the Project shall be concluded in the second half of year 2006. The main beneficiaries under it are the FSC, the Bulgarian National Bank (BNB) and the Bulgarian Deposit Insurance Fund (BDIF).

The main directions in which the Project assists the FSC are three:

- Activities related to the anti-money laundering measures, in order to achieve a greater stability of the financial system;
- Enhancement of the financial sector's regulation in order to attain a reliable and stable financial system;
- Transparency of the financial system: public awareness and consumer protection.

Under the Project, a number of trainings directed at enhancing the qualifications and expanding the practical skills with regard to the exercise of the supervisory functions were organized and held. "General Presentation of International Accounting Standard 39", "Supervision of Financial Conglomerates", "Market Conduct of Insurance Companies", "Clarifications with regard to Supervision over Investment Intermediaries Manual", "Planning On-site Inspections", "Training in International Financial Reporting Standards" and "Derivative Instruments" were themes of the seminars held. Where holding the seminars, leading professionals having extensive knowledge and practical experience in the fields under review were invited.

- **Project under PHARE Programme: "Strengthening the Administrative Capacity of the Financial Supervision Commission for the Implementation of the European Acquis in the Field of Securities, Pension Insurance and Insurance"**

The Project is financed by the European Commission within the frameworks of the Financial Memorandum under the Bulgaria's PHARE National Programme for Year 2004. It is a twinning project, which the Financial Supervision Commission is to realize jointly with the Polish Insurance and Pension Funds Supervisory Commission (KNUiFE).

On its part, the Polish Insurance and Pension Funds Supervisory Commission (KNUiFE) has involved the Polish Securities and Exchange Commission and the Directorate General for Insurance and Pensions Funds as partners. The Project started on December 01, 2005, and its duration is 22 months.

Its aim is to build a stable legal framework and more efficient supervision over the non-banking financial sector on the level of the EU standards. The main accent in the Project's work plan is placed on the implementation of joint activities, aiming at harmonisation of the Bulgarian legislation in the field of securities, pension and insurance supervision with the EU acquis.

During the Project's implementation, special attention shall be paid toward:

- Working out strategies for integrated supervision and human resources management at the Financial Supervision Commission (FSC);
- Harmonization of the Bulgarian legislation with EC law in the sphere of securities, insurance and pension funds;
- Provision of the necessary for the FSC mechanisms in order to work out, introduce and implement a policy on the development of the financial non-banking sector in compliance with the EU standards;
- Acquisition on the part of the FSC's staff of knowledge and skills needed for the working out and the implementation of the legislation in the field of financial markets which is to conform to that of the EU, and the implementation of best practices;
- Development of the FSC's administrative capacity for active participation in the work of supervisory institutions' international organizations;
- Building of suitable mechanisms for exchange of information and rendering assistance to the supervisory institutions in EU Member States;
- Raising awareness of the necessity for changes in the market, which result from the EU accession process.

6.2. Internal Co-operation

In connection with extending and enhancing the supervision efficiency, the Commission undertook a number of initiatives in order to establish closer co-operation with national bodies and organizations.

The Financial Supervision Commission interacts closely with the Bulgarian National Bank. There is a Memorandum signed between the two institutions on co-operation with regard to issues of mutual interest in the sphere of financial markets through co-ordination of certain activities in connection with exercise of the supervisory powers of the two institutions as vested under the law; perfection of the laws' strict implementation practice; assistance in enhancing the norms regulating the activities of their supervised entities; mutual support where exercising the respective supervisory functions.

In order to ensure security and stability in the development of the financial markets that is to have a positive effect on the macroeconomic development, Financial Stability Consultative Council was established in Bulgaria comprising the chairs of the Financial Supervision Commission, the Bulgarian National Bank and the Ministry of Finance.

The arrangements with the Commission for Protection of Competition aim at fostering the interaction between the two institutions in conformity with their spheres of activity through

exchange of information, establishment of interdepartmental task forces, etc. The memorandum signed with the Financial Intelligence Agency at the Ministry of Finance and the instructions to it provide that the contracting parties shall assist each other in collecting, safekeeping, investigating, analysing and disclosing the information they have at their disposal with regard to financial transactions, for which there is doubt that these are related to money laundering or criminal activity.

The Agreement on Co-operation and Interaction signed between the Financial Supervision Commission and the Ministry of Interior is of considerable importance for efficiently combating financial crimes. The co-operation shall find expression in collecting and analysing information on the financial standing of entities supervised by the FSC, as well as in rendering expert assistance where carrying out inspections for which it is necessary to solve issues that lie within the competence of both institutions.

A very important point in the agreements concluded by the FSC is the possibility provided for carrying out joint inspections with the institutions concerned.

In the course of separate specific cases or in the course of overall inspections undertaken by the Bulgarian Stock Exchange and the Central Depository, solutions to main issues related to the efficient exchange of information between the FSC, the BSE and the CD were sought. Part of the aforesaid is connected with continuing work on the StockWatch and EXTRI trading supervision system.

7. Statement on FSC's Budget Implementation for 2005

The Financial Supervision Commission is a legal entity supported by the state budget pursuant to the FSCA. The Commission is a first level budget spending unit, with an independent budget, which is a part of the republican budget of the Republic of Bulgaria. Thus, the FSC's budget is formed by own revenues and a subsidy from the central budget.

Revenues and Expenditures of the FSC in 2005

Expenditures (in BGN)		Revenues (in BGN)	
Salaries, other remunerations and payments for the personnel and social insurance contributions	3,091,523	Own revenues	2,724,880
		Fees collected from the supervised entities	2,507,003
Current costs	1,064,126	Fines, penalty sanctions and interests	196,701
Acquisition of tangible and intangible fixed assets	136,788	Other revenues	21,176
		Subsidy from the central budget	1,567,557
EXPENDITURES, TOTAL	4,292,437	REVENUES, TOTAL	4,292,437

In the past 2005 the Commission realized own revenues, equal to 123% of the planned revenues for the year. The largest relative percentage in the structure of own funds (92%) is occupied by the state fees that are collected pursuant to the Tariff of the Fees Collected by the FSC. Another source of own revenues is the receipts from fines and financial sanctions. For year 2005, the funds collected from these and deposited into the FSC's account formed 7.2% of the own revenues. The remaining part (0.8%) constituted revenues from the sale of the FSC's periodical publication "Bulletin", sale of competition and tender documentation where holding procedures under the Public Procurement Act and under the State Property Act, lease of a departmental flat and sale of unusable assets.

In order to cover the budget's expenditure part, the Commission utilized 63% of its own revenues and 37% of the central budget's subsidy, compared to respectively 49% own revenues and 51% subsidy planned for the year.

From the own revenues realized, the central budget's subsidy amounting to BGN 1,562,552, and a transfer of youths having a higher degree of education from the Ministry of Labour and Social Policy under a temporary employment programme to the amount of BGN 5,005, in 2005 the FSC incurred expenditures to the total amount of BGN 4,292,437. Out of these, the largest share (72%) was allocated for the expenditures on salaries, additional performance-based payments, other remunerations and payments for the personnel and social insurance contributions.

25% of the total expenditures were directed for current costs throughout the year. Out of these, BGN 1,027,010 were administrative expenditures related to maintaining the institution's normal operation, and BGN 37,116 were expenditures incurred for annual installments for membership dues in international organizations of the financial supervision bodies.

The expenditures incurred in connection with acquisition of tangible and intangible fixed assets were directed towards supporting the administrative activity and enhancing the FSC's necessary equipment. Out of these, BGN 63,688 were expenditures incurred with regard to purchase of business inventory and computer equipment, and BGN 46,786 – for purchase of a van in connection with the implementation of the administration's supervisory functions. For the information provision of the FSC's activities, software products for data collection, safekeeping and analysis, which data is received from the supervised entities, were purchased for BGN 26,314.

The 2005 Financial Statements of the Financial Supervision Commission were certified without any reservations by the National Audit Office on the grounds of Art. 44, para 1 of the National Audit Office Act. The position of the audit team was that the report on the budget implementation, the balance sheet and the appendixes to them did not contain any substantial errors and irregularities and gave a correct and fair idea of the trustworthiness, lawfulness and the regularity of the information included in these, as well as of the property and financial standing of the Financial Supervision Commission.

II. Strategy for Development

8. Regulatory Activities

8.1. In the Field of Investment Activities

The priority implementation of the commitments undertaken by the country within the negotiation process shall also continue in the field of securities in the future. The recommendation made in the EC Peer Review for year 2005 was also to this effect, according to which the transposition of the European acquis in the field of securities is to continue. In view of the aforesaid, it is necessary to transpose the following directives:

Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC.

Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments (MiFID) amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC.

Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

The deadline for transposition of the provisions of the three directives above in the Bulgarian legislation is the Republic of Bulgaria's accession date to the EU, with a view to which in the Commission's legislative activity programme for year 2006 the preparation of a draft on amendments to the LPOS is included, under which the aforesaid directives are to be transposed. In connection with the amendments to the LPOS planned, it is possible to grant greater freedom for investment in securities issued by foreign collective investment schemes (CIS), which are undertakings for collective investment in transferable securities within the meaning of Directive 85/611/EEC even in the cases where these are not accepted for trading on the regulated market, as well as to introduce other amendments directed toward optimising the investment regime of the local collective investment schemes (CIS) and the closed-end investment companies with a view to creating favourable conditions for the realization on their part of their investment objectives. The amendments to the LPOS envisaged are to be introduced in order to transpose the new requirements set by the European directives, part of which concern optimization of the process of information disclosure by the issuers and imposition to an even higher degree of the international standards for corporate management.

Some other forthcoming amendments to the legislation in 2006 are connected to: amendment to requirements set toward the public offering of securities prospectuses and the information disclosed by the issuers; arrangement of the European passport for the issues of securities, where a public offering of securities prospectus has been conformed in one Member State. It is also envisaged that the Directive on markets in financial instruments (MiFID), which currently is partially implemented through the respective provisions in the LPOS and Ordinance No. 1, is to be transposed completely by introducing the amendments to the LPOS.

The Commission envisages to elaborate a Draft Measures against Market Abuse Act, under which a number of directives are to be transposed, where the deadline for the implementation of which is by the membership date, and namely Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse), Directive 2003/124/EC as regards the definition and public disclosure of inside information and the definition of market manipulation, Directive 2003/125/EC as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest, and Directive 2004/72/EC as regards accepted market practices, the definition of inside information in relation to derivatives on commodities, the drawing up of lists of insiders, the notification of managers' transactions and the notification of suspicious transactions.

The Act shall make provision for the measures on prevention and disclosure of the transactions in and the activities involving inside information and securities market manipulation, where it shall set requirements toward the terms and conditions and the method for information disclosure on insiders and on transactions of persons, performing managerial functions in issuers of securities and of persons, closely related to these; it shall regulate the requirements set toward those persons who disseminate recommendations prepared by another person where disseminating the said recommendations; it shall make provision for the requirements set toward investment intermediaries in connection with disclosing transactions in and activities involving inside information and securities market manipulation. At the same time, the indications shall also be defined, at the presence of which it shall be considered that there is securities market manipulation. Where working out the enactment, the contemporary trends in the legislation of the European countries shall be accounted for.

8.2. In the Field of Insurance and Voluntary Health Insurance

The amendment, respectively repeal of a number of subdelegated legislation is a consequence of the adoption of the Insurance Code (IC). Part of the acts adopted on the implementation of the repealed Law on Insurance shall retain their operation, insofar as these do not come into contradiction with the provisions of the Insurance Code (IC). The Commission's long-term work covers drawing up and adopting new enactments, also including proposals for amendments to existing subdelegated legislation. The implementation of the commitments undertaken by the country in the negotiating process shall continue to have priority in the future as well. The Commission's programme of activities has been conformed to this effect. The enactments the Commission is to adopt in the first half of year 2006 have been specifically stated under the legislative activity programme for the period January – June 2006. To this effect, the following amendments to the acts valid as of the present moment are provided for, as well as the adoption of new ones:

Ordinance on amendments introduced to Ordinance No. 21 on the own funds and solvency margin of insurers and health insurance companies. By adopting it, the commitments undertaken by Bulgaria under the Additional Information to the Negotiation Position on Chapter 3 "Freedom to Provide Services" shall be implemented. Under the Ordinance, the final

transposition of individual provisions under Directive 72/237/EEC and under Directive 2002/83/EC regarding the requirements set for solvency is to be implemented. The deadline for transposition of the aforesaid directives in the Bulgarian legislation is December 31, 2006.

Ordinance on compulsory insurance. The aforesaid act is to be adopted as a priority in connection with ensuring the functioning of the compulsory insurance system, including of the information centre at the Guarantee Fund (GF).

Regulation on the Structure and Activities of the Guarantee Fund (hereinafter “the Regulation”). The legal ground for adoption of the Regulation is Art. 287, para. 7 of the IC. The legislative act is to be adopted in connection with ensuring the functioning of the compulsory insurance system, including of the information centre. By adopting the new legal act, the GF’s Regulation adopted in 2005 and valid as of the present moment shall be repealed.

Ordinance on exchange of information and interaction between the information centre on the compulsory insurances *Third Party Liability of the Motorists and Accident of the Passengers in the Public Transport Vehicles, the Ministry of Interior and the Ministry of Transport.* The legal ground for adoption of the legislative act is Art. 295, para. 6 and Art. 292, para. 1, item 1 and item 5 of the IC. The legislative act is to be adopted in connection with ensuring the functioning of the compulsory insurance system, including of the information centre to the GF.

Ordinance on the procedure and the method for setting up technical reserves by the insurers and health assurance reserves. The legal ground for adoption of the legislative act is Art. 68, para. 4 of the IC and Art. 90c, para. 4 of the Health Insurance Act. The Ordinance is to be adopted in connection with securing the accountancy of the insurance and health insurance companies.

Ordinance on the method for defining indemnities for damages caused to motor vehicles under a compulsory *Third Party Liability of the Motorists Insurance.* The legal ground for adoption of the legislative act is Art. 273, para. 2 of the IC. The Ordinance was envisaged in the legislative programme for the following two years. However, in connection with the specification of the IC’s delegation, it was called for the same to be adopted as early as year 2006.

Ordinance on the minimum requirements set toward the accounting reporting of the insurers and on the form and content of the reports, reference information and annexes drawn up by the insurers. The legal ground for adoption of the legislative act is Art. 99, para. 3 and Art. 101, para. 1, item 3 of the IC. The Ordinance is to be adopted in connection with securing the accountancy of the insurance and health insurance companies. By adopting the Ordinance, the provisions of Directive 2003/51/EC amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings shall be fully implemented.

Ordinance on the terms and conditions of and the procedure for holding an examination to obtain professional qualifications as an insurance broker. The legal ground for adoption of the legislative act is Art. 157, para. 7 of the IC. The Ordinance is to be adopted with a view to observing the deadline for holding the initial examination of the insurance brokers under §8,

para. 3 of the IC's Transitional and Final Provisions, where the said deadline is six months following the date of Code's entry into force.

By adopting the aforementioned subdelegated legislation, the provisions of the directives specified in the Annex shall be fully transposed.

To this effect, **a forthcoming directive that is to be implemented in the legislation** in the field of insurance activity is also Directive 2005/68/EC on reinsurance and amending Council Directives 73/239/EEC, 92/49/EEC, as well as Directives 98/78/EC and 2002/83/EC. The directives' transposition deadline in the Bulgarian legislation is December 10, 2007.

8.3. In the Field of Supplementary Pension Insurance

In connection with the recommendations made in the EC Peer Review Status Report for Year 2005 under Chapter 11: *Economic and Monetary Union*, stating that further amendments are needed to the Social Insurance Code with regard to the rules for investing the assets of the supplementary pension insurance funds, at the beginning of year 2006, an amendment to the Social Insurance Code⁵¹ (hereinafter: the SIC) was adopted, under which amendment the recommendations made in the report were implemented. Officers from the Social Insurance Supervision Division were also included in the task force on drawing up the Draft Amendments to the SIC. Under the amendments, individual provisions of the SIC were brought into line with the requirements set under Art. 102 of the Treaty establishing the European Community and with Council Regulation (EC) No 3604/93, pursuant to which the local legislation shall not allow privileged access of the state or of local institutions (municipalities) to the funds of private financial institutions. The amendments in the field of social insurance are to continue in the future as well with a view to the Council of Ministers' Action Plan for Year 2006 in order to fulfill the commitments undertaken in the EU accession negotiation process. Pursuant to the EC Peer Review Status Report for Year 2005, under the SIC, it is necessary to abolish the restrictions with regard to the EU citizens and companies in the field of the right of establishment and freedom to provide services. With a view to the above, a bill on amendments to the SIC is being drawn up in 2006.

Under the Bill, the following directives are completely transposed: Directive 98/49/EC on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community; Directive 86/378/EEC of 24 July 1986 on the implementation of the principle of equal treatment for men and women in occupational social security schemes, and partially Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision.

In this connection, under the Commission's legislative activity programme for year 2006, the following statutes on the implementation of the SIC were also included for elaboration:

Ordinance on the amendments introduced to Ordinance No. 3 of September 24, 2003 on the terms and procedures for switching participation and transferring the amounts accrued in an insured person's individual account from one supplementary pension fund to another fund of the same type, managed by another pension insurance company (hereinafter: the Ordinance). In connection with the adoption of the new Tax and Social Security Procedure Code, the texts

⁵¹ Social Insurance Code (SIC) (Promulgated, SG, Issue 17 of February 2006)

related to regulating the participation of the national Social Security Institute in the transfer procedures are amended under the Ordinance.

Instruction No. 1 of June 23, 2004 on the Order and Procedure for Official Distribution of Persons, having Chosen no Supplementary Obligatory Pension Insurance Fund. The instruction is adopted by the FSC and the **National Revenue Agency (NRA)** in connection with the new Tax and Social Security Procedure Code, where the NRA's functions are to be accounted for in the procedure on official distribution of the persons who have not chosen a supplementary obligatory pension insurance fund within the statutory period.

The amendments introduced to the SIC in 2005 and the beginning of 2006 call for the introduction of amendments in other instruments of the subdelegated legislation, as well as for the adoption of new ones.

8.4. Other Legislative Amendments

In connection with the amendments introduced in the Financial Supervision Commission Act in the first half of 2006, amendments were also introduced in **Ordinance No. 15 of May 5, 2004** for keeping and storing of the registers by the Financial Supervision Commission and the circumstances, subject to entry (hereinafter: the Ordinance). The legal ground for their introduction is § 13, item 9 of the IC's Transitional and Final Provisions, under which Art. 30 of the FSCA is amended and supplemented. The purpose of the amendments introduced in the Ordinance is timely assurance of the activity on entering the insurance agents, in connection with the contracts that are to be renewed within a six-month period as of IC's entry into force, and subsequently of the responsible actuaries.

9. Supervisory Methodology

9.1. New Approaches in the Financial Supervision's Methodology

A main priority in the Commission's activities is the enforcement of efficient supervision over the capital market in compliance with the existing legislation. To this effect, a new approach in the analysis and the methodology of the financial supervision in 2005 is the implementation of the systematic approach as an instrument where working out procedures and methods, and where also accounting for the good European practices.

In this connection, the following priority objectives for the development of the financial supervision may be specified:

- Exercise of efficient supervision over the capital market;
- Implementation of a systematic approach as an instrument for working out procedures and methods in the Commission;
- Perfection and elaboration of the existing legislation.

In order to attain the objectives such formulated above, the following directions in the Commission's activity are to be taken cognizance of:

The Commission, the supervised entities, the investors and the consumers of the products and services in the field of the non-banking financial sector all comprise one system having common objective - maintenance of the financial stability, transparency and trust in the capital market, where the objective is directed toward all consumers of information related to the non-banking financial sector. To this effect, the Commission being an agency that implements both regulatory and supervisory functions, within the meaning of its organizational law, exercises control over the entire activities of the persons under Art. 1, para. 2 of the FSCA. In this connection, the consumers of the non-banking financial sector services have rectification role where exercising the Commission's supervisory functions. With a view to the above, there is a constant exchange of documentation between the system's elements, as well as current and periodic disclosure of information.

On its part, the Commission also constitutes a system composed by several elements: specialized operative divisions and general administration. The elements forming this system interact with one another, in order to implement common supervision for protection of the interests of investors, of consumers of insurance, health insurance and pension insurance services. In this connection, one of the Commission's main objectives as a strategy for long-term development in its activities is enhancement of the co-ordination between its separate elements. Thus, maximum development in the Commission's work shall be attained. On the other hand, it is necessary to enhance the co-ordination between the Commission and the other institutions that have bearing on the capital markets. To this effect, a number of memoranda on co-operation between the Commission and other supervisory institutions have been signed, international supervisory authorities inclusive.

With a view to another main objective, such as protection of the interests of the investors, of the consumers of insurance, of health insurance and of pension insurance services, the Commission periodically receives information regulated by the special laws, not only from the individual supervised entities, but also from the financial services consumers. In connection with the development of the non-banking financial sector, an ever increasing part of the supervised entities shall belong to one financial conglomerate, on account of which the Commission poses identical requirements towards the information disclosed by the persons, while at the same time, the specifics of the individual person's activities are accounted for under these, as well as the parameters that are subject to monitoring and control. To this effect,

the type and volume of the information disclosed by these persons is different on the one hand, and it has many similar elements at the same time.

Applying the methods of the **systematic approach**, the Commission being an integrated system is to unify to the maximum degree the requirements set towards the supervised entities by implementing the principle of consolidated financial supervision through introduction of internal standards, setting common procedures and rules based on the said principle in the three specialized Divisions. Applying the aforesaid principle, maximally harmonizing and equalizing the requirements set towards the supervised entities, the business over whose activities supervision is exercised shall tangibly feel the advantage of the integrated supervision, where disclosing information shall require less efforts and expenses.

The exchange of information's optimization within the Commission's system is an indicator of working consolidated supervisory system. By improving the exchange of information between the three specialized Divisions, the effect of winning recognition for the principle of consolidated financial supervision shall be attained, and this shall respectively reflect positively on the supervised entities and the market's development.

Harmonisation and standardisation of the requirements set towards the supervised entities may progress parallel in several directions: firstly, through a gradual amendment to the legislation, regulating disclosure of information by the supervised entities; secondly, in standardisation of the practices with regard to the requirements in connection with disclosure of information, as set by the specialized Divisions through the line Deputy Chairs; thirdly, through introduction of internal standards, regulating common procedures and rules with regard to the supervisory functions exercised by the Commission, as regulated under Art.1, para.1, item 3 of the FSCA.

Through the introduction of the principle of the consolidated financial supervision, an effect is attained on the one hand inside the Commission as a system, where its activities are optimized through introduction of common requirements upon exercise of supervision, and, on the other hand, abiding by the principle, the relations between the Commission and the individual supervised entities shall be optimized. To this effect, there is interdependence between the objectives pursued by the Commission.

The **internal standards** pertain to typical activities performed by the three Divisions at the Commission and with regard to all supervised entities, notwithstanding of the fact that the specific requirements set towards the different groups of persons are regulated in individual special laws. Through the above standards, common points shall be found of the requirements underlying the laws and the subdelegated legislation, while at the same time the already-established practices shall also find application not only in the three specialized Divisions, but also in similar supervisory authorities in other countries. The interaction and the exchange of information between the three operative Divisions with regard to the supervised entities, subject to control in more than one Division is to be perfected. The internal standards system is open, since the activities of the supervised entities are constantly changing and expanding, while the Commission shall simultaneously amend and improve its regulatory framework.

Initially, the internal standards may settle typical activities performed by the three specialized Divisions at the Commission, and namely:

- collection and analysis of information disclosed periodically and currently by the supervised entities;
- carrying out on-site inspections, periodical and purposeful, with a view to the fulfillment of the provisions made by the specialised laws and the acts required for their implementation by the supervised entities;

- collection of fees by the Commission for carrying out consolidated financial supervision⁵².

Working out the internal standards shall create a prerequisite for automation of a part of the activities, which, on its part, shall lead to optimization of the Commission's work and shall enhance the efficiency in the activities undertaken by the experts working for it.

Accounting for the fact of the forthcoming accession of Bulgaria to the European Union and the requirement for harmonization of the Bulgarian legislation with the European acquis where carrying out supervision, as well as where pursuing the objective for establishment of a stable financial services market, the Commission is to proceed towards implementation of the risk-based supervision methods. In this connection, it has to be proceeded to working out and practical implementation of risk-based supervision methodology. In this connection, the indices are to be defined that characterize the risk profile of the different types of supervised entities, and a method of information collection and processing, which information is necessary for the implementation of the risk-based supervision, is to be worked out. Risk-based supervision is a prerequisite for working out an early warning (prevention) system against contingent threat for the stability of the financial sector. The capital base and the capital adequacy being the indices of risk-based supervision are to be complied with not only the market, but also the operational risk.

On the other hand, a question of present interest that affects the Commission's future activity is working out methods of assessing the investments made by the supervised entities. The aforesaid problem is posed before all three specialized Divisions, since each one of the entities supervised by them may invest its assets, respectively its reserves and its own funds. Similar methods may also be applied where assessing the foreign assets managed by the investment intermediaries. On the other hand, assessment of investments raises the issue of the methods that are applicable to the assessment.

Perfection of the Commission's legal framework is also closely connected to the priority objectives. The development strategy throughout the following years shall be mainly directed towards constant perfection of the legal framework, and namely through working out subdelegated legislation acts, rules and procedures governing the regulation of different aspects of the activities of the specialised Divisions, such as: the final introduction of the rules governing the assessment of the insurers' financial stability; the final introduction of the requirements set for the insurers' financial and accounting activities, including on the scope of the statistical information submitted by these, determination of powers to exert influence upon establishment of deviations from the principles formulated and the good practices. Under the amendments introduced to the LPOS in 2005 in the field of investment activities, the commitments undertaken within the progress of the negotiation process of the Republic of Bulgaria's accession to the EU have been fulfilled to a great extent. To this effect, under the forthcoming amendments to the LPOS in 2006, it is envisaged that the problems established in the progress of the inspections of supervised entities already carried out shall be ultimately eliminated.

⁵² Pursuant to Art. 27, para.1, item 7 of the FSCA.

9.2. Development Strategy for the Supervisory Activities

9.2.1. In the Field of Investment-related Supervision

The development strategy for the supervision of investment-related activities was adopted in March 2005. The following main objectives are underlying it:

- Optimization of the usage of human and information resources
 - Enhancement of team work
 - Enhancement of the quality of the management dialogue with the supervised entities and the remaining market participants
 - Working in order to increase the investors' investment culture of and confidence in the market and the organizations and institutions related to it

In order to attain the objectives set, efforts are to be directed along several paths.

Increase in efficiency is a compulsory prerequisite for achieving the priority objectives. In this connection, it is necessary to build up an integrated information system for automation and systematization of information processing and entering, which information is disclosed by the entities supervised by the FSC (EXTRI). The advantages of the introduction of an integrated information system are as follows: automation of the process and shortening the time necessary to process and enter the information that is received daily and reduction of the document flowchart, limitation of the possibilities to allow technical mistakes to slip in, creation and maintenance of an up-to-date database on the supervised entities, a possibility for creation and usage of an up-to-date database where summarizing and analyzing the information that is periodically submitted by the supervised entities, and complete disclosure and observance of the time periods established for the normatively regulated information at the FSC and on the Bulgarian Stock Exchange.

The EXTRI System, which is undergoing a process of finalization, allows the risk characteristics of the supervised entities to be analysed. This means: improvement of the possibilities to analyze and systematize the information contained in the reports submitted by the supervised entities by specific indices; shortening the time needed to establish violations of the law on the part of the supervised entities that are related to disposal of assets; creation of better conditions for preventive control upon indications of possible future violations of the law; creation of a database on the status and development of the companies traded on the Bulgarian Stock Exchange for statistical purposes; establishment of tendencies with regard to the capital market's status and development; drawing up periodical reports on the basis of the information available at the FSC.

Through EXTRI, the accent is placed on the Division's analytical work, where criteria with regard to the supervised entities are specified in advance. Among the indices being observed and analyzed, underlying under the worked-out system are as follows: status, amount, structure and change in the tangible assets of the companies; structure, change in and assessment of the financial assets of the companies; status, amount, structure of and change in the liabilities of the companies; change in and tendencies with regard to the receipts and expenditure realized by the companies; profitability, liquidity, market capitalization and risk characteristics of the companies; market risk (based on BG 40); solvency; portfolio structure of the investment companies.

Under the Strategy of March 2005, setting up a task force in order to discuss the possibility and the contingent working out of the following assignment: building up a web - based

information system and a database on related and interested persons; i.e. database on the first group insiders (persons who are members of the public companies' management and supervisory bodies, and persons holding more than 10 % of the shares in a given company); second group (relatives in a direct line of descent without restrictions, and collateral relatives of the 2 degree to first group insiders, persons who are members of management or supervisory bodies or general partners in entities related to the public company), and related and interested parties is envisaged, which is to be used as a basis where carrying out inspections of the supervised entities with regard to the transactions concluded on BSE-Sofia AD, violations of the provisions of Art. 114 of the LPOS, etc. As of the present moment, such database is yet to be worked out.

The information on the transactions concluded by these persons is to be analyzed on a weekly basis for eventual disclosure of transactions in securities where there is inside information or transfer of securities between related persons for tax or other purposes, about which the respective competent authorities are to be notified.

Legislation's improvement and elaboration is another prerequisite necessary in order to attain the priority objectives. In connection with the commitments undertaken within the process of Republic of Bulgaria's accession to the European Union, it is necessary to introduce a number of amendments to the legislation. To a great extent, this was achieved in May 2005, when amendments to the LPOS were introduced. Under the amendments that are to be introduced in year 2006, problems established in the progress of the inspections of the supervised entities carried out, problems where drawing up statements for established administrative violations or where these are appealed before the respective instance shall be eliminated; there shall be the possibility to enhance the preventive control exercised over the activities of the capital market participants.

It is also necessary to **improve the co-ordination** between the Directorates within the Division, between the individual Divisions and between the Commission and other institutions, whose activities are related to the supervision exercised over the non-banking financial sector.

In the progress of individual specific cases or in the progress of complete inspections of the BSE and the CD, solutions to fundamental issues were sought, which issues are related to the efficient exchange of information between the FSC, the BSE and the CD. A part of the aforesaid is related to continuing the work on the StockWatch and EXTRI trading supervision system.

As of the present moment, possibilities are being sought and have been found for interaction and co-operation with the Financial Intelligence Agency, the Bulgarian National Bank, the National Audit Office, the Ministry of Finance, the Institute of Certified Public Accountants of Bulgaria, the National Social Security Institute, the General Tax Directorate, the National Statistical Institute, universities within the country, the Industrial Capital Association, the Ministry of Economy, the Post-privatisation Control Agency, the Agency for Social Research and Analysis, the Chamber of Commerce, the Foreign Trade Chamber, the Bulgarian Association of Management Companies, the Bulgarian Chamber of Commerce and Industry, foreign regulators, etc.

Memorandums were concluded with many of the aforesaid institutions, under which the establishment of contact groups in order to perform swift and informal exchange of information in emergency situations was provided. Separately, **exchange of information** is achieved under licensing and approval regimes for various entities supervised by the Division.

Upon the country's accession to the EU, a set of measures for adequate co-operation with CESR (The Committee of European Securities Regulators) is also to be marked down.

9.2.2. In the Field of Insurance Supervision

The development of the insurance supervision is directed toward preventive and efficient regulation and supervision over the insurance activities in order to protect the interest of the insured persons and guarantee the stability of the insurance market in the long term. Where exercising supervisory activities, **main principles on regulation and supervision** such as pursuance of a balanced approach of regulation and supervision, accounting for the benefits and the inherent costs related to the regulations' introduction; impartiality of supervision; standardisation of the licensing requirements and procedures for assessment of similar risks in the sectors regulated by the FSC in order to establish a unified integrated regulatory framework shall be observed.

The main objectives and tasks, toward the attainment of which the FSC's Insurance Supervision Division shall strive during the period 2006-2008 are as follows:

1. **Development of the legal framework** through drawing up acts of the subdelegated legislation, rules and procedures for regulation of various aspects of the insurance activity: complete introduction of the rules for assessing the insurers' financial stability; complete introduction of the requirements set for the insurers' financial and accounting reporting and on the scope of the statistical information submitted; complete introduction of the terms and conditions and the rules for undertaking compulsory insurance; working out the legal framework on the requirements with regard to the activities and the persons having considerable impact on the foreseeable and reliable functioning of the insurers, such as internal auditors, responsible actuaries and insurance intermediaries.
2. **Enhancement of the quality and efficiency of the off-site supervision** through: working out a methodology for off-site supervision, containing rules and procedures on the scope and contents of the analysis made, which analysis is mainly directed toward identification of insurers facing difficulties; introduction of a rating awarding system of the insurers (for supervisory purposes); introduction of standard analytical forms to be filled in by the officers engaged in the activity on off-site supervision; building up and introduction in operation of an information system for information receipt and processing from the supervised entities, incorporating an electronic system of early warning indices; efficient co-operation with the certified auditors and the insurers' internal control units' heads.
3. Enhancement of the efficiency where defending the interests of the insurance services' consumers through: provision of **clear and accessible information** to the consumers on the insurers, the insurance market and the insurance products offered; establishment and observance of transparent rules of market conduct on the part of the insurers; creation and maintenance of consumer-oriented rubric on the Commission's website, under which information that is useful for the consumers of insurance services is to be presented.
4. **Working out a risk assessment methodology** in the following directions: identification and assessment of the risks inherent to the activities of the insurers and determination of their risk profile; assessment of the risks related to the assets and liabilities of the insurers, as well as with their conformity.
5. Consistent elaboration of the legislation through proper and **duly implementation of the European Union's acquis** in the sphere of insurance.
6. **Development of the human resources** through: providing opportunities to the employees to constantly enhance their professional qualifications; recruitment of employees having appropriate experience and qualifications.

The following are adopted to be *leading principles and main directions* for exercise of efficient insurance supervision:

1. **Supervisory approach and style:** establishment of preventive supervision through active monitoring and timely influence on the part of the supervisory authority. Enhancement of the role of co-operation and analysis as elements of the supervision exercised; orientation towards risk and assessment-based supervisory approach.
2. **Leading supervisory requirements:** setting reasonable requirements to the insurers' solvency, depending on the volume of their activities and other applicable criteria; carrying out assessment of the policies adopted by the insurers, practical rules and procedures related to the activities undertaken by them; definition of requirements on the implementation of the rules and procedures for assessing the quality of the assets and the adequacy of the technical reserves; setting requirements to the adoption and implementation by the insurers of adequate rules on the establishment, monitoring and control of the risks undertaken by them; setting up management information systems which are to allow the management of the insurer to establish the concentration of risks at any time, and the supervisory institution to control these; setting requirements toward the insurers' organizational systems and the internal control system that are to incorporate clear rules on delegation of rights and obligations, separations of the functions related to undertaking commitments; definition of requirements and responsibilities of the insurer's management with regard to the information that is submitted and made public.
3. **Development of the methods for carrying out supervision** over the insurance activities through: enhancing the quality of the two main forms of supervision, and namely: off-site supervision and on-site inspections; enhancing the means of collecting, verifying and analyzing the financial and statistical information received from the insurers; efficient supervision exercised over the solvency of the insurers that are members of an insurance group; creating the necessary prerequisites for exercising consolidated supervision over financial conglomerates.

9.2.3. In the Field of Social Insurance Supervision

In 2005 a strategy for development of the social insurance supervision for the period 2005 – 2007 was worked out and approved. Under the strategy, **the priority objectives** of the supervisory activities were defined, and namely: **compliance with the law** where performing the activities on supplementary pension insurance; control in order to ensure the **efficient** functioning of the pension insurance companies and the supplementary pension insurance funds; adoption of a **risk-oriented approach** to supervision over their activities; strengthening the control's **preventive character**; attainment of greater **transparency and information penetration** on the part of the insured persons on the supplementary pension insurance activities and application of **contemporary information technologies** where carrying out supervisory activities.

The strategy includes not only managerial principles and main guidelines on the exercise of efficient supervision, but also the specific tasks requisite for the implementation of the objectives. Throughout the year, tangible **results** were achieved with regard to the application of contemporary information technologies where exercising supervisory activities and ensuring better information penetration amongst the insured persons. The intensive monitoring of the activities of the pension insurance companies and the supplementary pension insurance funds is of considerable importance for the lawfulness and the efficiency of their operation.

Co-operation with analogous institutions within the country and in EU Member States shall contribute towards the adoption of risk-oriented approach for supervision of the supplementary pension insurance activities and the enhancement of its preventive character.

10. Development of the Information Technologies in Order to Meet the Supervisor's Needs

The FSC worked out a *Strategy for Development of the Information Technologies at the FSC*, the purpose of which is to outline the boundaries of and tendencies for the development of the information structure within the Financial Supervision Commission. Under the said Strategy, the methodology required in order to attain the aforesaid development and the specific activities that are to be undertaken are specified.

For the implementation of its main business tasks, the FSC needs an Integrated Information System (IIS), covering and servicing the whole amount of information necessary in the work process, while securing the requisite reliability, security and continuity of the said work process.

It is necessary measures to be taken not only to enhance the efficiency of the FSC's work, but also in order to work out uniform principles where exercising control over the supervised entities. Work will continue in the direction of co-ordinating the activities between the individual Directorates and Divisions within the FSC; automation of the routine activities performed by the FSC's experts, of information submission and part of its processing, where the said information is necessary for the exercise of supervision.

The advantages of the introduction of an integrated information system are as follows:

- Process automation and shortening the time needed by the experts from the Divisions to process and enter the information received daily at the Commission, which shall ultimately lead to reduction in the document flowchart;
- The Commission's Public Register shall have enhanced interface and shall be oriented towards processing electronic documents;
- Increase in efficiency where utilizing human resources under the Divisions;
- Restricting the possibilities to permit technical errors on the part of the experts from the Divisions and the supervised entities, which shall have positive influence on the reliability and the up-to-datedness of the information available at the FSC;
- A possibility to set up and maintain an up-to-date database that may be used where carrying out the daily monitoring of the companies and carrying out current inspections on the fulfillment of the supervised entities' obligations;
- A possibility to set up and use an up-to-date database where summarizing and analyzing the information periodically submitted by the supervised entities;
- The technical provision of the Financial Management and Control System shall enhance the planing and control of the funds spent by the Commission.

Enhancement of the efficiency in the work of the individual Directorates upon performance of their daily obligations is connected with shortening the time necessary to process the in-coming information from the supervised entities, shortening the time and increasing the effectiveness of the inspections carried out by the experts and increasing the analytical aspect in the work of the Directorates.

The System shall allow of enhancement of the co-ordination between the individual Divisions at the FSC. As a result, the exchange of data between the Directorates shall be improved, and the process of drawing up joint analyses on the development of the financial market shall be facilitated. The said analyses are to be complete and in-depth in terms of character, while also presenting an impartial assessment of the financial standing and of the risk level of the supervised entities so that the FSC may undertake preventive measures where there are signals of violations, in order to preserve the financial stability of the whole system.

III. The Economy of Bulgaria

In 2005 the Bulgarian economy maintained steady and high economic growth rate. The value of the gross domestic product (GDP) produced in the country as of the year's end reached BGN 41,948 million, where its real increase compared to the end of the preceding year in fixed prices is 5.5%. The gross domestic product per capita increased by 10.2% from BGN 4,919 in 2004 to BGN 5,415 in 2005.

The foreign trade balance remained traditionally negative, where import retained high rate of increase whilst export held up its growth. The deficit in the current account of the balance of payments for year 2005 was EUR 2,530.6 mln., or 11.8% of the GDP.

As at the year's end, the gross foreign debt amounted to EUR 14,530.3 mln., i.e. an increase of 15.6% in comparison with the end of year 2004. However, the debt's increase was entirely due to the private sector, whose external liabilities increased, whilst those of the public sector decreased.

In 2005 the annual inflation rate reached an average of 5.0%, i.e. by 1.2 percentage points lower than the average annual inflation rate for year 2004.

A decrease throughout the year was also seen of the base interest rate (BIR), which shrank to 2.05% compared to 2.37% for year 2004.

The average level of unemployment decreased by 1.9 percentage points and reached 10.1%. According to data provided by the National Statistical Institute, the average monthly salary for year 2005 amounted to BGN 320. In comparison to year 2004, the average salary of the persons employed under labour and service contracts reported an increase of 9.6% in terms of par value and 4% in absolute terms.

Macroeconomic indices on the Bulgarian economy in year 2005

Index	Value	Growth on a Yearly Basis
GDP (in BGN mln.)	41,948	5.5%
Balance of Payments (in EUR mln.), incl.	569.3	-59.32%
<i>Current account in EUR mln.</i>	-2,530.6	-123.69%
<i>Financial account in EUR mln.</i>	2,874.6	-1.25%
<i>Foreign direct investment in EUR mln.</i>	1,789.0	-34.41%
<i>Public and publicly guaranteed external debt in EUR mln.</i>	5,147.7	-19.92%
Internal national debt (average annual value in BGN mln.)	2,782.4	10.77%
Average annual inflation rate	5%	-1.2 percentage points
Base interest rate	2.05%	-0.32 percentage points
Average unemployment level	10.1%	-1.9 percentage points

IV. Review of the Non-banking Financial Sector

In 2005 in the conditions of macroeconomic stability, continuous increase in the incomes of the population and intensified competition among the financial institutions, the intermediation through the financial system recorded a stable growth. The bank system retained its predominant share in this sphere, but a tendency of decrease in its share was outlined at the expense of the deepening the intermediation through the non-banking institutions.

Structure of the financial intermediation by institutional investors

	2001	2002	2003	2004	2005
Assets of the investment intermediaries	-	-	1,70%	2,98%	3,60%
Net assets of the undertakings for collective investment	0,08%	0,08%	0,09%	0,20%	0,26%
Assets of the special purpose vehicles	-	-	0,04%	0,08%	0,35%
Insurance and health insurance premiums	5,27%	5,16%	4,22%	3,49%	3,46%
Net assets of the pension funds	1,44%	2,15%	2,56%	2,86%	3,02%
Assets of the banks	93,20%	92,61%	91,38%	90,38%	89,32%
Total:	100%	100%	100%	100%	100%

The dynamic development of the non-banking financial sector was also shown by the value of the indicators, describing the financial intermediation depth.

Depth of the financial intermediation, percent of the GDP

	2001	2002	2003	2004	2005
Market capitalization of BSE-Sofia	3,72%	4,25%	7,91%	10,55%	20,11%
Insurance and health insurance premiums	1,61%	1,91%	1,94%	2,51 %	3,03%
Net assets of the pension funds	0,63%	1,03%	1,48%	2,07%	2,65%
Assets of the banks	41,13%	45,04%	50,34%	65,51%	78,31%

To the extension of the intermediation through the non-bank segment of the financial system contributed both the enhancement of the investment culture of the non-banking financial services consumers, and the enhancement of the attractiveness of the offered investment products, which is connected with providing of higher profitability and fiscal stimulus.

The liberalization of the pension funds' investment, the liberalization of the insurers' product policy and the broadening of the investment intermediaries' scope of activities is expected to result in still bigger growth of the sector. The orientation of increasingly larger part of the savings to the non-banking sector has a key role for the economic growth, insofar as a well functioning capital market ensures quicker and more efficient transformation of the savings into investments.

11. Investment Activity

11.1. Development of the Capital Market in 2005

The past 2005 was exceptionally successful for the Bulgarian capital market, a direct evidence of which are the increased turnovers, the bigger number of transactions and the doubled market capitalization. Despite of it, the trade dynamics and the market capitalization show a contradictory development.

The brisk activity on the stock exchange in the last months of 2004 was considerably intensified during the first two months in 2005. The compensatory instruments continued to rise in price, and the sale of the residual state stake from the Bulgarian Telecommunication Company (BTC) attracted additionally the investors attention to the market. The prices of a large part of the traded shares were doubled within less than a month, while the rise for some of them was by two digit percents only for a day. At the end of February the indicators, characterizing the state of the capital market reached record rates.

In the next four months a correction of the market downwards was observed, as a result of which the share prices of many of the public companies went back to levels from the end of 2004. At the end of June the outlined descending trend ceased, a stabilization of the shares prices and activating of the trade followed.

In spite of the period of parliamentary elections in Bulgaria, the uncertainty that followed with regard to formation of government and the traditional for the summer months lull of the stock activity, in the period July – September, the shares of the actively traded public companies reached and even exceeded the registered in February highest historical values of market capitalization. Towards the end of September the capitalization of BSE-Sofia exceeded BGN 9 billion.

In the last quarter of the year a new downward correction of the market followed, which even though slighter than the preceding, covered the whole indicated period. On 31 December, 2005 the market capitalization of BSE – Sofia reached BGN 8,43 billion, whereby it marked a growth of 109,11% on annual basis. Beside the increase of the prices of the most of the traded issues, a factor for the growth achieved during the year was also the registration of new and quality issues on the exchange floor.

Market capitalization	on 31 Dec., 2004 (in BGN thousand)	on 31 Dec., 2005 (in BGN thousand)	Annual growth (in %)
Official market A	53 425	122 095	128,54%
Official market B	423 329	688 456	62,63%
Official market C	898 124	1 337 701	48,94%
Official markets - TOTAL	1 374 877	2 148 252	56,25%
Unofficial market	2 658 328	6 285 702	136,45%
TOTAL	4 033 205	8 433 953	109,11%

A main reason for the recorded over twofold growth on annual basis in the market capitalization of Official Market segment A was the listing for trading on that segment of Industrial Holding Bulgaria AD. The market capitalization of the company on 31 December, 2005 was BGN 75 822 thousand.

The most significant increase was registered on the unofficial market. To the high growth largely contributed the listing for trading in January on that market of the Bulgarian Telecommunication Company /BTC/. The market capitalization of BTC reached BGN 2 867 434 thousand at the end of 2005.

Results of the trade on BSE – Sofia in 2005

Market	Volume (thousand lots)		Turnover (BGN thousand)		Trades (number)	
	31 Dec., 2005	Growth on annual basis	31 Dec., 2005	Growth on annual basis	31 Dec., 2005	Growth on annual basis
Official market, segment A	11 090	1104,75%	52 014	694,06%	10 523	20 136,54%
Official market, segment B	9 348	-26,48%	56 063	37,38%	7 252	90,29%
Official market, segment C	46 495	-65,07%	262 195	-38,82%	84 083	162,53%
Official market, corporate bonds	39	0,39%	44 269	4,58%	226	-36,34%
Unofficial equities market	60 938	105,00%	929 556	402,96%	107 803	228,05%
Unofficial bonds market	128	177,79%	207 794	149,39%	729	99,73%
Unofficial market of compensatory instruments	305 720	-52,07%	267 874	14,86%	44 179	-11,40%
Unofficial market of other securities	7 726	-60,70%	6 061	134,51%	1 335	577,66%
Primary equities market	844	148,63%	5 451	192,92%	233	5,43%
Primary market of other securities	4 500	1399,25%	1 744	1668,96%	348	427,27%
Tender offer	3 250	210,64%	87 444	1988,12%	55	223,53%
Redemption	36	100,00%	79	6,02%	2	100,00%
Privatization trades in compensatory instruments	2 869	192,52%	632 643	4 123,59%	1 466	295,15%
Centralized public tender	1 018	-91,10%	5 418	-90,77%	469	-86,19%
Remote public tender	0,026	-89,47%	2 940	-93,26%	26	-89,47%
Block and other agreed trades	351 135	-37,11%	613 179	40,82%	158	-42,12%
Large volumes of equities	52	25 9955%	8 230	2 515,13%	55	2 650,00%
Total:	805 188	-42,85%	3 182 960	99,40%	258 943	107,48%

In 2005 a significant increase was observed of the indicators characterizing the exchange trade. The volume, turnover and number of transactions, concluded on market **segment „A“** of the **official equities market** realized a huge growth on annual basis, which was due to the high interest to the issue of shares of Industrial Holding Bulgaria. A big increase was recorded also in the indicators for the trade on **segment B**, as well as in the number of concluded transactions on market **segment C** on the official equities market.

The trade of the **unofficial equities market** was with biggest contribution for the significant increase of the turnover and number of concluded transactions on BSE – Sofia. The registered turnover on that market grew over five folds for the last 12 months, and the number of trades – almost three folds. The registered turnover and number of transactions on the unofficial equities market represented respectively 29,21% and 41,63% of the realized in total on the stock exchange during the year. Strongest impact for those result was exercised by the secondary trade with shares of the registered on a unofficial market BTC.

The investment interest to the **bonds market** was retained in 2005, as well. The activity of the trade in bonds on the unofficial market registered a considerable increase for the last 12 months, the volume and turnover recording a growth of nearly 150% on annual basis. On the official market of corporate bonds a slight increase was observed in comparison with the realized volume and turnover in the preceding year, while the number of transactions dropped by more than 30%. Despite the registered results, the indicators characterizing the trade on the regulated bond markets were still established at very low levels.

The trade on the **unofficial market of compensatory instruments** was with a most significant share in the overall volume of the exchange trade in 2005. The main reason for the

increase in the traded lots and turnover with the compensatory instruments and the investment vouchers was the strong correlation of the prices of those financial instruments with the dynamics of the process of privatization against non-pecuniary payment means of packages from attractive state enterprise. The fact that as means of payment in the sale of the state stake from BTC were admitted only compensatory instrument resulted in the rise of their price over the nominal. Two days before the auction the restitutional papers reached their higher historical value of 112,49% from the nominal. Due to the more limited utilization of investment vouchers in the privatization process, their price rose slighter than those of the compensatory instruments. From the end of June, 2005 the investment bonds were declared invalid and the trade with them - terminated.

The major source of fresh resources for the capital market, especially in the first quarter of the year, was again **the privatization**. During the last years the divestiture through the stock exchange proved to be an efficient and transparent method for the privatization process realization. In 2005 84.2% from the privatization sales were executed through BSE – Sofia – by centralized public tenders, remote public tenders and public offering. The concentration of the privatization process on the stock exchange appeared to be an important factor for increase of the liquidity and volume of trade on the exchange market, as well as enhancement of the confidence and interest in it.

During the period under review, the Privatization Agency organized and conducted through BSE – Sofia tenth, eleventh, twelfth and thirteenth **centralized public tenders**. As a result of the executed sales, compensatory instruments and investment vouchers amounting at BGN 1 964 thousand and cash payments to the total amount of BGN 3 454 thousand were collected by the state. Also organized and conducted on the stock exchange were eight, ninth and tenth **remote public tenders**, with which the sale carried out against compensatory instruments and investment vouchers came to BGN 2 041 thousand and the cash payments were at the amount of BGN 899 thousand.

On segment **Privatization Trades with Compensatory Instruments** a growth in the turnover was recorded on annual basis of over 4000%. The trade was mainly concentrated in January, where the auction for the privatization of BTC was carried out. The remainder state stake of 34,78% from the company's capital or 2 869 573 shares was offered against compensatory instruments. The auction concluded within four working days, over 99% from the whole remainder package being sold as early as on the first day. In the last day of the privatization with non-pecuniary instruments the shares of the telecom reached an unprecedented peak of BGN 1 320 in compensatory instruments, with minimal offer price of BGN 100. Compensatory instruments with an aggregate nominal of BGN 632 643 thousand were used for the shares acquisition.

In 2005 the realized volume and turnover of trade on the **initial equities market** grew by over 150% in comparison with those recorded in the preceding year.

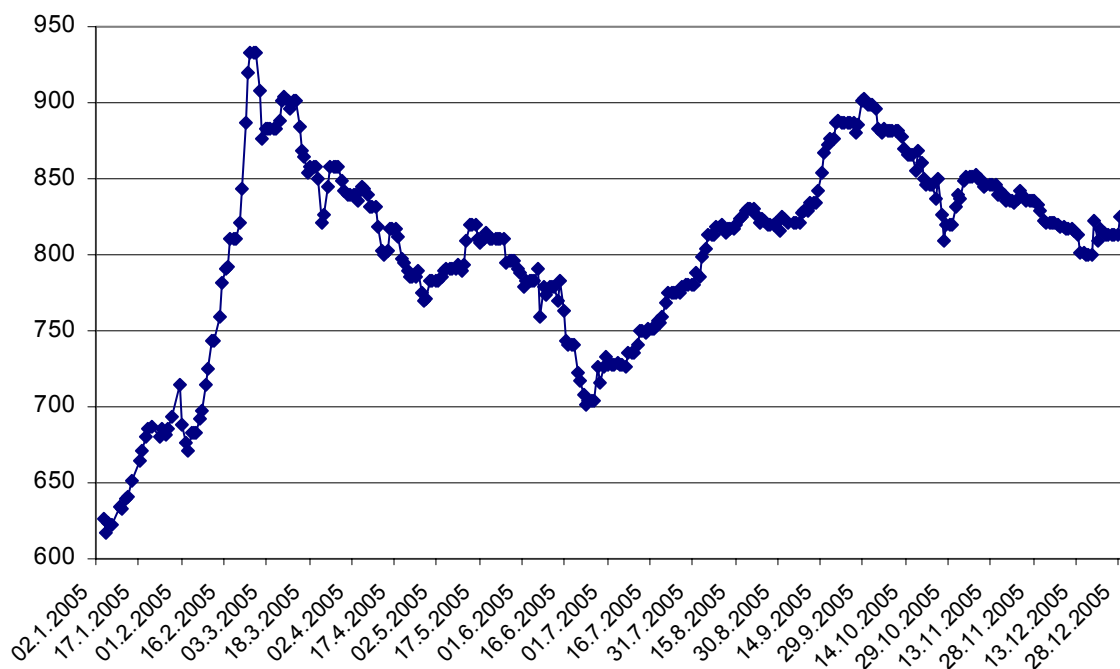
For the brisk trade on the **initial market of other securities** an impact was exerted during the year by the offer of issues of rights for the purchase of shares from the increase in capital of the special purpose vehicles (SPV), making securitization of real estate: E R G Capital - 1, Real Estate Fund Bulgaria, Active Properties, Elana Agricultural Land Fund, Park, Advance Terrafund, Intercapital Property Development and Quantum Developments.

A serious influence over the turnover and the traded lots during the year was exercised by the **blocks and other negotiated trade**. These transactions, however, were not particularly indicative for the trade on the stock exchange, due to the fact that the prices at which they were concluded were determined by non-market mechanisms, too.

The dynamics of the **indexes of BSE – Sofia** in 2005 characterizes the capital market development and the trade thereon. The stock exchange indexes registered a number of record rates and considerable movements in both directions.

The value of the official stock exchange index **SOFIX** marked a high growth during the year. Starting from the level of 625,86 points at the beginning of the period, the index registered a growth of nearly 50% only for the first two months of 2005, achieving at the exchange session from 25 February the historical maximum of 932,44 points. SOFIX ended the year with 825,53 points, reaching a growth on an annual basis of 32,02%.

Movement of the official stock exchange index SOFIX in 2005

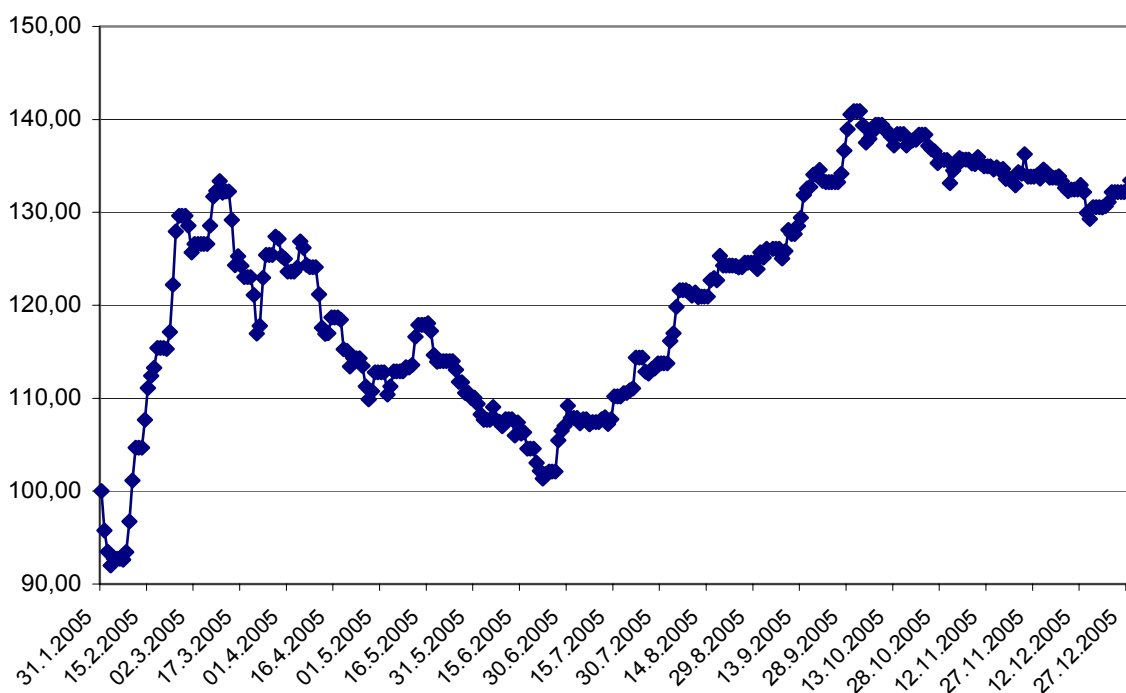


In June Lukoil Neftochim-Burgas dropped out of the index, as by a decision of the general meeting the company was deleted from the register of the public companies and other issuers of securities and its shares were delisted from BSE – Sofia. As a result of it the number of companies included in the index calculation became 12, and it was not envisaged the dropped off company to be replaced by another. In *Appendix 11.1A* are given the indicators, characterizing the shares of the public companies, included in SOFIX, calculated on the basis of the current financial results, the capital and the net asset value of the public companies.

In 2005 BSE – Sofia has presented a new index **BG-40**, which includes the shares of the 40 companies with the biggest number of trades during the last 6 months. The only criterion a company to get into the index is its liquidity. The number of companies is not changed and if the liquidity of some of them decreases, then it drops off from the index and is replaced by another. BG-40 is price, and not based on the market capitalization of the companies in it. Each of the companies participates with a weight of 2,5 % in the setting of the rate.

BG-40 started on 31 January, 2005 from level 100 points. Similar to SOFIX, the movement of the indexes is characterized by a considerable variability. At the end of September BG-40 registered a historical peak of 140,87 points, and closed the year at a level of 133,42 points.

Movement of the stock exchange index BG-40 in 2005



The first correction of the index was made in June after the change of the public status of Lukoil Neftochim - Burgas. As a result of this event Holding Varna has been included in the calculation of BG-40. The next, already substantial change, was made 6 months after the index start. After a meeting held of the Board of Directors of BSE – Sofia AD as of 2 August, 2005 companies DZI AD, Exploration and Petrol and Gas Extraction AD, Investor.BG AD, Advance Invest AD, Blagoevgrad-BT AD, Bulgartabac Holding AD, Fazerles AD and Sofia-BT AD were replaced because of lower liquidity with Bulgarian Telecommunication Company AD, Shipbuilding Plant Odessos AD, Industrial Capital Holding AD, Holding Coop-South AD, Polimeri AD, Development Industrial Holding AD, Mel Invest Holding AD and Hydraulic Elements and Systems AD.

The financial indicators of the public companies, included in the calculation of the BG-40 index on 31 Dec., 2005 are given in *Appendix 11.1B*.

At the end of 2005 overall 406 **issues** were traded on BSE – Sofia, from which 343 issues of shares, 53 issues of bonds, 3 issues of compensatory instruments and 7 issues of other securities. The scope of the unofficial market was considerable, a reason for which were the lower requirements for liquidity, share from the issue, ownership of minority shareholders, etc. The unofficial market is also preferred for the lower fees for servicing and registration. On the official market there were listed for trading at the end of 2005 only 34 issues of shares and 9 issues of bonds. A detailed information about the issues, listed to be traded on BSE – Sofia on 31 Dec., 2005 and about new ones are given in *Appendix 11.1B*.

11.2. Analysis of the Participants on the Securities Market

11.2.1. Public Companies and Other Issuers of Securities

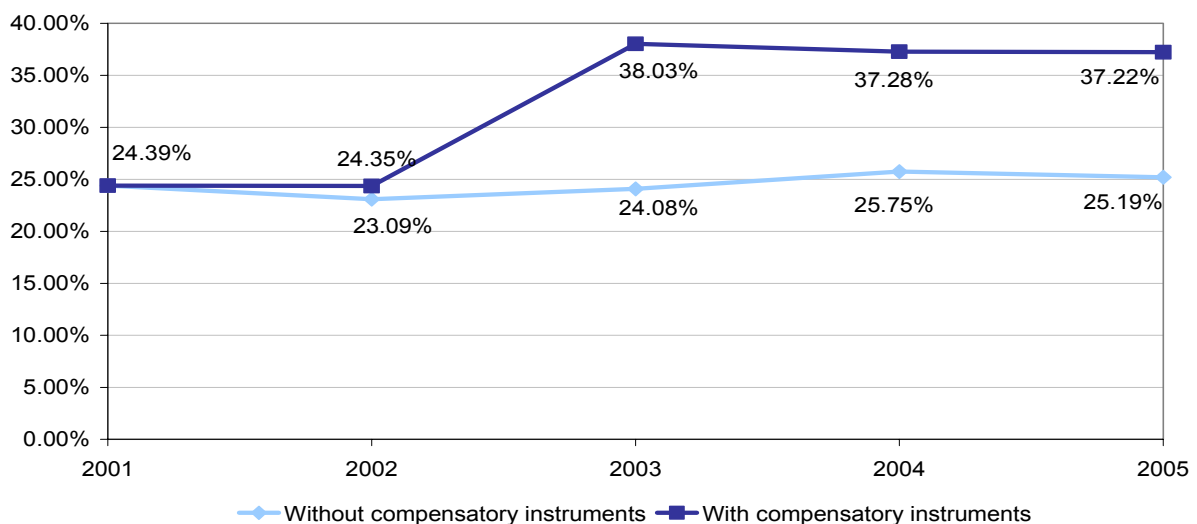
To realize an efficient and large-scale redirection of the financial assets from the investors to the real sector, of significant importance are the number of the listed public companies as well as the volume of their freely traded shares. Moreover, for the development of the capital market in Bulgaria of special importance is the number of companies, whose shares are traded actively on the stock exchange and draw the interest of the Bulgarian and foreign investors.

343 public companies in total were listed to be traded on all market segments of BSE – Sofia on 31 December. 8 new companies were listed on the exchange's floor during the year. For the same period 16 companies were delisted, and a delay was noted in the pace of delisting of the public company and intensification of the processes of rendering public offering of securities on the stock exchange. The information of the newly registered and delisted in 2005 public companies by market segments is shown in *Appendix 11.2.1A*.

The market capitalization of the companies traded on BSE – Sofia grew by 109,11% on annual basis, and the **free float** in this capitalization retained relatively its level. Highest was the percentage of the freely traded shares of the companies listed on an official market segment A. If we accept as freely traded any a share below 5% from the capital of a given company, then the share of the freely traded equities on that market is 41,59%. The freely traded volumes of equities on segment B and C of the official market was respectively 18,82% and 28,82%, and for the unofficial equities market – 23,73%.

In 2005 the free float of shares for the market as a whole was 25,19% - in recording as freely traded the shareholders interests up to 5% from the company's capitalization. Taking into account the influence of the compensatory instruments, then this percent was considerably higher – 37,22%. The strong influence of the compensatory instruments is explained with the fact, that in their essence they are freely traded securities.

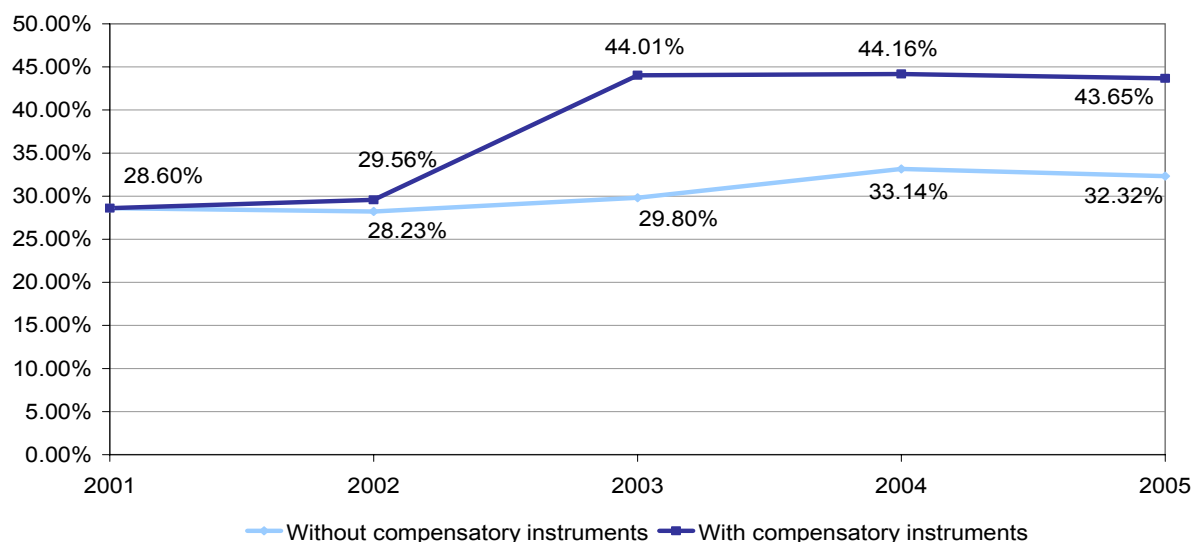
Percent of freely tradable shares (below 5%) from the capital of the public companies - free float



If we accept as freely tradable any share below 10% from the capital, then the percent of freely traded securities for 2005 was 32,32%. When taking account of the influence of the compensatory instruments, the registered percent was 43,65%. The indicator's value dropped

during the year, which was indicative for the unwillingness of the majority shareholders to part with bigger portion of the control over the companies.

Percent of freely tradable shares (below 10%) from the capital of the public companies - free float



In 2005 the **liquidity** of the public companies was improved. However, the trade was still concentrated in a small number of companies. The number of trades with the 40 most liquid companies, included in the calculation of the new stock exchange index BG-40 represented 64,89% from the overall number of transactions, concluded on the stock exchange during the year. The capitalization of these same companies was 71,68% from the total market capitalization of the companies, traded on BSE – Sofia.

Despite the high rise of the prices in the last years, the shares of the public companies were still rather attractive, measured by the ratio price/earning per 1 share.

The allocation of the public companies' market capitalization to the sub-branch of the economy to which they belong, as well as indicators of the foreign participation and the trade by sub-sectors are given in **Appendix 11.2.1B**. With largest share in the market capitalization of BSE – Sofia were the companies from sub-branch Transport, Storage and Communications, followed by the companies in sub-branches Financial Intermediation and Production of Chemical Substances, Products and Fibers. These three sub-sectors of the economy account for 61,83% from the market capitalization of all publicly traded companies on the Bulgarian stock market.

Sub-branches Production of Products from Other Non-metal Mineral Raw Materials and Transport, Storage and Communications were with an especially high share (over 90%) of foreign investments in share capital. Two companies contributed largely to that with a considerable market capitalization, belonging to the relevant sub-sectors of the economy, namely Druzhiba Glass Factories AD with capitalization of BGN 139 910 thousand, with 99,59% foreign participation and BTC AD with capitalization of BGN 2 867 435 thousand, from which 93,18% ownership of foreign shareholders. A significant foreign interest was also recorded to investment in sub-sectors Construction, Production of Products from Rubber and Plastics, as well as in sub-branches Production of Chemical Substances, Products and Fibers and Financial Intermediation.

Three initial public offering (IPO) were carried out in 2005 – those of the issues of share of Interlogic Leasing AD, Web Media Group AD and Stardzhan Aquafarms Bulgaria

AD. The expectations of the investment community are for increased execution of public offering of securities of new companies on BSE – Sofia, favored by the efforts both of the institution, and of the market participants and of the regulator, along these lines.

During the year an intensified interest was registered to the public issuance of issues of corporate and mortgage bonds. In connection with the higher risk for unsuccessful placement with the direct public offering, the private placement and the subsequent secondary trading of bonds remains a preferred way of raising of bonds loans. The amount of the public placement by issues of corporate and mortgage bonds of debt in 2005 came at BGN 316 033 thousand, which is by 50,57% more than its amount in 2004. The information on the issues of corporate and mortgage bonds with an approved prospectus in year 2005 is given in *Appendix 11.2.1B*.

From the public companies and the other issuers of securities, that have submitted in due time their annual report at the FSC, 193 realized a **positive financial result** from their activities, 115 companies closed the year at a loss, and 6 from the companies closed the reviewed period with a zero financial result. No annual report was presented at the FSC by 38 companies, 30 of them being in liquidation/bankruptcy proceedings on 31 Dec., 2005.

The Organization for Economic Cooperation and Development, jointly with the governments of the member-states, the relevant international organizations and the representatives of the private sector, has developed principles, regulating the main directions of the good corporate governance.

The principles relate mainly to the publicly traded companies and do not have a mandatory character. Their aim is to serve as a model of corporate management and to be used by policy setters in the process of consideration and development of legal and regulatory framework of the corporate governance, which reflects the economic, social, legal and cultural specifics, as well as by the market participants in the development of own practices.

The past 2005 is the third in succession year, during which the public companies fulfilled the drawn up by them Programs for Good Corporate Governance and the second successive year, in which they had to account for the fulfillment of their programs, to make an assessment of the fulfillment and on the basis of this assessment and the changes set in the company and the statutory requirements in relation to the public companies operation, to prepare a new program for application of the standards of good corporate governance. An increase was notices in the issues of securities which were offered publicly and respectively endeavor on the side of the companies for improvement of the corporate governance, which in its turn exerted influence on the result of the public offering.

During the past year it was also found out that a part of the public companies, mostly those with which a regular trade on the stock exchange was observed, became aware of the necessity for observance of the principles for good corporate governance and an active work was done in that respect by providing timely and complete information about the company operation to the investment community. Along these lines an active work went on with the professional organizations of investor relations director, participating in joint activities, already having as an objective not just familiarization with the principles of good corporate governance, but their improvement and application in conformity with the specifics of the relevant company, acquaintance with the good international practices and their specific implementation.

Another tendency, which was observed was the formation of an active position on the shareholders' side. An intensified activity was observed with the small shareholders in seeking and obtaining information about the operation and the financial results of the company, with the shareholders, possessing a share over 5%, but less than that, entitling them to exercise an immediate supervision, an active position was observed in relation to the exercising of control on taking business decisions by the management, respectively the management bodies, as well as the efficiency in those decisions fulfillment.

In the process of corporate governance improvement, the role of the investor relations director has been strengthened, which from formal turns into an efficient link in realization of communications – shareholders, company, management bodies.

In support of the thesis that a conscious need for application of the recognized principles of good corporate governance was observed on the Bulgarian capital market, it must be mentioned that issuers of debt securities, which were not obligated to draw up programs, worked while observing these principles.

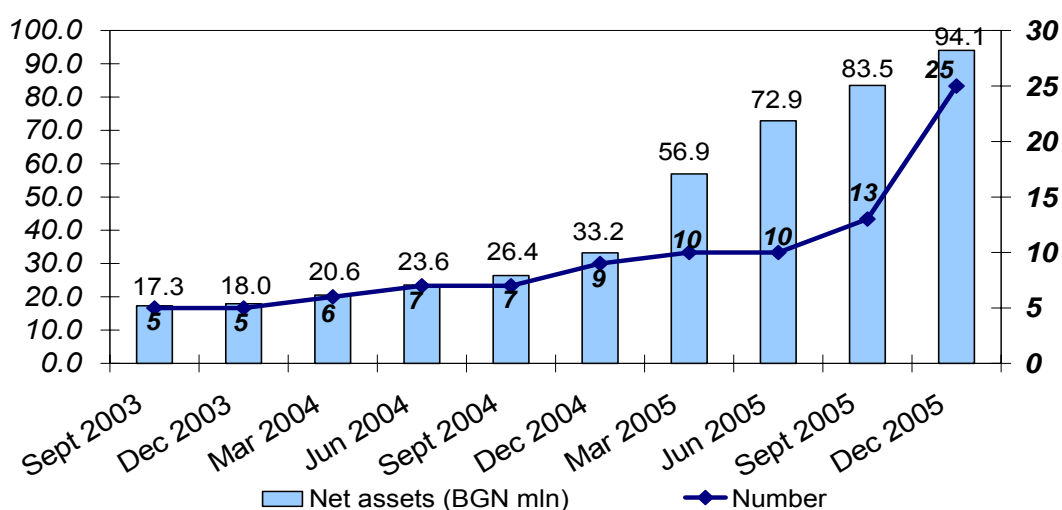
11.2.2. Collective Investment Schemes, Management Companies and Special Purpose Vehicles

The last two years were especially successful for the segment of the collective investment undertakings. Heightened interest was recorded both on the demand side, and on the supply side for this type of investment forms, as a result of which the number of institutional investors and the accumulated by them assets were significantly increased. An additional impetus to the development of this industry was given by the considerable interest, registered to establishment of the newly introduced by the amendments and supplements to the LPOS from 10 May, 2005 contractual funds.

In 2005 the funds invested in **collective investment schemes** grew by 182,94% on annual basis, their share in the GDP reaching 0,22%. The net assets accumulated by the investment companies went up to BGN 83 764 thousand, and the cash raised by the contractual funds reached BGN 10 306 thousand. The expectations are that in the near few years the demand for these financial instruments will continue to grow, most of all because of intensification of the interest and enhancement of the confidence of the public to such types of alternative saving schemes, ensuring a higher return and liquidity of the investment.

On 31 December, 2005 business of an investment company was pursued by 10 companies. Eight of them are of an open-end type, and the other two – of closed-end. The total amount of the net assets, concentrated in the **investment companies** of open-end type registered a growth by 174,49% for the last 12 months, and their value reached BGN 78 319 thousand. For the same period the net asset value of the closed-end investment companies grew by 15,48%, respectively to BGN 5 444 thousand. The growth of the investment companies' asset value in 2005 was mainly due to the attracted by them new share capital, as well as to the rising of the prices of securities, included in their portfolios. During the period the number of the newly licensed companies exerted in a lesser extent influence over the assets increase.

Growth of the total amount of assets and the number of the undertakings for collective investment



During the period under review, heightening of the interest of the investment community was observed to the introduced by the amendments to the LPOS **contractual funds**. The advantages, which this new type of collective investment undertaking offers are the lower size of the expenses on the activities and at the same time the facilitated licensing procedure, compared to that of the investment companies. These characteristics make them especially attractive not only for the mass investor, but also for the companies and the institutional investors, where for a less than a year already 15 such funds were entered in the public register, kept by the FSC. *Appendix 11.2.2A* carries information on the own capital, assets and market concentration of providing of services by the collective investment schemes

The open-end investment companies held a strongly predominant **market share** of the total net asset value of all collective investment schemes, which on 31 December, 2005 amounted to 83,26%. The closed-end investment companies and the contractual funds held shares respectively of 5,79% and 10,96%. The reason for that was both the larger number of this type of investment companies, and the higher liquidity of their shares compared with those of the closed-end companies. Furthermore, despite of the quick pace of increase of assets in the contractual fund, their shorter period of existence was insufficient for accumulation of a significant resources and competing the open-end investment companies.

The high **concentration** of the market of services, offered by collective investment schemes was retained in 2005. Three investment companies, namely IC T B I Evrobond AD, IC Advance Invest AD and IC Elana Evrofund held 67,06% from the net asset value of the open-end companies and 55,84% from the net asset value in total for the ICU. IC Nadezhda was with biggest market share according the NAV from the closed-en investment companies, and from the contractual funds – CF Elana Balanced Evrofund.

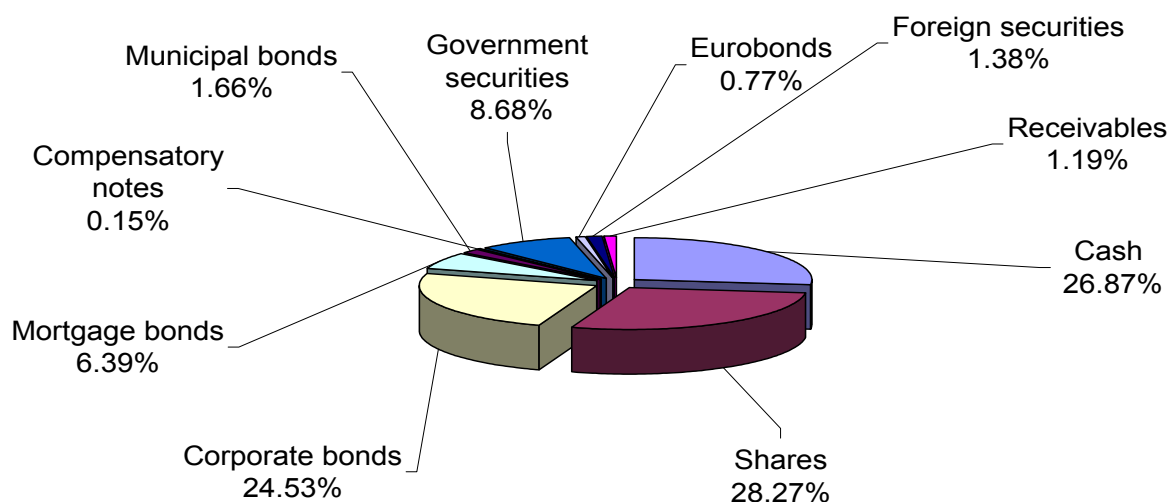
The undertakings for collective investment may most generally be classified in three major groups from viewpoint of the risk and the profitability – aggressive (high income), balanced and conservative (low risk). 7 CIS were with an aggressive investment profile, with balanced – 10 and with conservative – 6 on 31 December, 2005. The allocation indicated was realized on the basis the declared by the companies /funds **investment strategy**, by reason of which their belonging to a certain group is conditional – it depends on the adherence by the portfolio managers to the declared investment profile. The two closed-end companies built up

their portfolio in a balanced way, their investment restrictions allowing also a more aggressive strategy, depending on the management's judgment..

The largest part of the net assets oriented to the segment were concentrated in the companies and funds with a conservative investment profile – 36,65%, followed by the balanced undertakings with a share of 29,68%. In the high income (aggressive) funds were oriented 27,87% of the investors' funds. There is information published in *Appendix 11.2.2B* on the investment profile of the licensed at the end of 2005 companies and funds on the Bulgarian market, net asset value per share (unit), the realized by them return, as well as the date of commencement of the public offering of their shares (units).

As a result of the different investment structure, **the return on the assets**⁵³ of the collective investment undertakings, realized at the end of 2005 moved in a wide range. For the different companies the indicator occupied values between -0,39% and 32,62%. It must be taken into account that the profitability is directly related to the level of risk – the higher the risk is, the bigger is the possible loss and accordingly higher the expected return. Due to the short history of a large part from the collective investment schemes, the results achieved by them have not been published.

Structure of the assets of collective investment undertakings as of 31 Dec 2005



The asset structure of the collective investment schemes was characterized with a comparatively high relevant share of **cash**, which significantly exceeded the statutorily required 10%. For the last 12 months this share grew by 2,57 percentage points, being almost entirely formed by investments in bank deposits, namely 22,99% from the total amount of the collective investment undertakings assets (*Appendix 11.2.2B*).

During the reviewed period an increasing interest was recorded to investment of the resources of CIS in **shares and corporate bonds**. In comparison with the end of 2004, the portion of the shares rose by 5,39 percent points, whereby it took a predominant part in the structure of the aggregate portfolio of the collective investment schemes. The investments in corporate bonds grew to a greater extent, reaching a share of 24,53% with 14,95% a year earlier.

In spite of the absolute growth of the investments in **government securities and mortgage bonds**, their relative shares in the CIS aggregate portfolio decreased respectively by

⁵³ It is determined as a ratio of (current value per share on 31 Dec., 2005 – current value per share on 31 Dec., 2004) and the current value per share on 31 Dec., 2004.

9,44 and 2,75 percentage points. A decline was also registered in the invested by CIS moneys in **compensatory instruments**, which was explained with the lack of clarity about the fate of these non-pecuniary funds and their future application in the privatization process.

The funds of CIS were invested almost entirely in Bulgaria, the share of the **investments abroad** was below 2%, which was due to the higher return, realized by the companies/funds on the local market, respectively the lower interest levels of the international financial markets. In 2006 supplementing of the list of foreign markets, respectively exchange indexes is envisaged, in which the Bulgarian CIS are entitled to invest. Thus wider freedom of operation on the side of the portfolio management will be achieved and simultaneously a possibility is allowed for the establishment of funds with regional investment horizon.

At the end of 2005 public offering of units in Bulgaria was realized by 3 foreign CIS, distributing 29 mutual funds and sub-fund. The attracted capital in foreign funds and sub-funds from Bulgarian natural and legal persons amounted to BGN 51 472 thousand. **Appendix 11.2.2D** presents information on the foreign CIS, the capital drawn by them and their investment intermediary (distributor) for Bulgaria.

On 31 December, 2005 business was pursued by 13 **management companies**, one of them - MC Raiffeisen Asset Management still having no concluded contract for management. The assets managed by them amounted at BGN 125 844 thousand. In first place regarding managed assets was MC T B I Asset Management, followed by MC Elana Fund Management and MC Karol Capital Management. The three companies accounted for 74,64% of the managed assets. MC T B I Asset Management was also with greatest number of concluded contracts for management of institutional investors assets – 10, followed by MC Elana Fund Management and MC DSK Asset Management, respectively with 6 and 5 management contracts. The own capital, managed assets and the concluded contracts for management of MCs on 31 Dec., 2005 are shown in **Appendix 11.2.2E**.

On 31.12.2005 business of special purpose vehicle (SPV) was pursued by 13 companies - 12 specialized in the securitization of real estate and one carrying out securitization of receivables. 96,01% of the assets of all SPVs were concentrated in the twelve companies, realizing real estate securitization, and the only company which securitizes receivables covers the remaining 3,99% of the assets. At the end of the year the assets accumulated by SPVs amounted at BGN 134 490 thousand, or 0,32% from the GDP, their value surging over 8 times for the last 12 months. The reason for the recorded high growth was the low base for comparison from the end of 2004, as well as the increase in the number of this type of companies. The own capital, accumulated assets and the market share of the special purpose vehicles at 31 Dec., 2005 are given in **Appendix 11.2.2F**.

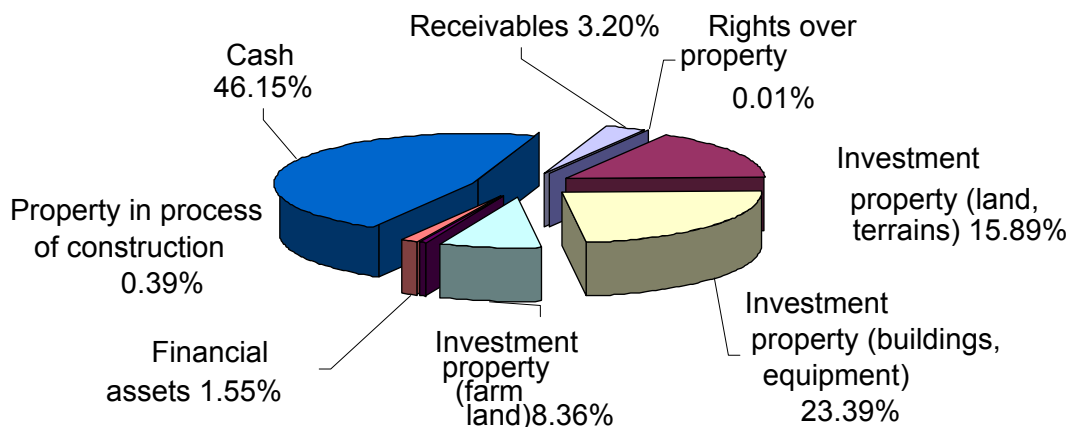
The SPV are obligated within the time-limit laid down in the LPOS, to list their shares on the stock exchange with the purpose of secondary trade. The total market capitalization of the registered at 31 Dec., 2005 companies came at BGN 87 796 thousand. The SPV draw the interest of the investment community, trades with this types of companies were executed on 232 from 252 exchange sessions for the whole of 2005.

The growth in the number of companies carrying out securitization of real estate resulted in **de-concentration** of the market. At the end of the reviewed period none of the companies held a predominant market share. Nevertheless, as most of the companies were licensed comparatively recently, at the end of 2005 the concentration on that market was still high – three of the companies held 52,25% share from the overall assets of the companies, securitizing real estate and respectively 50,17% from the assets of all SPVs.

On 31 December, 2005 cash was with a predominant share in the **structure of the assets** of the companies, performing real estate securitization. Their share from nearly 50% was quite high, bearing in mind the designation of the raised funds. In the analysis of the asset structure, however, the fact must be taken into account that newly established in 2005 were 8

from 12 companies. The asset structure and the profitability of the SPVs on 31 Dec., 2005 are shown in *Appendix 11.2.2G*.

Structure of the assets of SPVs carrying out real estate securitization as of 31 Dec 005



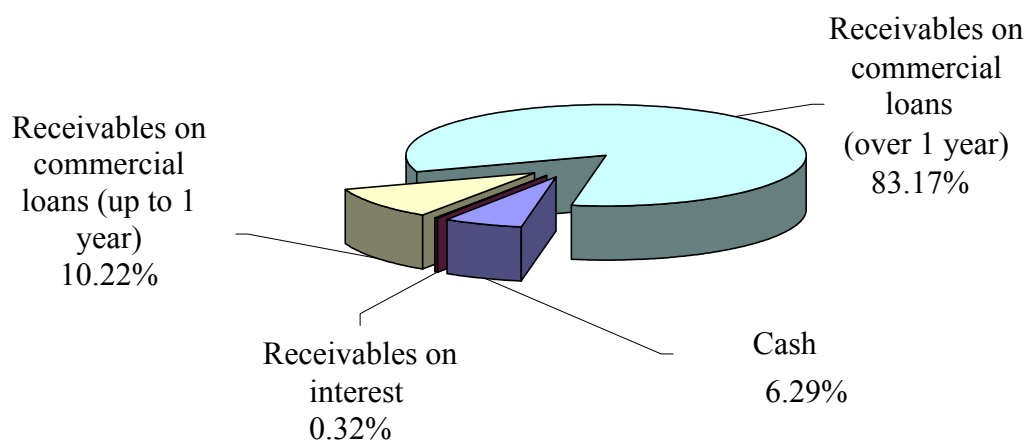
Company E R G Capital-2 was with the biggest amount of the invested funds in investment properties (land, terrains, buildings and equipment), followed by E R G Capital-1 and Prime Property BG. At the end of the considered period, investment property in process of construction owned only two companies – BenchMark Fund Property and Kolos-1. The only company that invested cash in financial assets during the period was Elana Fund for Farm Land.

At the end of 2005 three of the companies – Elana Farm Land Fund, Advance-Terrafund and Real Estate Fund Bulgaria had invested publicly raised moneys in agricultural land. The strategy, pursued by the company included mass purchase, aggregation and long-term administration of farm land. The terrains in which the funds invest are considered underrated, on account of which the expectations of the investment community are connected with rise of the shares prices, a result of increase in a long-term plan of the value of the agricultural lands owned by them.

The companies, that have focused their activities on the securitization of real estate closed year 2005 with an overall profit of BGN 3 001 thousand, only three of them closing with a negative financial result. **The earnings per one share** of the company varied considerably, at 31 Dec., 2005 being with values between BGN 132,76 and BGN 0,17.

At the end of the period under survey, only one company yet carried out securitization of receivables, i.e. Capital Direct -1.

Structure of the assets of SPVs, pursuing securitization of receivables as of 31 Dec 2005



Capital Direct -1 closed the period under survey with a profit of BGN 275 000, and the earnings per share reached BGN 39,54.

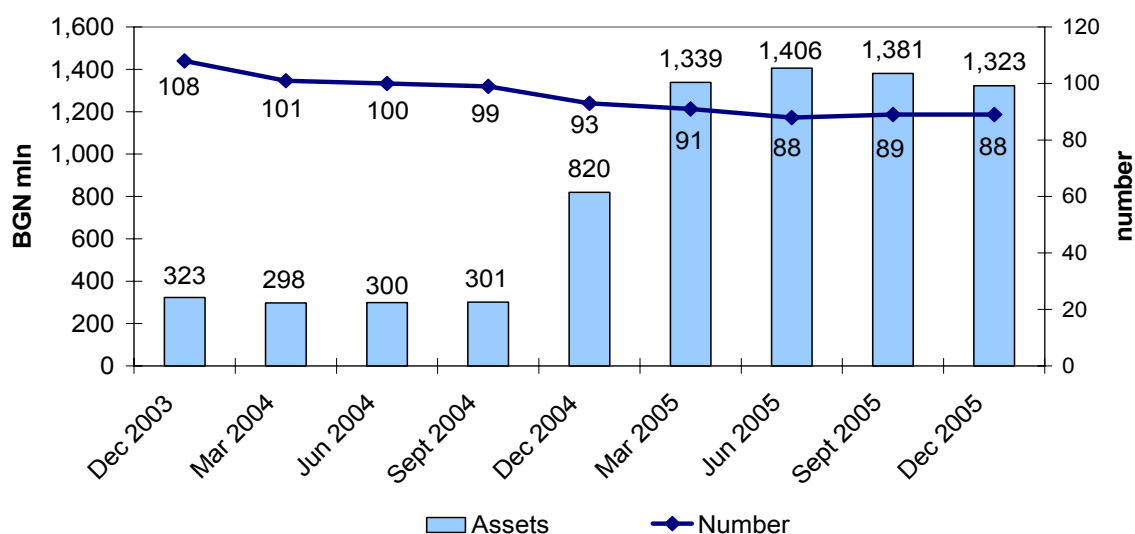
Significant **foreign interest** was observed on the market of services offered by the special purpose vehicles. There was foreign participation in the capital of 8 of the companies, pursuing securitization of real estate, where in 4 from them it was over 50%. The company carrying out securitization of receivables was established wholly with foreign capital. *Appendix 11.2.2H* presents the SPVs, date of the company's incorporation, the envisaged period of existence and major founders and shareholders.

11.2.3. Investment intermediaries

On 31 December, 2005 there were 88 companies filed in the register of the investment intermediaries, kept by the Commission, 29 from them being banks. From 59 companies, that received license by the FSC to carry out activities as investment intermediary, 31 had an issued license to execute transactions abroad.

As a result of the running phase of increase in the minimum required capital by stages, provided for in Ordinance № 6 on the capital adequacy and liquidity of the investment intermediaries, a decline in the number of investment intermediaries was observed and at the same time a growth of their assets. The process of increase of the minimum required capital concluded at the end of 2005 and the last change concerned only the group of investment intermediaries, whose subject of activity also covered transactions for own account and/or underwriting of securities issues. Due to it, the change of the intermediaries' number and assets became increasingly moderate and smooth.

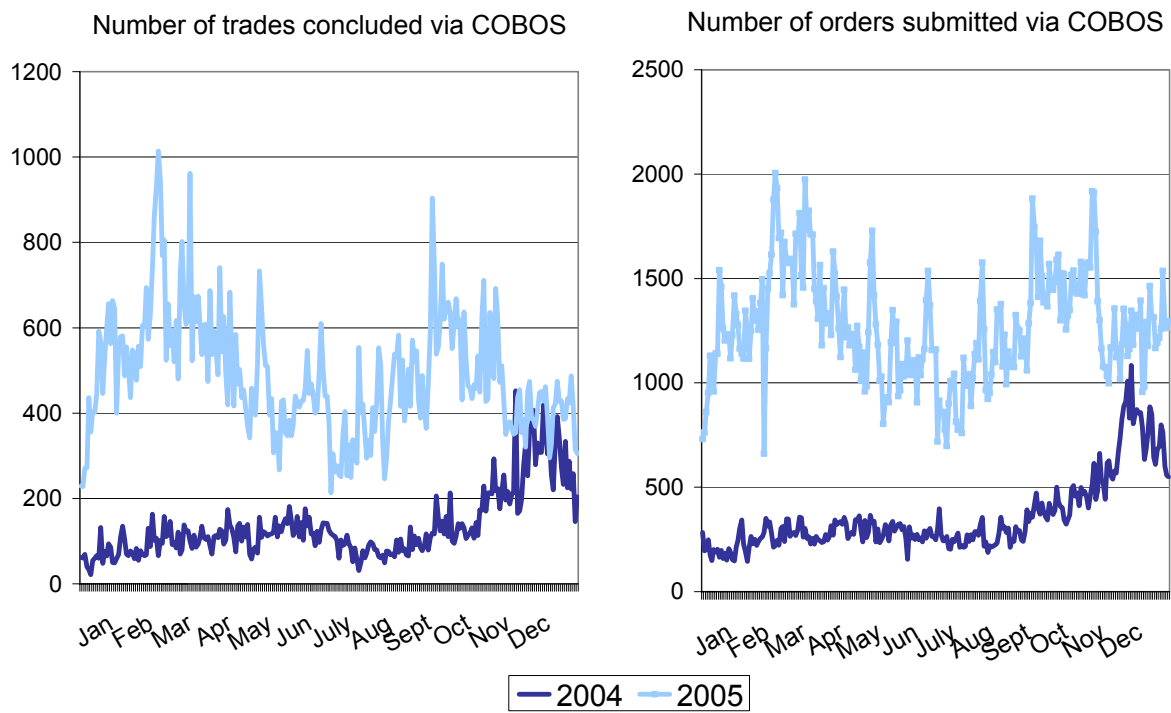
Change in the total amount of assets and the number of the investment intermediaries



The market of providing services by investment intermediaries was still characterized with a high concentration. Ten investment intermediaries realized 50,93% from the total number of trades, concluded on BSE – Sofia in 2005, the first three of them Investment Intermediary (II) FH Karol, II Yug Market and II Elana Trading held an aggregate share of 28,02%. Simultaneously, another three investment intermediaries: Commercial Bank (CB) Economic and Investment Bank, CB United Bulgarian Bank and CB Raiffeisenbank – Bulgaria held 50,53% market share according the realized during the year turnover on the stock exchange. The share only of Economic and Investment Bank, however, was 35,35%, provided that the same investment intermediary had only a 1,49% share in the number of the concluded trades on the stock exchange, whereby it was ranked in eighteenth place according to this indicator. This is explained with the active participation of the intermediary in the process of privatization of the residual state stake in the capital of the BTC.

During the surveyed period an increasingly wide application and enhanced interest was observed to the internet-based application (Client Order Book On-line System). Through it the trade on BSE-Sofia is monitored on-line and orders are given for conclusion of trades, which after a confirmation by an exchange broker are entered in the stock exchange trading system. Both the large institutional investors, and the smaller individual ones prefer to trade through the direct trade system. In 2005 47,18% of the overall number of trades on BSE-Sofia were carried out by COBOS. The increasingly growing number of the system users intensified the competition among the investment intermediaries and resulted in improvement of the conditions and reduction of the fees and commissions in servicing the clients, using the platform.

Dynamics of the given orders and concluded trades through trade system COBOS in 2004 and 2005.



12. Insurance Market and Market for Voluntary Health Insurance Services

12.1. Development of the Insurance Market and the Market for Voluntary Health Insurance Services

12.1.1. Premium Revenues, Penetration and Density

The insurance market has demonstrated its sustainable development for the last few years, following the dynamic pattern of the macroeconomic situation in the country. There has been stable growth of the levels of those indicators which characterize the condition of the insurance market and the market for voluntary health insurance services.

Indicators of the Place of Insurance and the Voluntary Health Insurance in the Bulgarian Economy

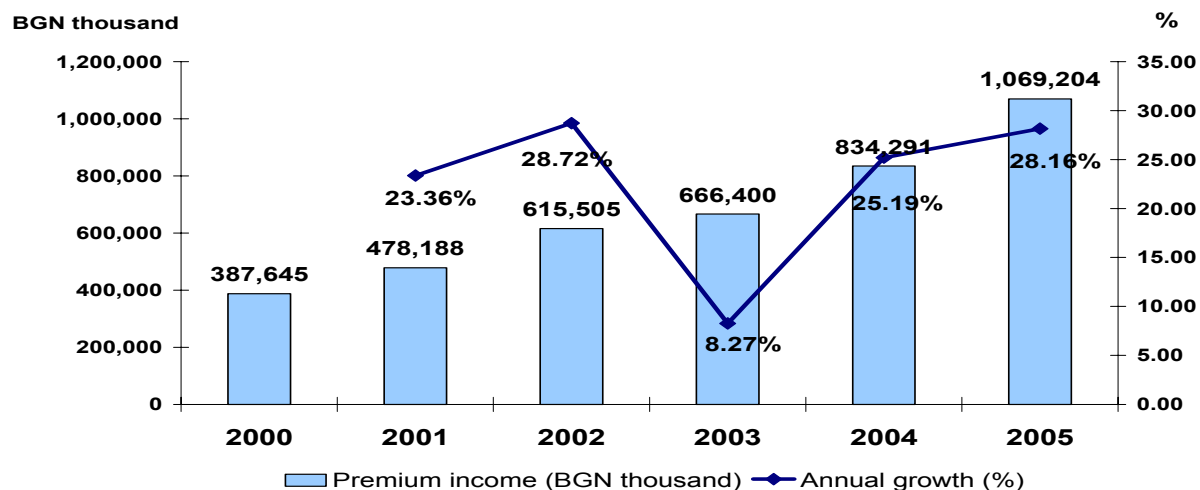
Indicators	2002	2003	2004	2005
Gross domestic products (BGN '000)	32,335,083	34,410,200	38,008,406	41,948,109*
Gross premium revenues from insurance (BGN '000)	618,156	666,346	834,291	1,069,204
Gross premium revenues from VHI (BGN '000)	3,315	6,405	11,612	17,787
Insurance penetration (%)	1.91	1.94	2.22	2.54
VHI penetration (%)	0.01	0.02	0.03	0.04
Population at the end of the year (inhabitants)	7,845,841	7,801,300	7,761,049	7,718,75**
Insurance density (BGN)	78.79	85.41	108.84	138.52
Health insurance density (BGN)	0.42	0.82	1.49	2.30

* NSI – “GDP – 4Q of 2005 and annual data for 2005 (31 March 2006)”

** NSI – “Population and demographic processes in 2005” (30 March 2006)

In 2005, insurers reported **gross premium revenues** of BGN 1,069,204 thousand, which represented a growth rate of 28.16% on a year-to-year basis. Over the period 2001-2005, growth rates of the gross premium revenues maintained levels above 23%, except for 2003 when lower growth rates were reported.

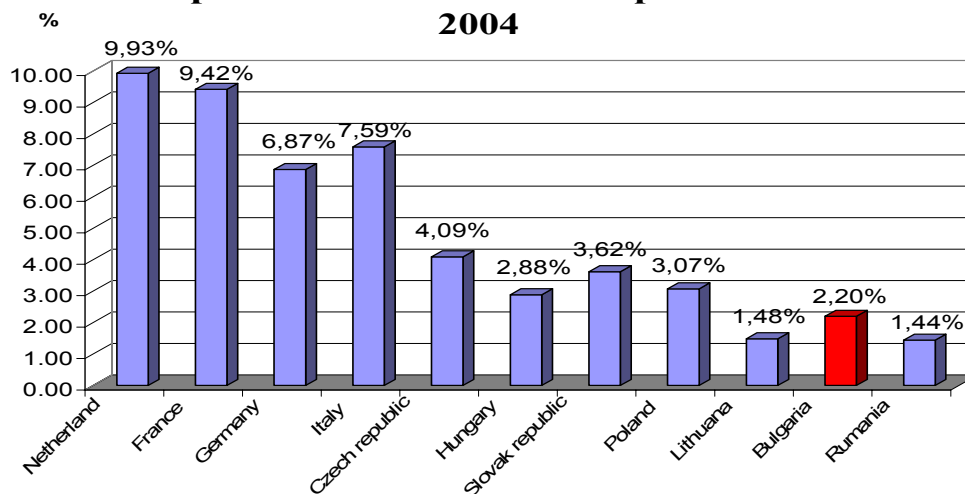
Annual growth in the premium income from insurance



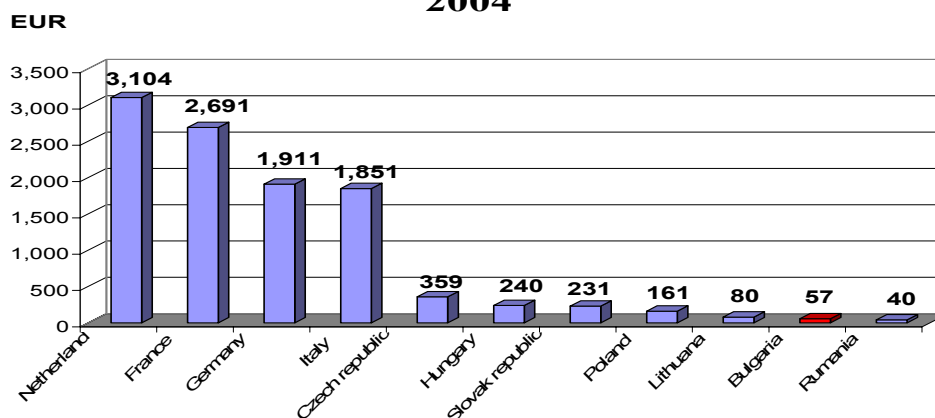
The indicators of insurance penetration and insurance density also scored stable growth rates, reaching 2.54% and BGN 138.72 respectively in 2005.

Notwithstanding the high development rates, the insurance sector in Bulgaria is still below the levels of development typical of most European economies. In terms of the two major indicators, i.e. **insurance penetration** (gross premium revenues to the gross domestic products in %) and **insurance density** (gross premium revenues per capita), which characterize the place of insurance in the national economy and its social significance, Bulgaria still occupies one of the last places in Europe.

Insurance penetration in some European countries for 2004



Insurance depth in some European countries for 2004



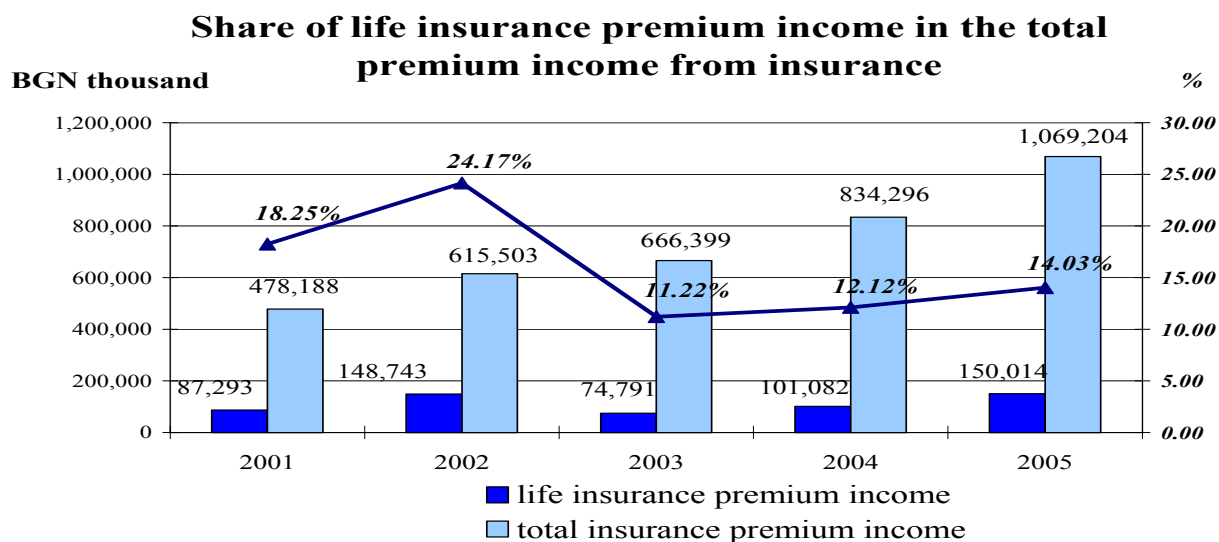
Dynamic market development trends were observed both in the general insurance and in life insurance.

In 2005, **general insurance** generated premium revenues of BGN 919,190 thousand. Thus insurers operating in the general insurance sector concentrated 85.96% of the gross premium revenues from insurance. The insurance penetration indicator was 2.19% compared to 1.75% in the previous year.

After the considerable decline of premium revenues in **life insurance** in 2003 as a result of the changed tax policy, 2004 and especially 2005 saw substantial development rates in the sector. Gross premium revenues, reaching BGN 150,014 thousand in 2005, increased by 48.41% on a year-to-year basis, although they still fell short of the 2002 levels of premium revenues. The main factor for overcoming the drastic decline in the development of life

insurance observed in 2003 was the timely re-orientation of companies to promotion of the supply of longer-term products with saving elements. Life insurance has substantial untapped reserves. In 2005, the insurance penetration in the sector was 0.35%. The insurance density was BGN 19.43 per capita, while in general insurance it was BGN 119.08.

The share of life insurance in the total gross premium revenues from insurance increased from 12.12% in 2004 to 14.03% in 2005. Nevertheless, general insurance continued to dominate over life insurance.

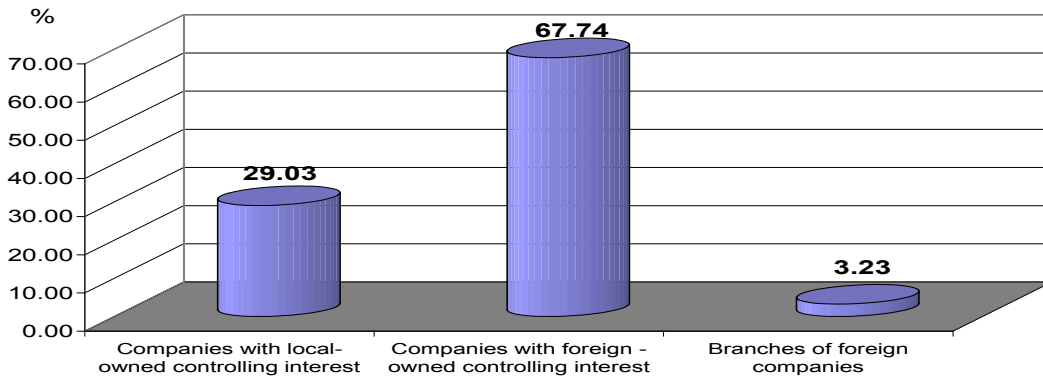


The level of this indicator is low in Bulgaria compared to international and European levels. In 2004, life insurance accounted for 57.1% of the world's general insurance business. The percentage was 58.2% in the European countries. The comparison reveals the substantial underdevelopment of life insurance in this country but, at the same time, it is a sign of its favourable development prospects.

The voluntary health insurance business generated premium revenues of BGN 17,787 thousand and scored a growth rate of 53.18% in 2005 on a year-to-year basis. The market is still in its initial stage of formation. Therefore its growth rates in terms of the main indicators are very high. However, in spite of its dynamic development, the presence of the voluntary health insurance sector remained insignificant in the Bulgarian economy in 2005 as well. The health insurance density was BGN 2.30 per capita and the penetration of voluntary health insurance was 0.04%. The constraints on the development of this market lie in the overlapping which can be observed, to a certain extent, in the services offered by health insurance companies and those offered by the NHIF, the lack of clear distinction between health insurance and health security schemes, and the subscription contracts with health service providers.

Foreign investors show considerable interest in the insurance sector in Bulgaria. The reasons that can be identified in this respect include the stable economic environment, the clear and transparent regulation of insurance activities and their supervision, as well as the existing high growth potential on the Bulgarian insurance market. 19 out of the 29 joint-stock companies operating on the insurance market in this country have foreign investors among their shareholders. The interest in voluntary health insurance is weak; only two health insurance companies have insignificant indirect foreign participation.

Classification of insurance companies by origin of the capital



In 2005, the insurers with foreign shareholding accounted for 68.21% of the premium revenues in the insurance sector (68.15% in the general insurance business and 68.56% in life insurance). *Appendix 12.1.1* gives detailed information on the premium revenues of insurers in 2004 and 2005.

12.1.2. Structure of the Technical Reserves

The structure of the technical reserves did not differ from that in the previous year. The mathematical reserve accounted for the largest share in the total amount in life insurance and the carry-over premium reserve in the general insurance and the voluntary health insurance, followed by the reserve for deferred payments.

Gross Technical Reserves in Insurance and Voluntary Health Insurance in 2005

Type of Technical Reserves	Life Insurance		General		Voluntary	
	Amount	Share	Amount	Share	Amount	Share
Carry-over premium reserve	15,690	7.78	260,518	48.83	3,318	78.24
Reserve for deferred payments	13,318	6.69	268,236	50.27	527	12.43
Mathematical reserve	123,932	62.27		0.00		0.00
Capitalized pension value	16,678	8.38		0.00		0.00
Contingency fund	2,573	1.29	1,286	0.24	396	9.34
Other reserves approved by the FSC	3,610	1.81	3,509	0.66	0	0.00
Insurance reserved under life	23,226	11.67		0.00		0.00
TOTAL	199,027	100.00	553,549	100.00	4,241	0.00

For the last three years, the reserves in the field of the voluntary health insurance have revealed growth of the share of carry-over premium reserved in the total amount of health insurance reserves at the expense of the reserve for deferred payments. The changes in the shares of reserves in life insurance and general insurance are insignificant and they have maintained the same structure of the technical reserves in these two spheres for the last three years.

12.1.3. Technical and Financial Result

Insurance continued to assert its place as a profitable business in 2005. The technical result and the financial result of insurance activities were indicators which demonstrated substantial growth on an annual basis. The voluntary health insurance scored drastic increase of the levels of those indicators, which is a typical feature of relatively young sectors.

Technical and Financial Result of Insurers and Health Insurance Companies

Indicators	Life Insurance			General Insurance			Voluntary Health Insurance		
	2004 (BGN '000)	2005 (BGN '000)	Growth (%)	2004 (BGN '000)	2005 (BGN '000)	Growth (%)	2004 (BGN '000)	2005 (BGN '000)	Growth (%)
Technical result	5,070	8,776	73.09	51,817	63,084	21.74	-688	44	1,563.64
Financial result	11,553	13,017	12.67	58,753	69,540	18.35	53	563	962.26

Due to the considerable growth of premiums in **the general insurance sector**, the positive result of insurance activities (the technical result) increased by 21.74% in comparison to 2004. The growth rate of the after-tax profit was 18.35% over the same period.

Life insurance also improved its financial indicators over the period. There was substantial improvement of the positive result of insurance activities in comparison to the previous period; the technical result reached a growth rate of 73.09% on an annual basis. The profit growth rate for life insurer was more moderate (12.67%).

The voluntary health insurance overcame the losses generated by health insurance activities in the previous years and substantially increased profits as end financial results. It was for the first time in 2005 that a positive technical result of BGN 44 thousand was reported in comparison to the loss of BGN 688 thousand in 2004. Those results should be assessed positively in the light of the fact that some 50% of health insurance companies started their operations in 2004.

12.1.4. Aggregated Balance Sheet

A series of events in 2005 produced impact on the balance sheet indicators of insurers. On the one hand, new companies licensed in the course of the year contributed to the increased value of indicators, while, on the other hand, those insurers whose licenses were withdrawn caused adjustments downwards. The end-of-year re-valuations also contributed to the changed value of assets. The increase of assets in voluntary health insurance was due to the increased number of health insurance companies and the performance of re-valuations.

Main Balance Sheet Indicators of Insurers and Health Insurance Companies

Indicators	Life Insurance			General Insurance			Voluntary Health Insurance		
	2004 (BGN '000)	2005 (BGN '000)	Growth (%)	2004 (BGN '000)	2005 (BGN '000)	Growth (%)	2004 (BGN '000)	2005 (BGN '000)	Growth (%)
Equity	126,523	140,222	10.83	261,080	309,422	18.52%	11,099	12,840	15.69
Technical reserves	99,603	174,598	75.29	239,568	407,439	70.07%	2,695	4,241	57.37
Sum of the assets	272,000	352,685	29.66	674,905	876,458	29.86%	14,191	18,406	29.70

The total amount of *the assets* accumulated in the insurance sector scored a growth rate of 29.81% on an annual basis as of December 2005. Their value at the end of the year reached BGN 1,229,143 thousand, out of which BGN 876,458 thousand or 71.30% were concentrated in general insurance and BGN 352,685 thousand or 28.16% in life insurance. The assets of health insurance companies amounted to BGN 18,406 thousand over the period and their growth rate in comparison to 2004 was 29.70%.

The high growth of *technical reserves* reported in 2005 was a direct outcome of the growing premium revenues. In comparison to the previous period, their amount increased by 75.29% in life insurance, 70.07% in general insurance, and 57.37% in voluntary health insurance respectively.

The capital and reserves (the equity) increased moderately in all three sectors. The most substantial increase was reported in the voluntary health insurance mainly due to the profit earned in that sector.

As a result of the faster growth of insurance reserves, however, the share of the equity in the sum of liabilities decreased in all three sectors. Nevertheless, the equity retained its high relative share in the sum of liabilities (69.76%) in the voluntary health insurance due to the still underdeveloped health insurance business. The share of the equity in the structure of liabilities in the general insurance and life insurance was 35.30% and 39.76% respectively.

12.1.4. Structure of Investments

The structure of investments in general insurance, life insurance and voluntary health insurance is dominated by high liquidity instruments such as government securities and bank deposits, which are the largest part of the balance sheet group Other Financial Investments. The preferences of insurers for these assets are associated with the statutory requirements to the ways of investing technical reserves.

Investments of Insurers and Health Insurance Companies in 2005

Type of Investment	Life Insurance		General		Voluntary	
	Amount	Share	Amount	Share	Amount	Share
I. Land and buildings	26,814	10.89	46,419	9.18	1,236	13.33
II. Investment in subsidiaries, joint	57,819	23.48	45,101	8.92	599	6.46
Stock and shares of subsidiaries, joint	57,034	23.16	24,816	4.91	530	5.72
Debt securities issued by subsidiaries, joint	0	0.00	6,431	1.27	0	0.00
Other interest	785	0.32	12,220	2.42	69	0.74
Debt securities issued by other companies in	0	0.00	1,634	0.32	0	0.00
III. Other financial investments, including:	161,588	65.63	413,943	81.89	7,438	80.21
Stock and other variable yield securities and	2,449	0.99	20,734	4.10	380	4.10
Debt securities and other fixed-yield	110,002	44.68	253,176	50.09	3,121	33.66
<i>Securities issued and guaranteed by the State</i>	<i>90,042</i>	<i>36.57</i>	<i>217,316</i>	<i>42.99</i>	<i>2,460</i>	<i>26.53</i>
Participation in investment pools	0	0.00	0	0.00	0	0.00
Mortgage loans	0	0.00	35	0.01	0	0.00
Other loans	7,312	2.97	0	0.00	526	5.67
Bank deposits	36,874	14.98	131,831	26.08	3,123	33.68
Others	4,951	2.01	8,166	1.62	288	3.11
IV. Deposits in cedents	0	0.00	0	0.00		0.00
TOTAL	246,221	100.00	505,463	100.00	9,273	100.00

12.2. Market Structure and Analysis of Participants

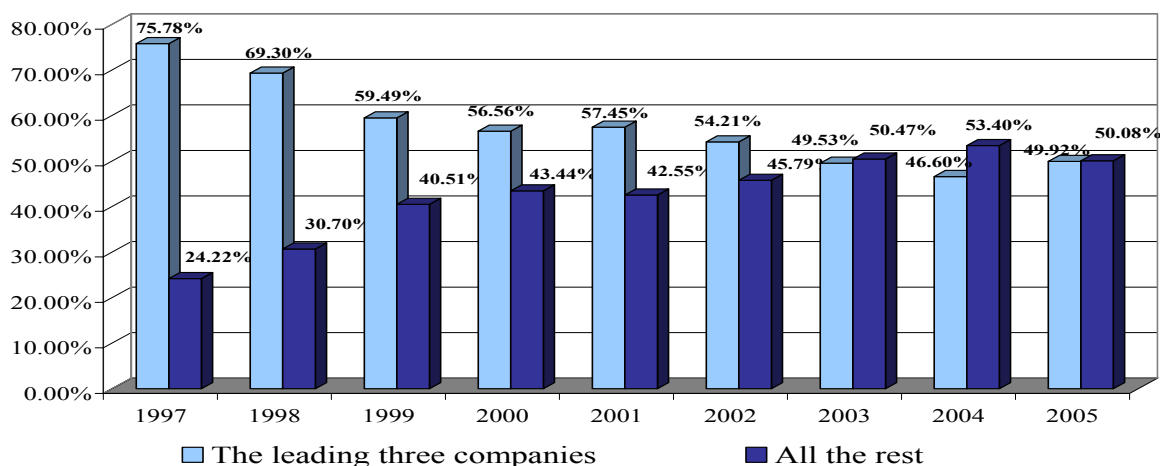
12.2.1. Structure of the General Insurance Market and Analysis of Its Participants

In 2005, substantial changes occurred with respect to the participants on the general insurance market. One insurer was licensed (ZK DSK Guarancia AD) over the period and the insurance licenses of two operating insurers (ZK Hildan AD and MZK Evropa AD) were withdrawn. As a result of those changes, there were 19 general insurance companies on the market at the end of the year.

During the reporting period, the companies engaged in general insurance generated total **premium revenues** of BGN 919,190 thousand or the growth rate was 25.36% on an annual basis. The premium revenues and market shares of each company are presented in *Appendix 12.2.1.*

The restructuring of the general insurance market continued in 2005. The market de-concentration trend which lasted for eight years was discontinued. Last year, the three companies with the largest portion of premium revenues, i.e. DZI General Insurance AD, ZPAD Allianz Bulgaria AD and ZPAD Bulstrad AD, increased their total share on a year-to-year basis, reaching 49.92% compared to 46.60% in 2004. Thus these three companies accounted for almost a half of the premium revenues from general insurance services.

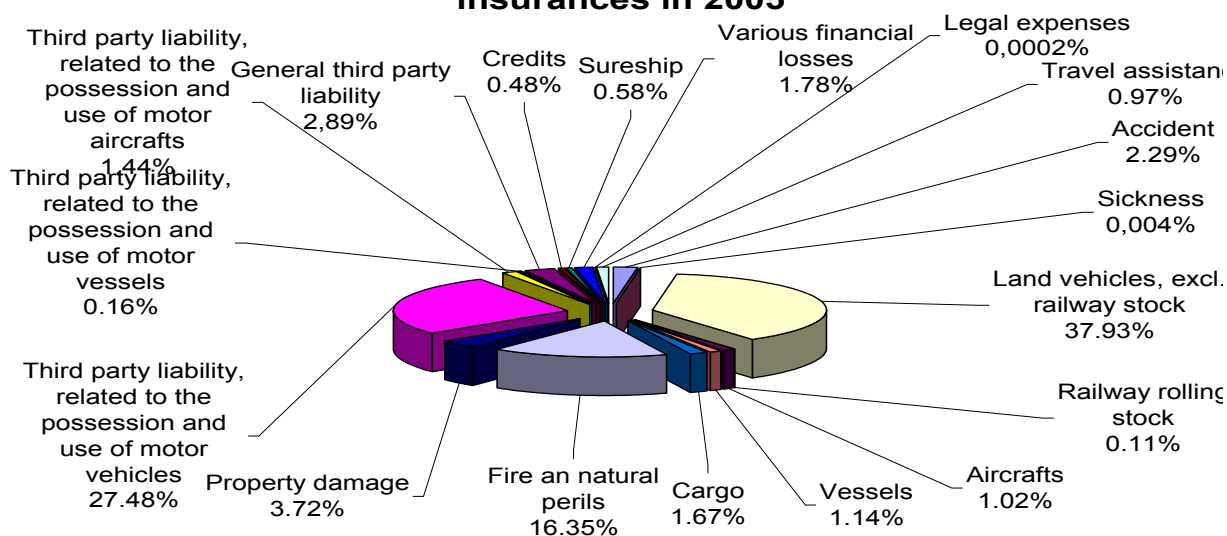
Market concentration in general insurance



Most of the insurers engaging in general insurance reported growth of their premium revenues, and only two companies, i.e. MZK Evropa AD and ZK Orel AD, scored a negative growth rate on a year-to-year basis.

In 2005, the portfolio structure of the companies engaging in general insurance remained more or less the same as it was in the previous year. The motor hull insurance and the third party liability insurance contributed the largest share of the premium revenues of insurers.

Structure of general insurance premium income by types of insurances in 2005



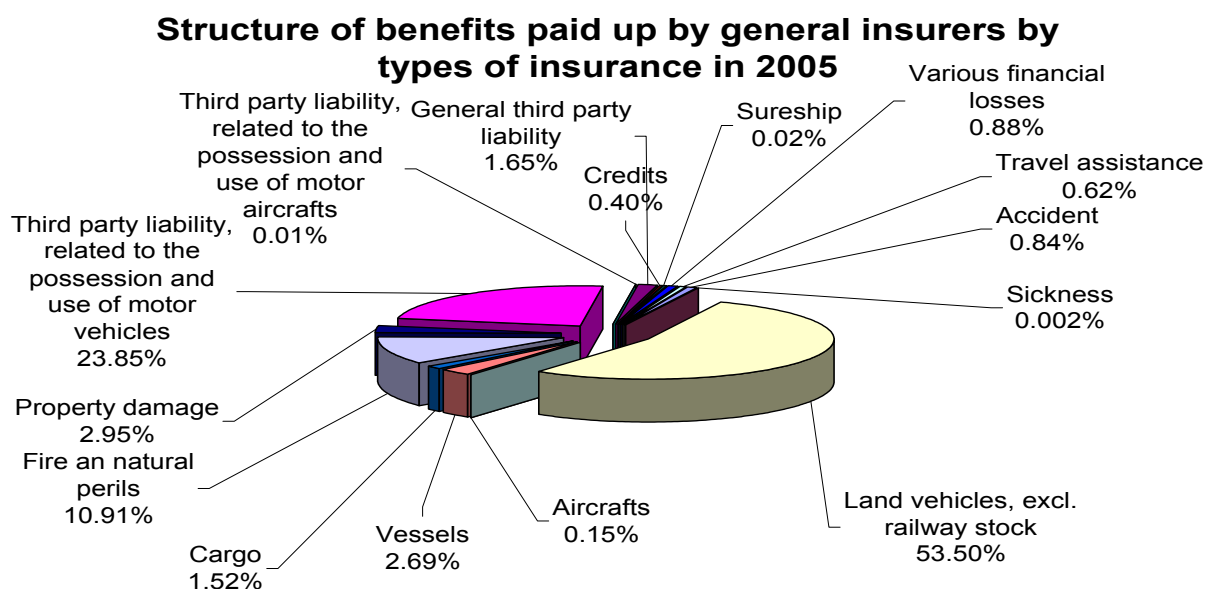
The amendments to Ordinance No. 18 of 10 November 2004 on the Obligatory Insurance under Art. 77, para 1, subparas 1 and 2 of the Insurance Act deregulated the premiums from the third party liability insurance of motorists and laid down the measures to ensure its sufficiency. Those changes influenced the market for that insurance and its price went down as a result of the market liberalization. In spite of the statutory changes and the reduced prices, the share of insured motor vehicles was 70% at the end of 2005. With regard to the third party liability insurance, 2005 saw premium revenues of BGN 251,334 thousand or the growth rate was 38.45% on a year-to-year basis.

In 2005, the benefits paid by insurers engaging in general insurance reached BGN 315,398 thousand. That amount represented a growth rate of 33.03% on an annual basis. The

structure of the claims paid out in 2005 corresponded to that of premium revenues. The same three companies, i.e. DZI General Insurance AD, ZPAD Allianz Bulgaria AD and ZPAD Bulstrad AD, had the largest shares in the benefits paid in the general insurance sector. Their total share grew insignificantly in comparison to the previous period and reached 54.02% of the total volume of claims paid out in the sector compared to 53.61% in 2004.

Detailed information on the benefits paid by each insurer offering general insurance services is given in *Appendix 12.2.1*.

The structure of the benefits paid by types of insurance did not undergo any significant changes in the course of the year. The insurance of land vehicles except for rail transport vehicles again accounted for the largest share (53.51%) followed by the third party liability insurance of motorists (23.85%).



The financial results of general insurers varied widely. Three out of the 19 companies reported end-of-year loss. Most of the profit in the sector (50.50%) was generated by two insurers, i.e. ZAD Energia and ZPAD Allianz Bulgaria AD, holding 30.72% of the own capital of general insurance companies. The total financial result of the general insurance sector amounted to BGN 69,540 thousand, which represented an annual growth rate of 18.36%.

In some companies, **the equity** was lower than the subscribed share capital at the end of 2005 due to uncovered losses from previous years and insufficient capital reserves. As a whole, the capital of all insurers offering general insurance services reached BGN 309,422 thousand, increasing by 18.52% during the reporting period.

In 2005, the total value of **the technical reserves** of insurers engaging in general insurance increased by 70.07%, although the technical reserves of a half of the insurers decreased. The total value of the technical reserves was BGN 407,439 thousand at the end of December 2005.

The technical result of general insurance companies was BGN 63,084 thousand at the end of the reporting period. The annual growth rate of that indicator was 21.74%. 13 out of the 19 insurers closed the year with a positive technical result, while the losses incurred by the other six insurers were insignificant.

Details of the main balance sheet indicators of insurers operating in the general insurance sphere are given in *Appendix 12.2.1*.

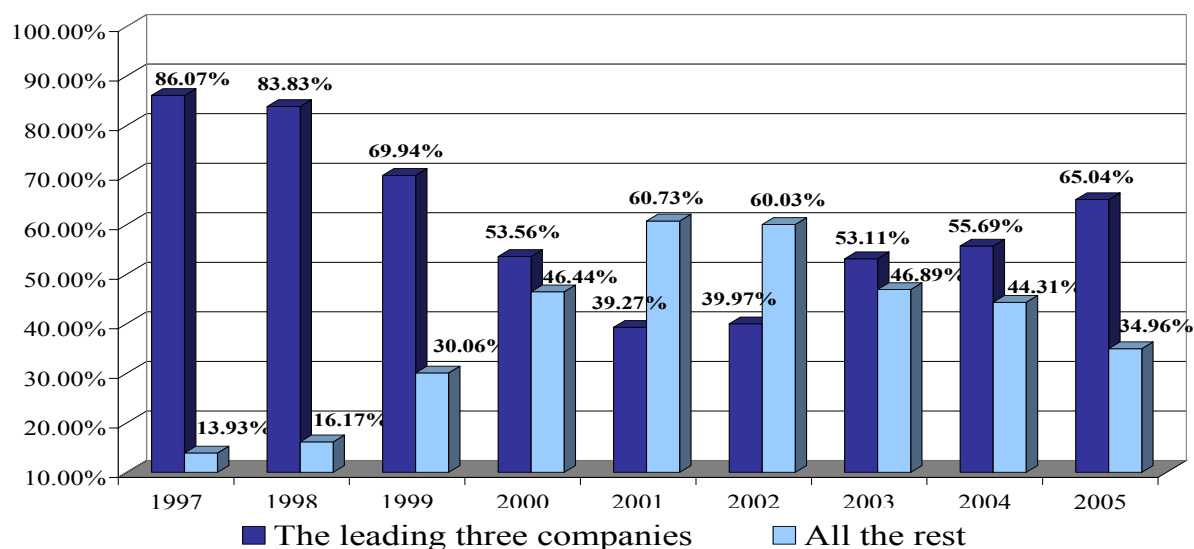
12.2.2. Structure of the Life Insurance Market and Analysis of Its Participants

At the end of 2005, 12 insurers provided services on the life insurance market. During the reporting period their number increased by one after the licensing of Life Insurance Institute AD.

Last year saw gross premium revenues in the field of life insurance equal to BGN 150,014, which accounted for an annual growth rate of 48.41%. Details of the premium revenues of each insurer in 2005 and the distribution of market shares are given in *Appendix 12.2.2*.

Unlike general insurance, life insurance has tended to develop towards **market concentration** over the recent years. The total market share of the three largest life insurance companies (DZI AD, ZAD Allianz Bulgaria Life and ZK Orel AD in the structure of premium revenues was 65.04% in 2005 compared to 55.69% in 2004, 53.11% in 2003, and 39.97% in 2002.

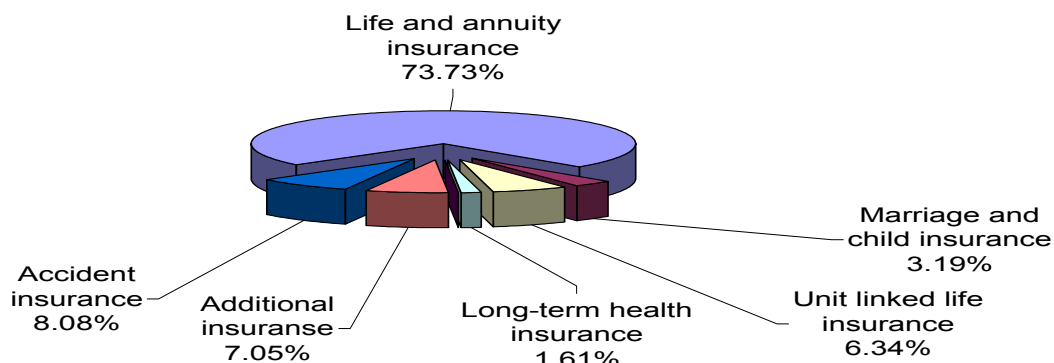
Market concentration in life insurance



JZK DSK Garancia, which started its operations at the end of 2004, took only a year to gain a market share of 4.61%, while its growth rate was 241% on a year-to-year basis. ZK Bulgarski Imoti AD and ZK Vitosha Life AD performed very well. The revenues of the former company increased by over 45%, and those of the latter grew by some 91%. Generally, all life insurers, except for VZK Dobrudja-M-Life reported growth of their premium revenues.

As to the structure of life insurance, the biggest share of premium revenues (73.73%) has the life insurance policy and rent with the two modifications of life insurance and pension or rent insurance by 82.68% and 17.32% respectively. In comparison to 2004, the share of that insurance increased by 5.22 percentage points during the reporting period. The share of the life insurance policy continued to decrease (by 4.32 percentage points), whereas the share of the pension or rent insurance increased by 4.33 percentage points.

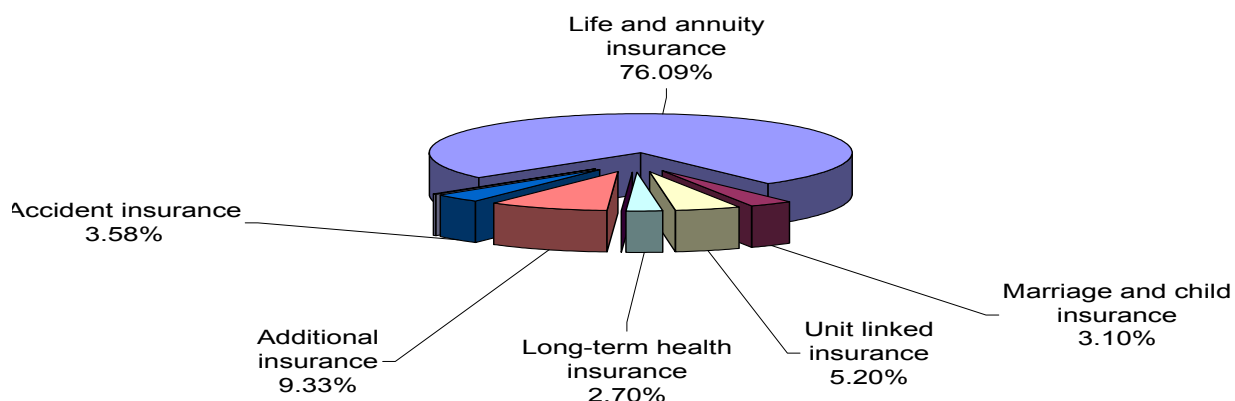
Structure of life insurance premium income by types of insurances in 2005



In 2005, the claims paid out by insurers engaging in life insurance activities amounted to BGN 49,261 thousand and the annual growth rate was only 17.03%. Insurers demonstrated very different growth rates of the benefits paid as shown in detail in *Appendix 12.2.2*.

The structure of the claims paid out in 2005 was similar to that of premium revenues. The largest amounts were paid out again under the life insurance policy and rent (BGN 37,485 thousand), 93% of those being paid under the life insurance policy.

Structure of claims paid out by life insurers by types of insurance in 2005



Insurers engaging in life insurance achieved a total **financial result** of BGN 13,017 thousand in 2005, which was a mere 12.67% more than in the previous year. Nevertheless, only one company (DSK Garancia AD) ended the financial year with a loss which was quite small at that. Three companies generated 94.51% of the profit in the sector. Those were ZAD Allianz Bulgaria Life, DZI AD and AIG Life (Bulgaria) JZD EAD. They also accounted for 76.30% of the own capital in the life insurance sector.

In the sector as a whole, **the equity** amounted to BGN 140,222 thousand and scored an annual growth rate of 10.83%. There was great concentration of equity in that one single company (DZI AD) held 59.89% of the equity of all life insurers.

The technical reserves of insurers providing life insurance services amounted to BGN 174,598 thousand and they were concentrated primarily in two companies, i.e. ZAD Allianz Bulgaria Life and DZI AD.

The technical result of life insurance activities reached BGN 8,776 thousand and only two companies (ZAD Bulstrad Life AD and DSK Garancia) closed the year with a negative technical result. The annual growth rate for the whole sector was 65.21%. Detailed information on the main balance sheet indicators of insurers operating in life insurance is given in *Appendix 12.2.2*.

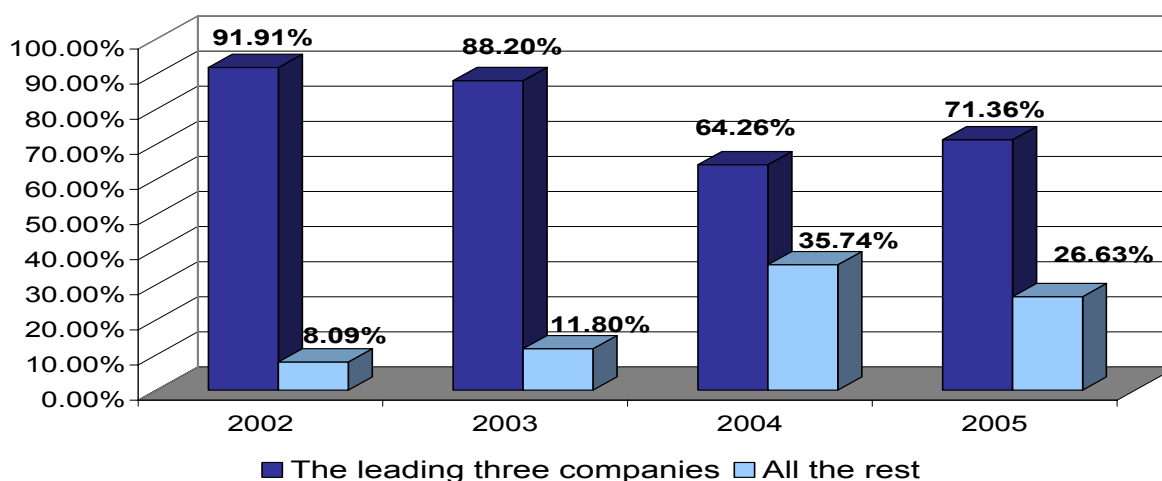
12.2.3. Structure of the Market for Voluntary Health Insurance and Analysis of Its Participants

In 2005, Health Insurance Institute AD was licensed and thus the participants on the market for voluntary health insurance increased to twelve.

The premium revenues generated over the reporting period were BGN 17,787 thousand, which showed an annual growth rate of 52.84%. Those growth levels could be achieved in spite of the fact that only a half of the companies had positive growth of their premium revenues on year-to-year basis. Detailed information on the revenues and shares of health insurance companies is given in Appendix 12.2.3.

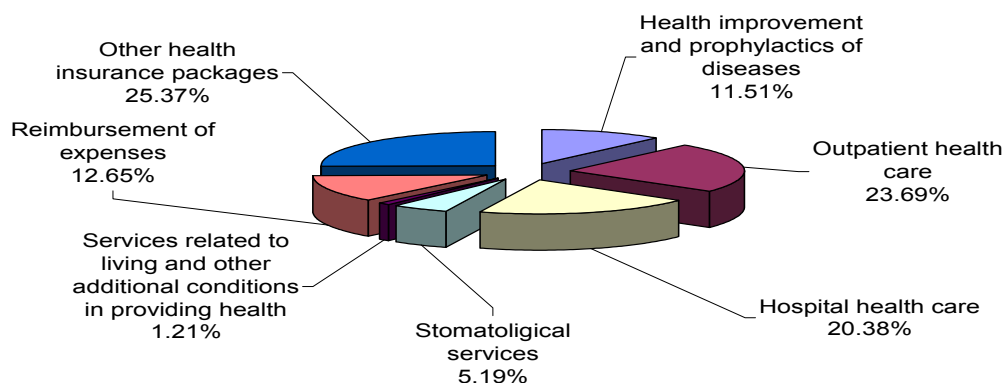
Over the previous three years the market for voluntary health insurance underwent a process of de-concentration which was interrupted in 2005. The first three companies (BZOK Zakrila, ZOF Medico 21 AD and DOM-Zdrave AD) generated 71.36% of the premium revenues in the sector, which was 7.10 percentage points more than the levels in the previous period. At the same time, the share of the former company (BZOK Zakrila AD) decreased by 3.92% to reach 60.21% in 2005. The 2004 market de-concentration occurred due to the registration of a number of new participants, some of which gained serious market positions in 2005 (ZOF Medico 21 AD and DOM-Zdrave AD), overtaking well established participants like OZOF Doverie AD.

Market concentration in voluntary health insurance



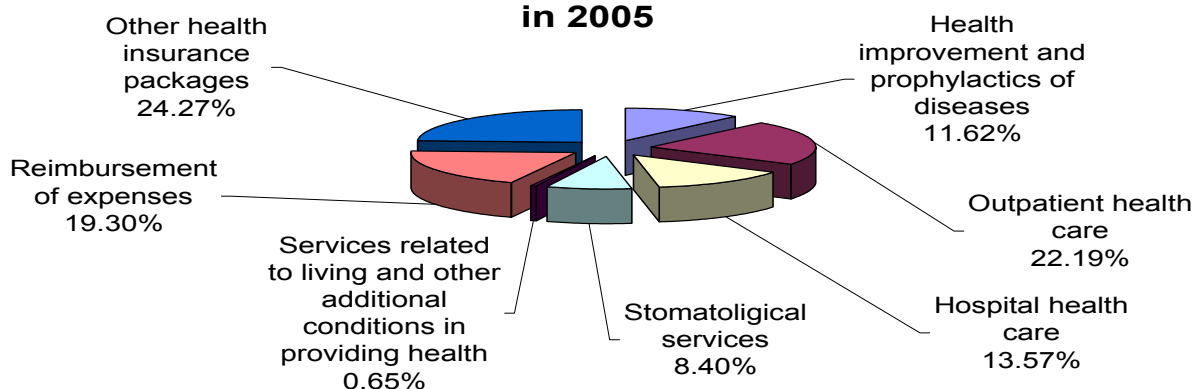
The portfolio structure of health insurance companies was quite symmetrical, without substantial dominance of any health insurance package. The packages for outpatient health care and hospital care continued to have the biggest shares of 23.69% and 20.38% respectively.

Structure of voluntary health insurance premium income by types of health insurance packages in 2005



The benefits paid by health insurance companies during the reporting period amounted to BGN 9,555 thousand, which constituted an annual growth of 69.09%. The structure of the claims paid out was similar to that of the premium revenues generated. Most of the benefits (93.26%) were paid by the first three companies, where BZOK Zakrila accounted for 76.37% of the payments made. Its level remained unchanged in comparison to the previous period.

Structure of benefits paid by health insurance companies by types of health insurance packages in 2005



The Outpatient Health Care package had the largest share in the amount of benefits paid under the voluntary health insurance schemes (24%) followed by the Reimbursement package (21%).

The financial result of health insurance companies in 2005 amounted to BGN 563 thousand. Out of 12 companies, four reported losses, while the profit in the sector was generated mainly by three companies – BZOK Zakrila AD, ZOF Medico 21 AD and Voluntary Health Insurance Network Zdrave AD.

The equity of health insurance companies reached BGN 12,840 thousand concentrated primarily in four companies, i.e. BZOK Zakrila AD, OZOF Doverie AD, ZOAD DZI AD and Voluntary Health Insurance Network Zdrave AD. Those companies held 62.16% of the total equity in the sector.

In 2005, health insurance companies achieved a total technical result of BGN 44 thousand only but one should keep in mind that the value was negative (BGN -688 thousand) in the previous year. During the reporting period eight companies again closed the year with a negative technical result. The technical reserves of health insurance companies amounted to BGN 4,241 thousand, reaching an annual growth rate of 57.36%.

12.2.4. Re-insurance

Passive Re-insurance

In 2005, the passive re-insurance of the risks covered by general insurance as reported on the Bulgarian insurance market was carried out through proportionate and non-proportionate contracts. The major re-insurance partners of Bulgarian companies were international re-insurers with high credit rating.

The general insurance premiums ceded under those arrangements during the reporting period amounted to BGN 235,948 thousand or 25.67% of the gross premium revenues in the sector. The self-retention rate of insurers engaging in general insurance was 0.74.

Self-retention Rate of General Insurance Companies in 2005

Insurers	Gross Premium Revenues (BGN '000)	Premiums Ceded (BGN '000)	Self-retention Rate
DZI – General Insurance AD	186,265	18,127	0.90
ZPAD Bulstrad AD	139,848	32,466	0.77
ZPAD Allianz Bulgaria AD	132,737	81,600	0.39
ZD Bul Ins AD	114,326	986	0.99
Insurance and Re-insurance Company Vitosha AD	54,758	27,889	0.49
Insurance Joint-stock Company Armeec AD	44,745	4,276	0.90
ZAD ZK Levski Spartak AD	55,109	14,099	0.74
ZAD Energia	47,018	5,164	0.89
Insurance Company Evro Ins AD	40,327	14,077	0.65
ZK Orel AD	30,356	9,216	0.70
ZAD Victoria	14,504	7,971	0.45
Insurance Company Bulgarski Imoti AD	17,467	1,118	0.94
AIG Bulgaria Insurance and Re-insurance Company EAD	12,471	10,111	0.19
HDI ZAD	8,234	439	0.95
Interamerican Bulgaria ZAD	6,069	4,865	0.20
QBE International Insurance Limited – Branch Sofia	5,659	760	0.87
Municipal Insurance Company AD	4,598	1,862	0.60
Bulgarian Export Insurance Agency AD	2,824	706	0.75
MZK Evropa AD	1,195	33	0.97
ZK DSK Garancia AD	680	249	0.63
TOTAL	919,190	235,948	0.74

In terms of types of insurance with the biggest share (ranging from 50% to 100% of the gross premium revenues for the respective revenue type) in the structure of premiums ceded to re-insurers, the top insurance types are the Third Party Liability Related to the Ownership and Use of Aircraft, the Insurance of Aircraft, the Third Party Liability Related to the Ownership and Use of Navigation Vessels, the Insurance of Guarantees and the Insurance of Navigation Vessels.

During the reporting year in comparison to the previous one, there was substantial reduction of the share of premiums ceded under the Insurance of Land Vehicles Except for Rail

Transport Vehicles. In 2005, it was 16.50% compared to 33% in 2004. The premiums ceded to re-insurers under the Green Card insurance accounted for 22.18% of the premium revenues from that type of insurance and those under the Third Party Liability of Motorists were 21.84%.

The benefits recovered as a result of re-insurance contracts amounted to BGN 84,918 thousand or 26.92% of the general insurance benefits paid out in 2005.

In 2005, the passive re-insurance of risks related to life insurance reported on the Bulgarian insurance market was carried out mainly on the basis of proportionate contracts. Non-proportionate contracts applied to the re-insurance coverage of risks of disasters. Life insurance companies ceded to re-insurers premiums worth BGN 3,969 thousand or 2.65% of the gross premium revenues in the sector. Unlike general insurance, life insurance had a relatively small share of re-insurance and the self-retention rate was 0.97.

Self-retention rate of insurers for 2005 г.

Insurers	Gross Premium Revenues (BGN '000)	Premiums Ceded (BGN '000)	Self-retention Rate
1. DZI AD	45,468	240	0.99
2. ZAD Allianz Bulgaria Life AD	36,867	431	0.99
3. AIG Life Bulgaria JZD EAD	15,235	1,735	0.89
4. ZK Orel Life AD	14,523	272	0.98
5. ZAD Bulstrad Life AD	9,546	582	0.94
6. ZK Vitosha Life AD	9,184	301	0.97
7. Grave Bulgaria AD	7,731	378	0.95
8. DSK Garancia AD	6,913	0	1.00
9. JZK Bulgarski Imoti AD	2,859	30	0.99
10. VZK Dobrudja-M-Life	987	0	1.00
11. VZK Medic Centre	701	0	1.00
12. Life Insurance Institute AD	-	-	-
TOTAL	150,014	3,969	0.97

Active Re-insurance

In 2005, the number of insurance undertakings which engaged in active re-insurance activities was five in total: four in the general insurance business and one in life insurance. The total amount of premiums received from cedents was BGN 15,862 thousand, out of which BGN 3,598 thousand from life insurance cedents. The commission fees paid to cedents in general insurance amounted to BGN 3,166 thousand. The benefits paid to cedents under general insurance arrangements amounted to BGN 4,384 thousand, out of which BGN 14 thousand related to risks accepted outside Bulgaria.

Most of the active re-insurance activities on the Bulgarian market during the fourth quarter of 2005 were focused on the risks related to the Fire and Natural Calamities insurance. The premiums received from cedents under that insurance accounted for 66.94% of the total amount of active re-insurance premiums, followed by the Navigation Vessels Insurance (5.74%), the Third Party Liability Related to the Ownership and Use of Motor Vehicles (4.92%) and the Property Damage insurance (3.28%).

As to the benefits paid to cedents, the biggest share was that of the Fire and Natural Calamities insurance (31.42% of the total amount of benefits paid under active re-insurance contracts). Next came the Navigation Vessels insurance (17.86%) and the General Third Party Liability insurance (15.75%).

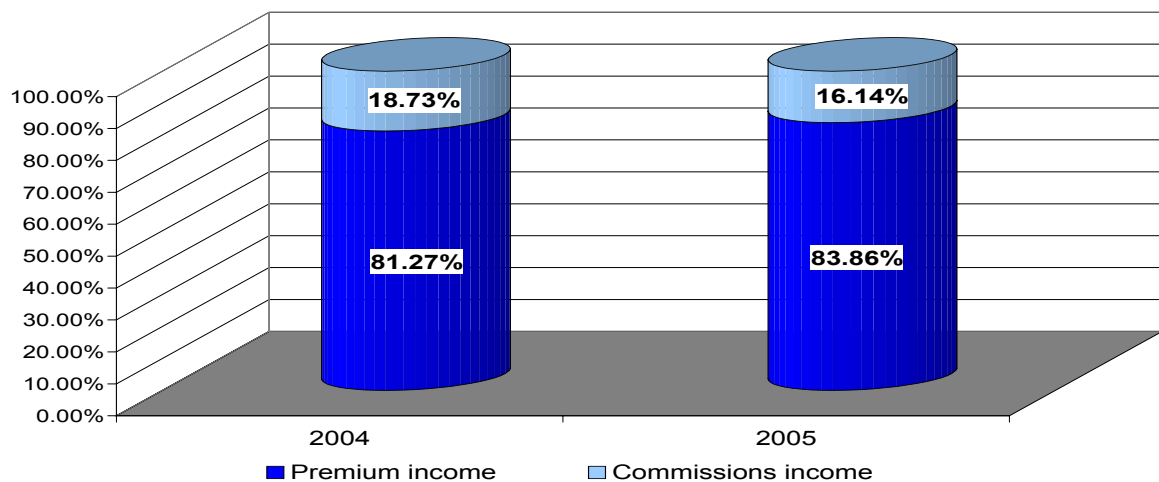
In the field of life insurance, active re-insurance activities were limited to the acceptance of risks related to the Accident insurance.

12.2.5. Insurance Brokers

At the end of 2005, 182 persons operated on the insurance market as licensed brokers. In the course of the year, they generated premium revenues of BGN 189,973 thousand and their commission income reached BGN 36,567 thousand. Thus during the reporting period, the total premium revenues of brokers achieved a 50% annual growth rate and the commission income increased by 25.28%.

The ratio of the two types of insurance brokers' revenues remained more or less unchanged, where the strongly dominant share of premium revenues increased insignificantly.

Structure of insurance brokers' revenue



The structure of the premium revenues of insurance brokers by types of insurance was preserved in comparison to the previous year. The greatest share in the premium revenues received through the intermediation of insurance brokers in general insurance was reported under the Motor Hull and Third Party Liability insurance of motor vehicles (67.69%). In the case of insurance brokerage in life insurance, premium revenues were generated mainly from the Life insurance and rent (96.29%).

In 2005, the biggest market share among insurance brokers was reported by Eurolife Bulgaria OOD with 13.17%, unlike 2004 when the leader was Marsh EOOD.

12.2.6. Financial Condition of the Guarantee Fund

In 2005, the Guarantee Fund operated in accordance with the Insurance Act, Ordinance No. 18 of 10 November 2004 on the Obligatory Insurance and the new Rules for the Structure and Operation of the Guarantee Fund. The Fund reports to the Commission by submitting quarterly statements. The 2005 statements lead to conclusions on the existence of the following trends in the financial condition of the Fund:

The revenues from insurers' contributions worth BGN 2,787 thousand increased on a year-to-year basis by 46%, whereas the expenditures related to the payment of benefits in the amount of BGN 1,124 thousand increased insignificantly (0.2%). As a result of that situation and of the substantial change in the gross amount of the reserve for deferred payments, the net result of the operation of the Fund increased over 36 times, reaching BGN 1,891 thousand at the end of 2005.

Revenues from and Expenditures for the Activities of the GF under the 2005 Income Statement

	Content	Amount (BGN '000)		Growth Rate (%)
		2004	2005	
1.	Revenues from insurers	1,902	2,787	46
2.	Revenues from recourse claims	143	159	11
3.	Other revenues	211	401	90
4.	Benefit expenditures	(1,122)	(1,124)	0,2
5.	Liquidation costs (including litigation)	(119)	(119)	
6.	Staff expenditures	(363)	(492)	36
7.	Administrative expenditures	(150)	(226)	51
8.	Change in the gross amount of the reserve for deferred payments	(754)	125	603
9.	Result of the operation of the Fund	(252)	1,511	600
10.	Financial revenues/expenditures	303	380	25
11.	Contingency revenues/expenditures			
12.	Financial result of the Fund	51	1,891	3,608

Over the reporting period, the resources of the Fund from contributions by insurers engaging in obligatory insurance, from fines and penalties, the revenues from investments and others amounted to BGN 5,338 thousand. After the deduction of the reserve for deferred payments, their amount was BGN 3,371 thousand, which was well within the statutory requirements under Art. 87, para 2 of the Insurance Act, in accordance with which the resources of the Fund net of the reserve for deferred payments may not be lower than BGN 3,000 thousand.

In 2005, the resources of the Fund in the amount of BGN 5,338 thousand were invested in government securities and bonds (BGN 4,666 thousand), bank deposits (BGN 588 thousand) and cash (BGN 84 thousand). Investments decreased by 3% in comparison to the previous period. Nevertheless, the revenues from investments (BGN 293 thousand) increased by 22.6% in 2005 in comparison to 2004.

13. Supplementary Pension Insurance

13.1. Development of the Market of Supplementary Pension Insurance in 2005

The system of the supplementary pension insurance has established itself as the most steadily growing sub-sector of the non-banking financial intermediation. The longtime rate of increase of the concentrated in the pension funds assets resulted in extension of their share in the GDP up to 2,70% with 2,07% at the end of 2004. On 31 December, 2005 the accumulated assets in the pension funds reached BGN 1,112 billion, and the reported growth in comparison with the end of 2004 was 41,24%. At the same time, the prospects for the sector's development were retained on a satisfactory level, in view of the liberalization of the pension funds' investment regime, the increasing contribution for the universal funds, as well as the decreased social insurance burden, in combination with the increasingly aggressive strategy towards popularization of the voluntary funds' attractiveness.

A number of social and economic indicators exerted a favorable influence on the supplementary pension insurance. During the surveyed period the unemployment moved at lower levels than those recorded in 2004, the average annual rate of unemployment for 2005 was established at 10.1 %, registering a record low level. For comparison, during the preceding year this percent was 12.00% (data of the NIS). In 2005 an increase was also noticed of the gross income on the average per person, by information of the NIS the money income per capita in 2005 was BGN 2 031 with BGN 1 833 for year 2004. What is noticed is that the salary's share in the pecuniary proceeds surged from 50.4 % in 2004 to 51.8 % in 2005.

At the end of 2005 activities of supplementary pension insurance were carried out by eight licensed pension insurance companies. Anyone of them managed three pension funds each: two supplementary obligatory pension insurance funds and one voluntary pension insurance fund. *Appendix 13.1A* presents the pension insurance companies' (PICs) own funds, balance assets, the balance assets and the number of insured persons in the supplementary pension insurance funds.

The characteristic of the market of supplementary pension insurance services high **concentration** was observed in 2005 as well. It was noted that two pension insurance companies – PIC Allianz Bulgaria and PIC Doverie held over 50% of the net assets (67,44%) and attracted over 50% from the insured persons (63,33%) in the sphere of the supplementary pension insurance. Comparing their joint market share with that at the end of the preceding year, a slight decline was recorded of 1,25 percentage points on net assets basis 1,37 percentage points according the number of the insured persons.

A significant foreign participation was retained on the market of supplementary pension insurance. *Appendix 13.1B* presents the main shareholders in the capital of the pension insurance companies, a large part from which were directly or indirectly owned by foreign investors.

The process of switching of participation and transfer of moneys in the supplementary pension insurance funds during the surveyed period was characterized with weaker intensity than in 2004. The activity during the preceding year was due to the fact that Ordinance № 3 on the manner and procedure for switching of participation and for the transfer of moneys from one supplementary pension insurance fund into another fund of the same type, managed by another pension company became effective just at the beginning of the period – on 1 January, 2004.

A determining factor for the achievement of a more even proportion in the market shares was also the adopted in the month of June, 2004 Instruction on the manner and procedure of official distribution of the persons, who have not chosen a supplementary pension insurance fund. By it, the initially adopted way for official distribution proportionately to the received by the National Social Insurance Institute applications for participation was replaced with an approach, based on three criteria – achieved annual rate of return by the pension fund, amount of the charged by the pension insurance companies fees and number of received individual applications for participation in a universal or occupational pension fund for the quarter, preceding the official distribution. It is expected the new criteria to lead to intensification of the competition between the pension insurance companies and to providing of better conditions for the persons insured in them.

For the period January – December, 2005 the filed applications for switching of participation and transfer of amounts from the individual accounts in the supplementary pension insurance funds were 95 502 in total. 83 275 applications were filed by persons insured in a universal pension fund, and 9296 applications for switching of participation by persons insured in an occupational pension fund. The pension insurance companies pronounced with a denial for 21,76% from the total number of the filed applications for switching of fund. 2 931 applications were filed for transfer of amounts from the voluntary pension funds, the received refusals being 854, which represented 29,14 % from the filed applications.

Number of persons, who switched their participation in supplementary pension insurance funds and rate of the transferred amount

	UPF		OPF		SPF		Total	
	31 Dec., 2004	31 Dec., 2005	31 Dec., 2004	31 Dec., 2005	31 Dec., 2004	31 Dec., 2005	31 Dec., 2004	31 Dec., 2005
Average number of insured persons	1 809 326	2 122 144	170 559	179 326	525 782	542 634	2 505 667	2 844 104
Total number of persons who switched their participation	75 190	59 987	14 217	6 810	7 668	2 128	97 075	68 925
Percent of the persons who switched their participation (%)	4,16	2,83	8,34	3,80	1,46	0,39	3,87	2,42
Average amount of the net assets for the period (BGN thousand.)	187 592	350 985	172 325	227 072	289 063	371 712	648 980	949 769
Total amount of the transferred amounts for the period (BGN thousand.)	10 366	10 925	21 987	12 100	7 085	2 643	39 438	25 668
Percent of the transferred amounts (%)	5,53	3,11	12,76	5,33	2,45	0,71	6,08	2,70

The number of the insured persons, who switched participation or transferred amounts during the period decreased by 28 150 persons or by 29,00%, in comparison with the same period of year 2004. In accordance with the smaller number of insured persons who changed their participation, a reduction was also noticed in the recorded transfers between the funds. In comparison with the preceding year a decline of BGN 13 769 thousand was observed in the **total amount of the transferred amounts**, or a decrease by 34,91%. Biggest decrease in the percent of the persons, that switched their participation, as well as in the percent of the transferred amounts was observed with the occupational pension funds. Nevertheless, these funds still had most significant percentages in both of the above stated indicators from all supplementary pension insurance funds.

In June 2005, on special order by the FSC, a sociological survey was conducted on the subject-theme of Knowledge and Feelings About the Private Pension Funds with a representative sample from 1000 persons, born after 1959 and insuring themselves in a supplementary pension insurance fund. It proved out that the predominant part of the persons, object of the survey were not acquainted with the conditions for switching of their pension fund. Those, inclined to switching the fund in which they insure themselves were below 5% from the persons in the surveyed group, and less than 6% filed an application to that effect. According the study, 55% from the insured approved the amendments and supplements to Ordinance №3 of FSC, in effect as of 1 July, 2005, introducing a requirement for a notarial attestation of the applications for change of participation in a obligatory pension fund or transfer of amounts on individual accounts in the voluntary funds, initiated in connection with abuses of the insured rights.

13.2. Analysis of the Participants on the Market of Providing Supplementary Pension Insurance Services

13.2.1. Pension Insurance Companies

On 31 December, 2005 the average rate of the pension insurance companies' capital adequacy was 94,91%, with statutorily set rate of not less than 50 per cent of the minimal capital, varying by companies between 56,78% and 105,86% with the exception of one PIC, whose capital adequacy was 218,12%. In comparison with the previous year a growth was observed of the average rate of the indicator, from 86,07 % on 31 December, 2004 at 94,91 % on 31 Dec., 2005.

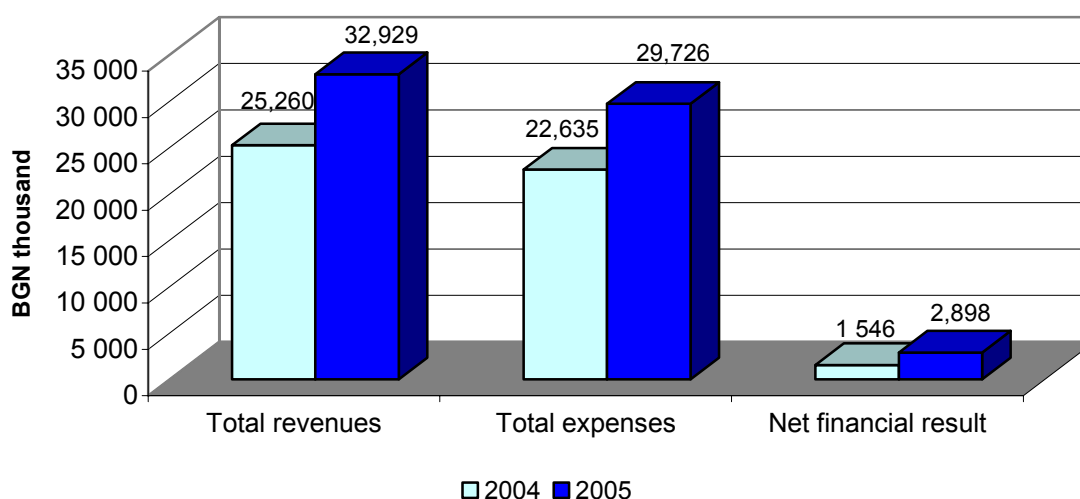
In 2005 an increase of the amount of the registered capital stock was observed with one pension insurance company by BGN 1 000 thousand. At the same time, the **extent of coverage of the registered capital** for most of the companies was within the limits between 28,78% - 99,05%, with the exception with one PIC, whose own funds covered 219,82% from the registered. The average amount for the indicator in 2005 was 86,13% compared with 79,14% for 2004, i.e. and increase in the extent of coverage of the registered capital was recorded.

The values of the financial and economic indicators for assessment of the results from the operation of PIC on 31 December, 2005 in comparison with those on 31 December. 2004 are presented in *Appendix 13.2.1*.

For year 2005 six pension insurance companies were with a positive value of the indicators **assets growth** of PIC, and two – negative. The average size of the indicator was 9,51% in comparison with 30,39% for 2004. The indicator's value declined as a result of slower rates of increase in the PIC assets in 2005 in comparison with 2004. For the separate companies the indicator asset growth was within the limits -3,92% and 35,40%.

The extent of coverage of the assets of the managed supplementary pension funds for most of the companies was within the limits between 1,95% - 6,48%, except for two PIC, whose assets covered respectively 56,01% and 23,10% from the managed funds assets. The average value of the indicator on 31 December, 2005 was 13,34% in comparison with 29,30% on 31 December, 2004. The decrease of the extent of coverage in the managed supplementary pension insurance companies was due to the higher rate of increase of the funds assets in comparison with the PICs assets.

Financial indicators of the pension insurance companies for 2004 and 2005



In 2005 the **total revenues** of the pension companies rose by 30,36% in comparison with the recorded during the preceding year. *The incomes from fees and deductions* retained their predominant share (78,02%) in the total incomes of the pension insurance companies. Their amount marked a growth of 25,82% on annual basis, reaching BGN 25 690 thousand. To this contributed both the higher revenues from insurance contributions as a result of the increased number of insured persons, and the increased incomings from the investment fee, as a result of the high rate of return, realized in the management of the pension funds assets.

The rates of the indicator **revenues from fees and deductions per one insured person** were increased in absolute value with all companies. The average amount for 2005 came at BGN 8,11 compared with BGN 6,74 for the preceding year. The revenues of all companies from fees and deductions in 2005 increased at a quicker pace than the increase of the number of participants in the managed supplementary pension funds, because of which the indicator also rose. The indicator's value for the individual companies was within the limits of BGN 4,89 and BGN 11,05.

The revenues from fees and deductions per BGN 100 funds assets on 31 Dec., 2005 were between BGN 2,11 and BGN 2,98. The average value of the indicator amounted at BGN 2,44 in comparison with BGN 2,68 in 2004. The value of the indicator for all companies, except for one PIC declined due to increase of the assets at a rate, which outstripped the rate of increase in the revenues from fees and deductions.

More significant was the increase in the other components of the general revenues of the PIC, i.e. *the revenues from the management of own funds*. Their value on 31 Dec., 2005 amounted to BGN 7 239 thousand, thus marking a 49,50% growth for the last 12 months. The share of

incomes from the own funds management in the total incomes of the PIC surged from 19,17% for 2004 to 21,98% for 2005.

The **total expenses** of the pension insurance companies increased at a rate approximate to the growth of incomes – 31,33% on annual basis. Still the revenues from fees and deductions could not cover the expenses made by the pension insurance companies for pursuing the business of supplementary pension insurance. That was evidenced by the average value of the indicator revenues from fees and deductions per BGN 100 operational expenses, which at the end of December 2005 amounted to BGN 86,42. An increase, however, was noticed in the indicator value, compared with that for year 2004 – BGN 81,70.

The **operating expenses of PIC per 1 participant** in the managed pension funds on 31 Dec., 2005 were between BGN 6,68 and BGN 15,12. The average value of the indicator amounted at BGN 9,98 compared with BGN 10,39 in 2004. With regard to the individual companies, the value of the indicator decreased for three PIC, and for the other companies increased.

The **operating expenses per BGN 100 assets** of the funds on 31 Dec., 2005 were between BGN 1,29 and BGN 6,50. The average value of the indicator amounted to BGN 3,25 compared with BGN 5,51 in 2004. The indicator's value for all companies, with the exception of one PIC dropped because of the increase of the assets at a rate, outstripping the rate of increase in the expenses.

The **total net financial result** of the eight licensed companies, carrying out the activity of supplementary pension insurance for the period January – December, 2005 surged by 87,45% in comparison with the preceding year, reaching an amount of BGN 2 898 thousand. Five of the pension insurance companies closed the period with a positive net financial result, in comparison with 2004, where four of the companies closed at a profit. The factors, that contributed to the financial result improvement were the increased revenues from fees and deductions, from management of the companies' own funds, as well as the good administration of the costs, related to the pension funds' management.

The average value of the indicator **operational efficiency** of PIC was 107,37%, certain growth being observed compared with the preceding year, which was due to the higher rate of the incomes growth in comparison with the expenses. The indicator's value for the separate companies was within the limits between 65,91% and 159,40%.

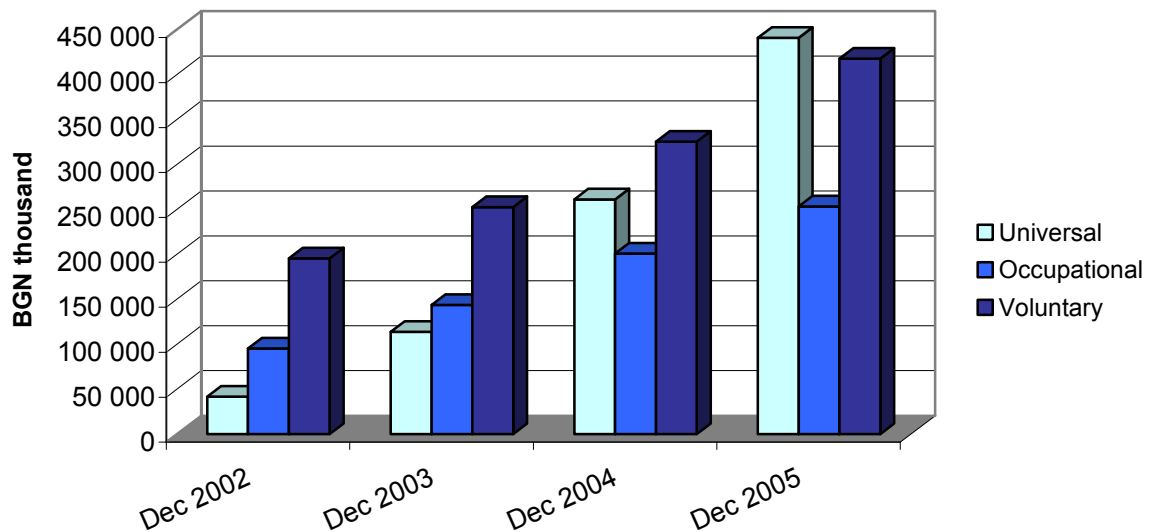
For the three companies, which reported losses in 2005, the **profitableness of the capital** retained the negative values from the preceding year. The highest capital profitableness was 31%, and lowest profitableness was –35,58%. The average value of the indicator of own funds' profitableness in 2005 was 1,52% compared with 1,90% for 2004, i.e. a decrease in the profitableness was observed.

Due to the negative current financial result of the operation in 2005, the same three PIC also had a negative **asset profitableness**. The average value of the indicator on 31 December, 2005 was 1,48% compared to 0,72% for 2004, an increase in the profitableness was noticed. The lowest profitableness was (–31,07%), and the highest was 26,99%. The asset profitableness of four PIC edged up, and of the other companies – dropped.

13.2.2. Supplementary Pension Insurance Funds

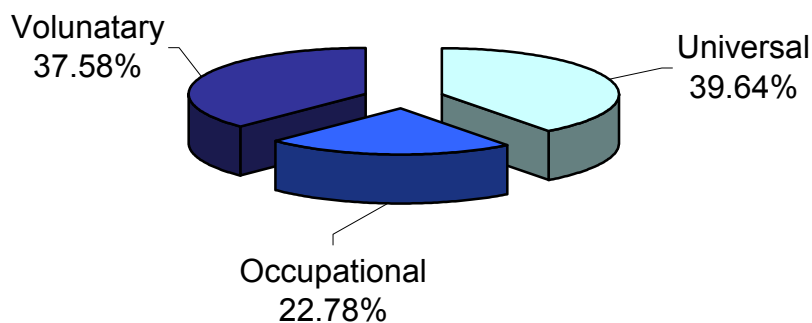
During the surveyed year, the amount of the supplementary pension insurance funds' net assets increased as a result of the incomings from insurance contributions and the realized positive profitability from investment of the accumulated funds. On 31 December, 2005 the net asset value, concentrated in the pension funds reached BGN 1 112 122 thousand, the growth on yearly basis being 41,24%% compared with 54,00% for 2004.

Dynamics of the net asset distribution by supplementary pension insurance funds



Most dynamic was the change in the universal funds assets, their growth being considerably higher than those of the occupational and voluntary funds. At the end of 2005 the **net assets**, accumulated in the universal pension funds amounted at BGN 440 844 thousand, their amount increasing by 68,82% for the last 12 months. As a major reason for the high growth rate could be indicated the increase in number of the insured persons in this type of funds, the achieved high profitability from the asset management, as well as the rise of the revenues from pension insurance contributions, related to the large number of insured persons in those funds and the increase of the obligatory contribution up to 4% in 2005. In comparison with the preceding year, however, a reduction was noticed in the value of indicator asset growth respectively from 128,00% on 31 Dec., 2004 to 68,82% on 31 Dec., 2005.

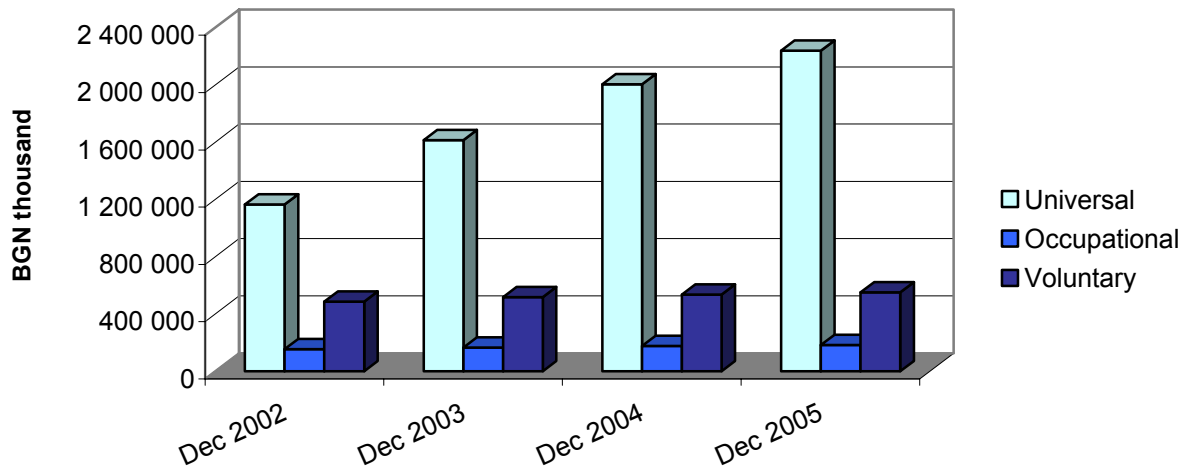
Distribution of net assets among supplementary pension insurance funds as of 31 Dec 2005



In 2005, the net value of the assets accumulated in the universal funds exceeded that of the assets in voluntary pension funds. Due to the longer period of operation of voluntary funds, they concentrated the largest portion of the total assets of the additional pension security funds. At the end of the reporting period, the value of their net assets reached BGN 417,968 thousand, scoring an annual growth rate of 28.42% compared to 29% in 2004. In the case of voluntary pension funds, there was a slight increase from 28.19% as of 31 December 2004 to 28.87% as of 31 December 2005. The net value of the assets accumulated in professional pension funds reached BGN 253,311 thousand, growing by 26.13% over the last twelve months.

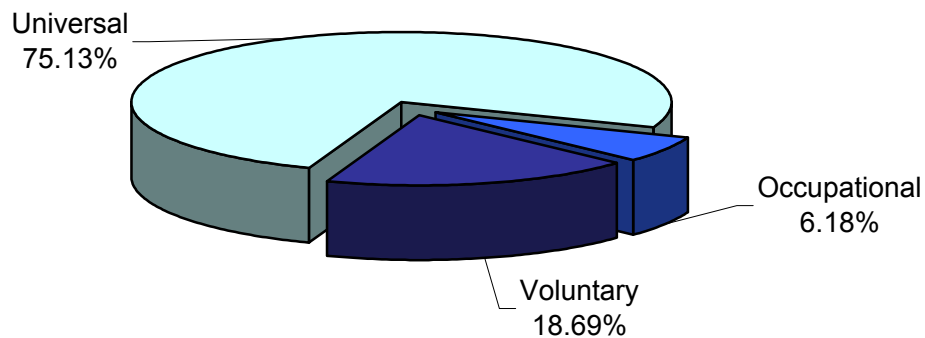
The number of persons insured in additional pension funds at the end of 2005 scored a growth rate of 9.40% compared to the end of 2004, reaching 2,971,839 persons. In all three types of funds, the growth rate of the number of insured persons during the reporting year decreased in comparison to 2004: universal funds - from 24.22% as of 31 December 2004 to 11.71% as of 31 December 2005; professional funds - from 6.72% as of 31 December 2004 to 3.58% as of 31 December 2005; and voluntary funds - from 3.67% as of 31 December 2004 to 2.70% as of 31 December 2005.

Dynamics in the distribution of insured persons in supplementary pension insurance funds



Most of them were concentrated in the universal pension funds, where the number of insured persons was 2,239,512. 182,476 persons were insured with professional pension funds and 549,851 persons with voluntary funds as of 31 December 2005.

Distribution of insured persons among supplementary pension insurance funds as of 31 Dec 2005



In 2005, all three types of additional pension funds reported growth of the resources accumulated, which was much faster than the growth of the number of insured persons. That was the reason for the continued growth of the indicator revealing **the average amount of the resources accumulated per insured person**. The most substantial growth of that indicator was reported by universal funds. As of the end of the period, it reached BGN 196.85 or a growth rate of 51.13% on a year-to-year basis. Due to the bigger amount of the contribution to professional pension funds (12% of the gross remuneration for Category I and 7% for Category II), the average amount of the resources accumulated per insured person in those funds was considerably greater. As of 31 December 2005, it reached BGN 1,388.19 with a growth rate of 21.78% over the last 12 months. The average amount of the resources accumulated per insured person in voluntary pension funds was BGN 760.14 as of the end of the reporting period. That represented a growth rate of 25.05% during the period under review.

During the period under review, there was considerable increase also of **the revenues from contributions**. In 2005, they reached a total amount of BGN 308,215 thousand. In the previous year, the amount was less by 22.56%. Universal pension funds accounted for the greatest part of that growth. The total amount of revenues from contributions to those funds scored an annual growth rate of 23.98%, reaching BGN 165,844 thousand. The revenues to professional pension funds over the same period amounted to BGN 46,943 thousand. However, they were reduced by 1.36% in comparison to the contributions reported in 2004.

The total amount of contributions to voluntary pension funds was BGN 95,427 thousand. There was an annual growth rate of 36.09%. The most essential revenues to those funds were reported in December 2005, which was largely due to the fact that bonuses and additional allowances were paid out to the insured persons at the end of the year. The structure of those revenues changed in the course of the period under review: at the end of 2004, most of the contributions were paid by employers, while, as of 31 December 2005, personal contributions accounted already for 56.67% of the total amount of revenues. During the period under review, contributions from employers accounted for 41.46% of the revenues, whereas those paid by other payers accounted for 1.87%.

All additional pension funds reported an annual **yield** over the last 24-month period, which was higher than the base interest rate and the inflation rate over the same period. Thus pension savings of the insured persons increased in real terms. During that period, additional obligatory pension funds reported a yield exceeding the minimum required yield level of 5.63% for universal funds and 5.80% for professional pension funds. None of the obligatory pension funds exceeded the upper limit of 13.13% for universal funds and 13.54% for professional pension funds and therefore no fund allocated reserves to guarantee the minimum required yield.

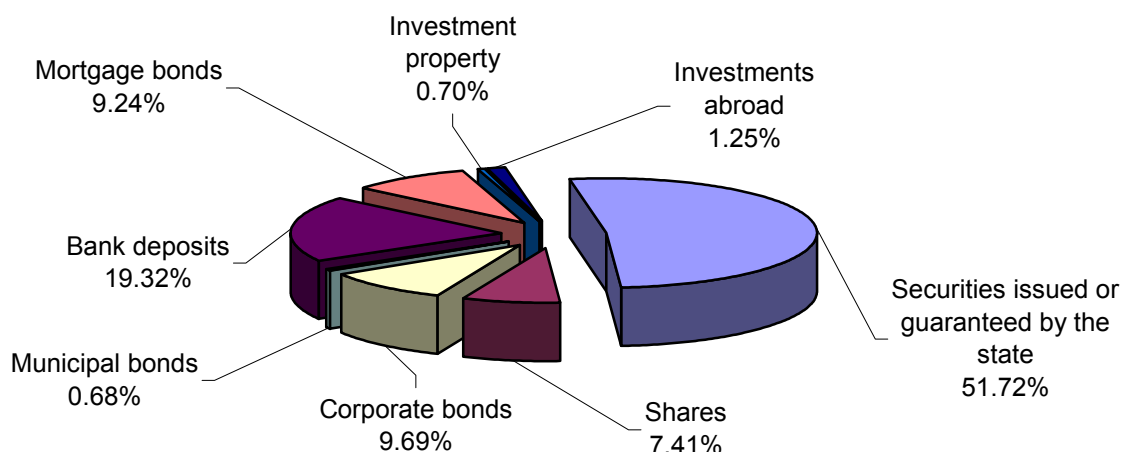
The average weighed yield achieved by universal pension funds on an annual basis over the period from 1 January 2003 to 31 December 2005 was 9.38%, ranging from 8.27% to 10.92% among the eight universal funds. Two universal funds, i.e. Doverie and Lukoil Garant Bulgaria universal pension funds, achieved yield levels which were higher than the average weighed one (10.37% and 10.92% respectively). The average weighted yield of professional funds over the last 24-month period was 9.67% on an annual basis. Doverie and Lukoil Garant Bulgaria professional pension funds achieved yield levels higher than the average weighed yield (11.41% and 10.77% respectively), whereby the yield scored by Doverie professional pension fund was the highest one achieved by an additional pension fund over that period. The lowest yield reported by a professional pension fund was 8.38%. The yield of voluntary pension funds ranged from 8.23% to 11.08%, with an average weighed yield of 9.64% for those funds on an annual basis. Three voluntary funds exceeded the average weighed yield. Those were Doverie voluntary pension fund (11.08%), DZI voluntary pension fund (10.25%) and Allianz Bulgaria voluntary pension fund (10.04%).

The total amount of **investments** made by additional pension funds as of 31 December 2005 was BGN 1,082,462 thousand. It increased by 37.71% over the last 12 months due to the substantial increase of the assets accumulated by pension funds. The resources invested by additional pension funds accounted for 96.87% of the total value of the assets carried on their balance sheets.

In 2005, unlike the previous years, universal pension funds accounted for the biggest share in the total investments made by additional pension funds (40.10%). The resources invested by voluntary funds represented 36.79% of the total value of the investments of all three types of funds and those invested by professional funds were 23.11%. The structure of the investments made by additional pension funds as of 31 December 2005 is outlined in *Appendix 13.2.2*.

The resources of pension funds were invested almost entirely within the country and the share of *investments abroad* was a little more than 1%. The reason was the higher yield which pension funds could generate on the domestic market and the lower interest rate levels on the international financial markets respectively.

Structure of investment portfolio of supplementary pension insurance funds as of 31 Dec 2005



As of the end of 2005, *the securities issued or guaranteed by the government* continued to predominate in the structure of the aggregate investment portfolio of additional pension funds. Their share decreased by 4.02 percentage points in comparison to their share a year earlier. The greatest share in the portfolio structure of professional funds (56.00%) continued to belong to government securities. It shrank by 1.35 percentage points in comparison to the end of the previous year. In the case of universal pension funds, investments in government securities dropped to 54.86% from 57.11% at the end of 2004. The share of government securities was the smallest in the investment portfolio of voluntary funds (45.62%). They reported also the greatest reduction of the resources invested in that financial instrument over the last 12 months (7.98 percentage points). In spite of the decline observed to a certain extent, the share of government securities in the portfolio of voluntary pension funds is still well above the statutory minimum of 30% laid down in the Social Security Code.

As from the effective date of the Treaty on the Accession of the Republic of Bulgaria to the European Union, the statutory minimum required levels for investment in securities issued or guaranteed by the government are expected to be removed. In the context of the availability of sufficiently attractive alternative financial instruments, most of the investment portfolios of pension funds could be oriented to investments on the stock exchange.

Bank deposits continued to be the second largest component in the structure of the general investment portfolio of additional pension funds with only an insignificant change of their share in comparison to the end of 2004. Their share increased only in the structure of the portfolio of voluntary funds with a growth rate of 2.94 percentage points over the last 12 months. The stable banking system and the high interest rate levels in the country compared to those in the EU were the underlying prerequisites for the preference to that type of investment instruments.

The interest in *mortgage bonds* was retained in 2005, too. That instrument was most widely used in the investment portfolio of voluntary pension funds (11.34%). The factors for their relatively big share in the portfolio of pension funds were the higher yield they offer in comparison to that of government securities and bank deposits and the comparatively low risk levels at the same time. The development of mortgage lending also produced a positive impact in that connection.

There was growing interest on part of additional pension funds in *stock and corporate bonds* during the period under review. At the end of 2005, their share in the aggregate portfolio of pension funds reached 17.09% compared to 10.49% at the end of 2004. In absolute terms, the amount of resources invested in stock and corporate bonds was BGN 185,016 thousand. As prescribed by the law, those investments must be made only on the regulated market for securities. For this reason, the greater share of the resources invested in these financial instruments will inevitably contribute to the development of capital markets and to the promotion of stock exchange trading in Bulgaria in particular.

Notwithstanding the growth of the resources invested in *municipal bonds and investment properties* in absolute terms, their share remained largely unchanged in the course of the period under review.

As of the end of the period under review, no additional pension fund had invested assets in *derivative instruments* (put options of indexes and bonds) traded on the regulated markets of securities with a view to reducing investment risks. The reasons for that situation were the lack of such an investment alternative on the local regulated market of securities and the weak interest on part of the additional pension funds in investing in derivatives of securities traded on foreign regulated markets of securities.

The Amending Act to the Social Security Code⁵⁴ envisages liberalization of the statutory requirements to the investment regime applicable to pension funds. It provides for removal of the statutory minimum required thresholds for investment of securities issued or guaranteed by the government, and it also creates opportunities for the assets of pension funds to be invested in financial instruments which are rather new to the Bulgarian market, such as shares of joint-stock special investment purpose vehicles, stock and/or shares of collective investment schemes and others. Some of the upper limits for investments in specific types of instruments are raised or removed and, at the same time, some additional constraints are envisaged with a view to upgrading the quality and enhancing the security of investments. The liberalization of the investment regime for the additional pension funds is expected to bring about more balanced and flexible management of the resources they accumulate.

The expansion of the constraints on the existing investment options and the creation of new opportunities will enable pension undertakings to form portfolios of different investment risk levels to be chosen by the insured persons, depending on their preferences for the yield and on the time until they retire. Generally, the idea to have funds with different yield and risk levels is approved by self-insured persons as is seen in the sociological survey of the knowledge of and attitudes to private pension funds. Some 56% of the respondents would prefer a fund with lower-risk management of resources, while 33% would opt for higher risk in their management and higher expected yield respectively (11% of the respondents do not have an opinion on this issue).

Appendices⁵⁴

Appendix 1.1.1. Directives transposed in Bulgarian legislation in the area of investment-related activity as of end 2005

Directive 93/22/EEC on investment services in the securities field.

Directive 93/6/EEC on capital adequacy of investment firms and credit institutions.

Directive 97/9/EC on investor-compensation schemes.

Directive 98/31/EC amending Council Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions..

Directive 98/33/EC amending Article 12 of Council Directive 77/780/EEC on the taking up and pursuit of the business of credit institutions, Articles 2, 5, 6, 7, 8 of and Annexes II and III to Council Directive 89/647/EEC on a solvency ratio for credit institutions and Article 2 of and Annex II to Council Directive 93/6/EEC on the capital adequacy of investment firms and credit Institutions.

Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

Directive 2001/107/EC amending Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) with a view to regulating management companies and simplified prospectuses.

Directive 2001/108/EC amending Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), with regard to investments of UCITS.

Directive 2003/6/EC on insider dealing and market manipulation (market abuse).

Directive 2003/124/EC implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the definition and public disclosure of inside information and the definition of market manipulation

Directive 2003/125/EC implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest.

Directive 2004/72/EC implementing Directive 2003/6/EC of the European Parliament and of the Council as regards accepted market practices, the definition of inside information in relation to derivatives on commodities, the drawing up of lists of insiders, the notification of managers' transactions and the notification of suspicious transactions.

Directive 2003/71/EC on the prospectus to be published, submitted to the European Securities Committee, and regarding the amendments to Directive 2001/34/EC.

Directive 2002/47/EC financial collateral arrangements.

Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC, 93/22/EEC, 98/78/EC and 2000/12/EC.

⁵⁴ The numeration of the appendixes indicates the chapter from the text of the Annual Report on the Activity of FSC to which it is related

Appendix 1.1.2.

European directives transposed in the Insurance code

The insurance code transposes completely the European directives in the area of insurance – total of 23 directive, including 17 directives regarding non-life and life insurance, insurance intermediation and insurance supervision and 6 directives regarding compulsory insurance known as “motor vehicles directives).

The following directives were transposed:

Directive 73/239/EEC on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance.

Directive 88/357/EEC on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and laying down provisions to facilitate the effective exercise of freedom to provide services and amending Directive 73/239/EEC.

Directive 92/49/EEC on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and amending Directives 73/239/EEC and 88/357/EEC (third non-life insurance Directive).

Directive 2002/83/EEC concerning life assurance (including the following directives: Directive 79/267/EEC on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct life assurance (first life assurance Directive); Directive 90/619/EEC on the coordination of laws, regulations and administrative provisions relating to direct life assurance, laying down provisions to facilitate the effective exercise of freedom to provide services and amending Directive 79/267/EEC (second life assurance Directive); Directive 92/96/EEC on the coordination of laws, regulations and administrative provisions relating to direct life assurance and amending Directives 79/267/EEC and 90/619/EEC (third life assurance Directive) и Directive 2002/12/EC of the European Parliament and of the Council of 5 March 2002 amending Council Directive 79/267/EEC as regards the solvency margin requirements for life assurance undertakings.

Directive 64/225/EEC on the abolition of restrictions on freedom of establishment and freedom to provide services in respect of reinsurance and retrocession.

Directive 73/240/EEC abolishing restrictions on freedom of establishment in the business of direct insurance other than life assurance.

Directive 76/580/EEC amending Directive 73/239/EEC on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct insurance other than life assurance.

Directive 78/473/EEC on the coordination of laws, regulations and administrative provisions relating to Community co-insurance.

Directive 84/641/EEC amending, particularly as regards tourist assistance, the First Directive (73/239/EEC) on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance.

Directive 87/343/EEC amending, as regards credit insurance and suretyship insurance, First Directive 73/239/EEC on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance.

Directive 87/344/EEC on the coordination of laws, regulations and administrative provisions relating to legal expenses insurance.

Directive 91/371/EEC on the implementation of the Agreement between the European Economic Community and the Swiss Confederation concerning direct insurance other than life assurance.

Directive 95/26/EEC amending Directives 77/780/EEC and 89/646/EEC in the field of credit institutions, Directives 73/239/EEC and 92/49/EEC in the field of non- life insurance, Directives

79/267/EEC and 92/96/EEC in the field of life assurance, Directive 93/22/EEC in the field of investment firms and Directive 85/611/EEC in the field of undertakings for collective investment in transferable securities (Ucits), with a view to reinforcing prudential supervision.

Directive 98/78/EC on the supplementary supervision of insurance undertakings in an insurance group.

Directive 2001/17/EC on the reorganisation and winding-up of insurance undertakings.

Directive 2002/13/EC amending Council Directive 73/239/EEC as regards the solvency margin requirements for non-life insurance undertakings.

Directive 2002/92/EC on insurance mediation.

In the area of compulsory insurance the following directives were transposed:

Directive 72/166 EHO on the approximation of the laws of Member States relating to insurance against civil liability in respect of the use of motor vehicles, and to the enforcement of the obligation to insure against such liability.

Directive 84/5/EHO on the approximation of the laws of the Member States relating to insurance against civil liability in respect of the use of motor vehicles.

Directive 90/232/EHO on the approximation of the laws of the Member States relating to insurance against civil liability in respect of the use of motor vehicles.

Directive 90/618/EHO amending, particularly as regards motor vehicle liability insurance, Directive 73/239/EEC and Directive 88/357/EEC which concern the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance.

Directive 2000/26/EC on the approximation of the laws of the Member States relating to insurance against civil liability in respect of the use of motor vehicles and amending Council Directives 73/239/EEC and 88/357/EEC (Fourth motor insurance Directive).

Directive 2005/14/EC of 11 May 2005 amending Council Directives 72/166/EEC, 84/5/EEC, 88/357/EEC and 90/232/EEC and Directive 2000/26/EC of the European Parliament and of the Council relating to insurance against civil liability in respect of the use of motor vehicles.

Appendix 2.1.1.

Brokers and investment consultants granted or deprived of the right to perform activity in 2005

Brockers	Investment consultants
Persons who passed the exam for obtaining broker/investment consultant qualification	
1. Atanas Todorov Angelov 2. Borislav Bozhidarov Simeonov 3. Vasil Vencislavov Stefanov 4. Vladimir Evgeniev Nechev 5. Georgi Georgiev Koinov 6. Gergana Atanasova Yaneva 7. Detelina Georgieva Georgieva 8. Dragan Angelov Draganov 9. Elisaveta Arsenieva Arsenieva 10. Lyubomir Pavlov Boyadziev 11. Neli Manolova Petrova 12. Nina Rangelova Nikolova 13. Pasko Kolev Pasev 14. Petko Iliev Vulkov 15. Plamen Yordanov Ganchev 16. Radosveta Yordanova Yordanova 17. Tatyana Ivova Georgieva 18. Teodora Nikolova Daskalova 19. Hristo Dimitrov Terziev 20. Hristo Panayotov Dzenev	1. Borislava Traicheva Dimitrova-Velikova 2. Dragan Angelov Draganov 3. Dragomir Hristov Velikov 4. Iskra Dimitrova Dimitrova 5. Lyubomir Pavlov Boyadziev 6. Maya Krasenova Stancheva 7. Miroslav Metodiev Georgiev 8. Nigohos Krikorov Kanaryan 9. Nikolai Bozhidarov Dobrudzanski 10. Petko Iliev Vulkov 11. Plamen Yordanov Ganchev 12. Ralitsa Simeonova Stoyanova 13. Positsa Peneva Peneva 14. Stefan Damyanov Petrov 15. Tatyana Ivova Georgieva
	Persons with acknowledged qualification
	1. Kalin Krasimirov Metodiev 2. Desislava Ivanova Yordanova 3. Georgi Georgiev Koinov 4. Boyan Tsankov Petkov 5. Vera Georgieva Sotirova 6. Georgi Ivanov Milev
Persons deprived of their right to perform activity as brokers/investment consultants	
1. Ognyan Yordanov Smilyanov 2. Emil Nikolov Sharkov 3. Mariyan Ivanov Predov	1. Vanya Angelova Mehandziiska 2. Ivan Vasilev Gerginov

Appendix 2.1.3A

Public offering of securities prospectuses in 2005

Company	Public offering	Securities
Companies whose prospectus were approved by the FSC		
CB Economic & Investment Bank AD	secondary	corporate bonds
Euroleasing EAD	secondary	corporate bonds
CB Unionbank	secondary	corporate bonds
TBI Credit EAD	secondary	corporate bonds
AutoBohemia AD	secondary	corporate bonds
Doverie United Holding AD	secondary	corporate bonds
HypoCredit AD	secondary	corporate bonds
TC-IME EAD	secondary	corporate bonds
CB BAC Bank AD	secondary	corporate bonds
Enemona AD	secondary	corporate bonds
TBI Credit EAD	secondary	corporate bonds
Finance Consulting 2002 EAD	secondary	corporate bonds
HypoCredit AD	secondary	corporate bonds
CB Bulgarian Post Bank AD	secondary	corporate bonds
CB United Bulgarian Bank AD	secondary	corporate bonds
AutoBohemia AD	secondary	corporate bonds
Interlease Auto EAD	secondary	corporate bonds
Sopharma AD	secondary	corporate bonds
CB Alianz Bulgaria AD	secondary	mortgage bonds
CB Economic & Investment Bank AD	secondary	mortgage bonds
Municipality of Shoumen	secondary	municipal bonds
Municipality of Stara Zagora	secondary	municipal bonds
A.V. Buildings AD	secondary	shares
Transcard AD	secondary	shares
Euroterra Bulgaria AD	secondary	shares
IC Euro Inc AD	secondary	shares
WEB Media Group AD	initial	shares
Sturgeon Aquafarms AD	initial	shares
Companies to which FSC refused to grant permission to publish prospectus		
Higia AD	secondary	shares
Sofia Commerce – Pledging Houses AD	initial	shares
STS Finance AD	initial	shares
Companies dispensed with the obligation to publish prospectus		
Societe Generale SA, France	initial	shares
Suspended procedure for granting permission for publishing prospectus		
CB Eurobank AD	secondary	corporate bonds
Procedures for granting permission that have not been completed by the end of 2005		
Golden Lev Holding AD	secondary	shares
Trade League – National Pharmacy Center AD	secondary	corporate bonds
Doverie United Holding AD	secondary	corporate bonds
FairPlay International	secondary	corporate bonds
BM Leasing AD	secondary	corporate bonds
St. Constantine and Helena AD	secondary	corporate bonds
Alianz Bulgaria Financier EAD	secondary	corporate bonds

Appendix 2.1.3B

Issues of securities registered or deleted from the FSC register in 2005

Company	Securities
Issues registered by FSC on granting a permission to publish public offering prospectus	
CB Economic & Investment Bank AD	corporate bonds
Euroleasing EAD	corporate bonds
CB Unionbank AD	corporate bonds
TBI Credit EAD	corporate bonds
AutoBohemia AD	corporate bonds
Doverie United Holding AD	corporate bonds
HypoCredit AD (3 issues)	corporate bonds
TC-IME EAD	corporate bonds
BAC Bank AD	corporate bonds
Enemona AD	corporate bonds
TBI Credit EAD	corporate bonds
Finance Consulting 2002 EAD	corporate bonds
CB Bulgarian Post Bank AD	corporate bonds
CB United Bulgarian Bank AD	corporate bonds
AutoBohemia AD	corporate bonds
Interlease Auto EAD	corporate bonds
Sopharma AD	corporate bonds
CB Allianz Bulgaria AD	mortgage bonds
CB Economic & Investment Bank AD	mortgage bonds
Municipality of Shoumen	municipal bonds
Municipality of Stara Zagora	municipal bonds
A.V. Buildings AD	shares
Transcard AD	shares
Euroterra Bulgaria AD	shares
IC Euro Inc AD	shares
Registered issues of shares with the purpose of trading on a regulated securities market	
<i>As a result of an increase in the capital of the public company</i>	
Investor BG AD	shares
DZI Bank AD	shares
CB Economic & Investment Bank AD	shares
Interlogic Real Estate AD	shares
Bulgarian Rose-Sevtopolis AD	shares
<i>Procedures not completed by the end of 2005</i>	
Interlogic Leasing AD	shares
Elma AD	shares
<i>After completing an initial public offering</i>	
Sturgeon Aquafarms AD	shares
WEB Media Group AD	shares
Issues of securities deleted from the FSC's register	
Alfa Wood Bulgaria AD	shares
Prosoft AD	corporate bonds
TBI Credit EAD	corporate bonds
CB United Bulgarian Bank AD	corporate bonds
BAC Bank AD	mortgage bonds
CB Bulgarian Post Bank AD	mortgage bonds

Appendix 2.1.3C

Public companies and issuers of other securities registered or deleted from the FSC register in 2005

Company	Type
Companies registered by FSC on granting a permission to publish public offering prospectus	
A.V. Buildings AD	public company
Transcard AD	public company
Euroterra Bulgaria AD	public company
IC Euro Inc AD	public company
Euroleasing EAD	issuer of other securities
HypoCredit AD	issuer of other securities
Municipality of Shoumen	issuer of other securities
TC-IME EAD	issuer of other securities
Enemona AD	issuer of other securities
Municipality of Stara Zagora	issuer of other securities
Finance Consulting 2002 EAD	issuer of other securities
Interlease Auto EAD	issuer of other securities
Issues registered by FSC on an increase in the capital	
Interlogic Leasing AD	public company
Sturgeon Aquafarms AD	public company
WEB Media Group AD	public company
Companies deleted from the FSC's register after a tender offer	
Dunav Turs AD	public company
Mehanotronika AD	public company
Kaproni AD	public company
Kaliakra AD	public company
Lukoil Neftochim Bourgas AD	public company
Bentonit AD	public company
Parvomay BT AD	public company
Bulgaria K AD	public company
Eztur AD	public company
InterTravelService AD	public company
Eggs and Birds – Zora AD	public company
Companies deleted from the FSC's register upon the company's application	
Antikoroza AD	public company
Item – ingenering	public company
Detski Svyat AD	public company
Komex AD	public company
Neven AD	public company
Companies deleted from the FSC's register after a decision of the Supreme Administrative Court	
Novotel Plovdiv AD	public company
Companies deleted from the FSC's register on a decision for deleting their issue	
Prosoft AD	issuer of other securities

Appendix 2.1.3D

Tender offers made to the companies' shareholders published in 2005

Imposed final prohibitions for publishing a tender offer made to the shareholders after considering a revised offer of:

- Lukoil Neftochim Bourgas AD
- Eztur AD
- Monolit – Stil AD
- InterTravelService AD
- Bravo AD.

Tender offers made to the remaining shareholders that were admitted to be published:

- Kaliakra AD – revised offer
- Parvomay BT AD - revised offer
- Bulgaria K AD - revised offer
- Mashstroy AD - revised offer
- Oil and Gas Exploration and Production AD - revised offer
- Lukoil Neftochim Bourgas AD - revised offer
- Bentonit AD - revised offer
- Parvomay BT AD
- Monolith – Style AD - revised offer
- Kramex AD – revised offer
- Eggs and Birds – Zora AD – revised offer
- InterTravelService AD – a new tender offer after a final prohibition to a preceding offer
- Eztur AD – revised offer
- Kramex AD – revised offer
- Energoremont Rouse AD – revised offer
- Slaviana AD – revised offer

Trade offers the procedures for which was not completed by the end of 2005

- Energoremont-Varna AD;
- Napredak Holding AD;

Appendix 2.1.3E

Increase in the capital of public companies in 2005

Public companies whose invitations for public offering in order to increase their capital were granted a permission to be promulgated:

- Bulgarian Rose-Sevtopolis AD
- CB Economic & Investment Bank AD
- AutoBohemia AD
- Elma AD
- Alcomet Shoumen AD
- CB Central Cooperative Bank AD
- Bulgarian Information Technologies AD
- ZPAD Bulstrad AD

Draft notifications for public offering of shares to increase the capital of a public company the procedure for which was not completed by the end of 2005:

- Interlogic Real Estate AD
- Synergon Holding AD

Appendix 2.1.3F

Natural persons registered at the FSC as professional investors in 2005

Natural persons registered in FSC's Professional Investors Registry in 2005⁵⁵:

- Alexander Miroslavov Styanov
- Ognyan Ivanov Donev
- Adrian Angelov Ivanov
- Maxim Aleksandrov Avramov
- Georgi Mitkov Vasilev
- Bisera Nikolaeva Lazarova
- Konstantin Dimitrov Shalamanov
- Rumen Petkov Pelovski
- Plamen Srebrev Vulchev
- Lilia Aleksandrova Tsvetkova

Applications for registering natural persons in FSC's Professional Investors Registry the procedure for which was not completed by the end of 2005

- Vasil Georgiev Chulov
- Alexander Dimitrov Todorov
- Grigor Vihrov Zdravkov
- Dimitar Iliev Dimitrov
- Petar Iliev Goranov

⁵⁵ Legal provision for registering professional investors – Ordinance № 2 art. 12, par. 3, item b и c

Appendix 3.1.3A

Number of commencements and suspensions of procedures for imposing coercive administrative measures and imposed coercive administrative measures on public companies and other issuers of securities in 2005

Procedure	Commenced procedures	Imposed coercive administrative measures	Suspended procedures
<i>Reports</i>	<i>469</i>	<i>61</i>	<i>349</i>
Rectification of established incompleteness and discrepancies in 2003 annual reports		1	
Not submitted 2005 first-quarter reports	4		4
Not submitted 2004 second-quarter reports			1
Rectification of established incompleteness and discrepancies in 2004 first- and second-quarter reports		3	5
Not submitted 2004 third-quarter reports		6	5
Rectification of established incompleteness and discrepancies in 2004 third-quarter reports	112	13	99
Not submitted 2004 fourth-quarter reports	13		13
Not submitted 2004 annual reports	11	6	5
Rectification of established incompleteness and discrepancies in 2004 annual reports	127	28	99
Rectification of established incompleteness and discrepancies in 2005 first-quarter reports	129	4	116
Rectification of established incompleteness and discrepancies in 2005 second-quarter reports	71		
Not submitted 2005 second-quarter reports	2		2
<i>General meeting of shareholders</i>	<i>76</i>	<i>49</i>	<i>25</i>
Convention of a general assembly	26	16	10
Omitting a point from the agenda of the general meeting	50	33	15
<i>Others</i>	<i>23</i>	<i>13</i>	<i>10</i>
Total	<i>568</i>	<i>123</i>	<i>384</i>

Appendix 3.1.3B

Number of written statements ascertaining administrative violations drawn up to public companies and other issuers of securities by types of violations

Violated legal provisions	Number of written statements ascertaining administrative violations
Art. 3, para. 3 of Ordinance № 1	2
Art. 3, para. 4 of Ordinance № 1	2
Art. 12 of Ordinance № 1	25
Art. 8, para. 1 of Ordinance № 1, in relation to § 2 of the Additional Provisions of Ordinance № 1	8
Art. 12 of Ordinance № 6	2
Art. 13a, para. 1 of Ordinance № 1	2
Art. 17, para. 1 of Ordinance № 1	25
Art. 17, para. 4 of Ordinance № 1	1
Art. 22, para. 1 of Ordinance № 6	9
Art. 22, para. 2 of Ordinance № 6	7
Art. 22, para. 3 of Ordinance № 6	2
Art. 30, para. 2 of Ordinance № 6	2
Art. 24, para. 1 of Ordinance № 6	1
Art. 40, para. 2 of Ordinance № 1	2
Art. 40, para. 4 of Ordinance № 1	20
Art. 52 of Ordinance 1	2
Art. 32 of LPOS	2
Art. 54a, para. 3 of Ordinance № 1	3
Art. 72 of LPOS	4
Art. 161, para. 1 of LPOS	2
Art. 161, para. 2 of LPOS	1

Appendix 3.3

Normatively set indicators for assessment of the results of the pension insurance companies' activity as of 31 Dec 2005 and 31 Dec 2004

Normatively set indicators	measure	31 Dec 2005	31 Dec 2004
Capital adequacy of the pension insurance company	%	94.91	86.07
Liquidity of the pension insurance company	coefficient	13.50	17.28
Liquidity of the universal pension fund	coefficient	245.11	180.85
Liquidity of the occupational pension fund	coefficient	208.29	190.70
Liquidity of the voluntary pension fund	coefficient	77.01	139.20
Investment fee of the voluntary pension fund	%	10.01	10.03
Average amount of the entrance fee in a voluntary pension fund	BGN	9.25	8.71
Average amount of the insurance contributions in voluntary pension fund	%	3.92	3.98

Appendix 5

Trainings and increasing qualification initiatives

➤ ***Specialized Trainings Program:***

- Training in *Financial Report Frauds*;
- *Market behavior of insurance companies* Seminar;
- *Auditing internal and external frauds of a company* Seminar ;
- *Problems of integrated supervision and risk-based supervision systems* Seminar;
- Training in *Planning on-site inspections*;
- *International Financial Reporting Standards* Seminar;
- *Financial Services Problem* Seminar;
- Course on Preparation for implementing Twining projects financed by PHARE
- Training in *Derivatives instruments*.

➤ ***Development of Managerial Skills and Interpersonal Relations Program:***

- *Building and Developing Effective Managerial Teams* Seminar;
- *Good Corporate Governance Principles* Seminar.

➤ ***Legal Regulations Program***

- *Trading Law and the Civil Proceedings* Seminar
- *Risk Management in Negotiating* Seminar

➤ ***Financial Governance Program:***

- *Requirements to the Current Accounting Reporting of the Budget Companies in 2005*;
- *Current Issues on the Accounting, Taxes and Audit in the Budget Companies Area*.

➤ ***E-Administration Program:***

- *Information Security and Data Management Systems* Conference
- *Regular training of CISCO local academy*

➤ ***Foreign-Language Training Program:***

- A number of English courses, including specialized courses for economists and lawyers.

Appendix 11.1A

Financial indicators of public companies, included in the calculation of SOFIX for 2005

Company	Capitalization as of 31 Dec 2005	Total assets	Total revenue	Current financial result	Price/Earnings ratio per share	Foreign-owned capital of the company
Albena AD (ALB)	334,201,184	333,170	86,444	17,174,000	19.46	6.66%
Biovet AD (BIOV)	95,035,126	147,028	65,424	1,073,000	88.57	2.01%
Blagoevgrad BT AD (BLABT)	248,128,093	269,096	223,620	31,033,000	8.00	11.21%
Bulgartabac Holding AD (BTH)	206,282,216	70,515	45,428	12,360,000	16.69	15.91%
DZI AD (DZI)	283,671,400	153,112	5,046	5,249,000	54.04	28.81%
Golden Sands AD (ZLP)	107,144,021	145,842	21,296	619,000	173.09	2.54%
Neochim AD (NEOH)	87,062,942	117,327	174,959	13,460,000	6.47	28.07%
Orgachim AD (ORGH)	34,191,420	28,943	75,581	-5,207,000	-6.57	74.79%
Petrol AD (PET)	412,963,533	325,796	559,475	1,453,000	284.21	20.56%
Sunny Beach AD (SLB)	39,058,270	110,877	18,125	-2,064,000	-18.92	0.91%
Sopharma AD (SFARM)	495,000,000	301,439	155,161	30,429,000	16.27	13.83%
CB Central Cooperative Bank AD (CCB)	267,274,595	809,023	68,323	6,387,000	41.85	9.08%

Appendix 11.1B

Financial indicators of public companies, included in the calculation of BG40 for 2005

Company	Capitalization as of 31 Dec 2005	Total assets	Total revenue	Current financial result	Price/earnings ratio per share	Foreign-owned capital of the company
Albena AD (ALB)	334,201,184	333,170	86,444	17,174,000	19.46	6.66%
Albena-Invest Holding AD (ALBHL)	76,395,000	96,858	8,022	7,085,000	10.78	7.38%
Alcomet Shoumen AD (ALUM)	84,378,907	147,486	126,218	-5,783,000	-14.59	17.96%
Balkantourist Elite Holding AD (MGEHL)	19,950,227	18,006	668	104,000	191.83	78.87%
Biovet AD (BIOV)	95,035,126	147,028	65,424	1,073,000	88.57	2.01%
Bulgarian Telecommunication Company AD (BTC)	2,867,434,861	1,755,491	258,413	138,848,000	20.65	93.18%
Bulgarian Holding Company AD (BHC)	26,006,022	43,186	5,918	1,527,000	17.03	2.32%
Doverie - United Holding AD (DOVUHL)	51,415,906	37,368	3,765	2,136,000	24.07	24.31%
Golden Sands AD (ZLP)	107,144,021	145,842	21,296	619,000	173.09	2.54%
IC Golden Lev AD (LEV)	34,030,285	8,016	1,788	574,000	59.29	1.10%
Industrial Capital Holding AD (HIKA)	6,317,984	5,138	493	208,000	30.37	5.78%
Industrial Holding Bulgaria AD (IHLBL)	75,821,678	39,384	8,683	7,170,000	10.57	46.73%
Katex AD - Kazanluk (KTEX)	15,272,744	76,711	23,163	465,000	32.84	0.11%
Odessos Shiprepair Yard AD (ODES)	55,467,001	50,098	41,937	7,146,000	7.76	18.74%
Kremikovtzi AD (KREM)	314,613,090	Няма отчет				1.37%
M+S Hydraulic AD (MCH)	34,368,576	44,299	53,861	3,298,000	10.42	3.98%
Mel Invest Holding AD (MELHL)	2,912,800	21,821	1,521	10,000	291.28	0.08%
Neochim AD (NEOH)	87,062,942	117,327	174,959	13,460,000	6.47	28.07%
Orgachim AD (ORGH)	34,191,420	28,943	75,581	-5,207,000	-6.57	74.79%
Petrol AD (PET)	412,963,533	325,796	559,475	1,453,000	284.21	20.56%
Polimeri AD (POLIM)	29,018,596	100,602	39,014	1,168,000	24.84	9.42%

Razvitie Industry Holding AD (RAZHL)	2,893,729	3,457	370	3,000	964.58	4.60%
Riviera AD (RIVR)	74,954,468	40,970	10,069	40,000	1 873.86	0.00%
St. Constantine and Helena Holding AD – Varna (SKELN)	44,690,005	46,744	3,339	1,044,000	42.81	0.12%
Severcoop Gumza Holding AD (GAMZA)	8,182,131	12,559	1,106	823000	9.94	1.31%
Synergon Holding AD (PETHL)	77,292,238	96,404	5,483	3,110,000	24.85	6.07%
Sunny Beach AD (SLB)	39,058,270	110,877	18,125	-2,064,000	-18.92	0.91%
Sopharma AD (SFARM)	495,000,000	301,439	155,161	30,429,000	16.27	13.83%
Sparky-Eltos AD (ELTOS)	14,000,000	67,640	44,358	97,000	144.33	4.06%
Stara Planina Hold AD (CENHL)	24,482,500	55,132	68,001	2,717,000	9.01	23.64%
CB DZI Bank AD (RXB)	165,000,000	1,017,519	23,543	6,045,000	27.30	24.98%
CB Central Cooperative Bank AD (CCB)	267,274,595	809,023	68,323	6,387,000	41.85	9.08%
TK - HOLD (TCH)	7,386,567	11,022	500	-98,000	-75.37	0.53%
Favorit Hold AD (AFH)	16,357,046	10,293	1,734	785000	20.84	0.69%
Hydraulic Elements and Systems AD (HES)	17,028,895	15,558	43,061	1,378,000	12.36	0.07%
Chimco AD (HIMKO)	4,497,331	164,303	3,192	- 119,246,000	-0.04	19.06%
Varna A Holding AD (HVAR)	10,660,000	5,275	2,820	2,369,000	4.50	0.05%
Holding COOP-South AD (HUG)	6,524,014	5,714	486	54,000	120.82	4.98%
Holding St. Sofia AD (HSOF)	4,199,470	5,459	307	-2,555,000	-1.64	0.54%
Black Sea Holding – Bourgas AD (NEFTHL)	2,312,038	13,119	850	103,000	22.45	0.25%

Appendix 11.C

Issues registered for trading on the BSE-Sofia as of 31 December 2005 Newly registered and stopped from trading on the exchange issues during 2005

Issues	Newly registered issues during 2005	Issues stopped from trading during 2005	Number of issues as of 31 Dec 2005
Shares	19	16	343
Official Market	1	1	34
Segment C on the official market	1	1	29
Segment B on the official market	-	-	3
Segment A on the official market	-	-	2
Unofficial Market	17	15	309
Bonds	24	5	50
Official Market	1	2	9
Corporate bonds official market	1	1	5
Municipal bonds official market	-	-	2
Government securities	-	1	2
Unofficial Market	23	3	41
Others	28	24	10
Compensatory instruments market	-	1	3
Unofficial market of other securities	28	23	7

Appendix 11.2.1A

Number of public companies registered for trading and stopped from trading on the BSE-Sofia in 2005

	Public companies registered for trading during 2005	Public companies stopped from trading during 2005	Number of public companies as of 31 Dec 2005
Official Market	1	1	31
Segment C on the official market	1	1	26
Segment B on the official market	-	-	3
Segment A on the official market	-	-	2
Unofficial Market	7	15	290
Total	8	16	321

Appendix 11.2.1B

**Distribution of market capitalization of public companies among economic activities.
Trade indicators and share of foreign-owned capital of the sector as of 31 Dec 2005**

	Economic Activity	Market capitalization	Share in the market capitalization	Share of the foreign-owned capital in the sector	Volume	Turnover	Number of deals
A	Agriculture, hunting and forestry	8,413,887	0.10%	0.53%	264,092	815,829	115
CA	Mining of energy supplies	41,924,784	0.49%	0.38%	315,777	13,633,804	1,061
CB	Other mining and quarrying	93,700	0.00%	0.00%	3,062	3,325,664	30
DA	Manufacture of food products, beverages and tobacco products	416,759,689	4.92%	11.03%	816,386	17,926,580	2,526
DB	Manufacture of textiles	60,161,828	0.71%	16.64%	718,294	4,838,306	3,177
DC	Tanning and dressing of leather; manufacture of luggage, handbags, saddlery, harness and footwear	2,832,046	0.03%	0.02%	19,716	354,112	23
DD	Manufacture of wood and of products of wood and cork, except furniture	22,737,357	0.27%	14.65%	99,825	1,946,230	885
DE	Manufacture of pulp, paper and paper products	128,772,711	1.52%	0.00%	3,731,932	87,620,442	1,769
DF	Manufacture of coke, refined petrol products and nuclear fuel		0.00%		605,005	16,828,089	765
DG	Manufacture of chemicals and chemical products	863,707,788	10.19%	23.63%	12,778,941	73,164,501	20,737
DH	Manufacture of rubber and plastic products	46,604,042	0.55%	44.86%	189,484	3,065,527	1,680
DI	Manufacture of other non-metallic mineral products	143,020,376	1.69%	97.83%	317,836	576,713	474
DJ	Manufacture of basic metals, fabricated metal products, except machinery and equipment	414,246,386	4.89%	7.86%	7,916,101	55,257,474	12,535
DK	Manufacture of machinery and equipment not else classified	112,837,183	1.33%	9.26%	1,376,290	12,697,657	6,990
DL	Manufacture of electrical machinery, optical equipment and other apparatus	41,143,393	0.49%	16.52%	357,749	2,413,649	1,758
DM	Manufacture of motor vehicles, trailers and semi-trailers	60,368,165	0.71%	17.46%	582,395	28,517,407	2,856
DN	Manufacture of furniture; manufacturing not else classified	10,643,827	0.13%	0.28%	138,926	539,867	101
F	Construction	88,424,884	1.04%	56.02%	202,203	63,496,741	2,946
G	Trade, repair of motor vehicles and personal and household goods	691,578,010	8.16%	17.96%	30,737,150	165,299,271	5,144
H	Hotels and restaurants	717,917,887	8.47%	7.30%	2,030,447	42,692,736	10,412
I	Transport, storage and communication	2,910,348,737	34.32%	91.83%	20,601,531	529,973,741	7,092
J	Financial intermediation	1,473,915,239	17.38%	19.81%	36,529,693	174,623,899	97,112
K	Real estate, renting and business activities	222,217,776	2.62%	10.89%	7,209,499	44,273,239	29,683
O	Other community, social and personal service activities	450,000	0.01%	0.00%	367,151	215,660	16

Appendix 11.2.1C

Issues of corporate and mortgage bonds with approved prospectus in 2005

№	Issuer	Type of the issue	Date of issuance	Currency	Amount of the issue	Expiry date
Issues issued in 2004 /Approved prospectus in 2005						
1	CB Unionbank AD	corporate	11 Aug 2004	EUR	10,000,000	11 Aug 2009
2	CB Economic & Investment Bank AD	mortgage	06 Oct 2004	EUR	2,000,000	06 Oct 2009
3	Euroleasing EAD	corporate	12 Oct 2004	BGN	1,000,000	12 Oct 2007
4	CB Economic & Investment Bank AD	corporate	25 Oct 2004	EUR	3,500,000	25 Oct 2007
5	CB Alianz Bulgaria AD	mortgage	27 Oct 2004	EUR	15,000,000	27 Oct 2009
6	AutoBohemia AD	corporate	17 Nov 2004	BGN	4,000,000	17 Nov 2007
7	TBI Credit EAD	corporate	09 Dec 2004	BGN	10,000,000	09 Dec 2007
8	CB BACB AD	corporate	22 Dec 2004	EUR	8,000,000	22 Dec 2007
Issues issued in 2005 /Approved prospectus in 2005						
1	HypoCredit AD	corporate	17 Jan 2005	EUR	1,000,000	17 Jan 2008
2	Municipality of Shoumen	municipal	10 Feb 2005	BGN	4,000,000	10 Feb 2010
3	HypoCredit AD	corporate	22 Apr 2005	EUR	3,000,000	22 Apr 2008
4	TC-IME EAD	corporate	26 Apr 2005	EUR	12,000,000	26 Apr 2008
5	Enemona AD	corporate	20 May 2005	BGN	2,500,000	20 May 2010
6	Municipality of Stara Zagora	municipal	31 May 2005	BGN	5,000,000	31 May 2015
7	Sopharma AD	corporate	29 Jun 2005	EUR	5,000,000	29 Jun 2008
8	CB Bulgarian Post Bank AD	corporate	04 Jul 2005	BGN	30,000,000	04 Jul 2008
9	TBI Credit EAD	corporate	06 Jul 2005	BGN	20,000,000	06 Jul 2008
10	AutoBohemia AD	corporate	14 Jul 2005	BGN	6,000,000	14 Jul 2010
11	CB United Bulgarian Bank AD	corporate	15 Jul 2005	BGN	80,000,000	15 Jul 2008
12	HypoCredit AD	corporate	05 Aug 2005	EUR	4,000,000	05 Aug 2008
13	Finance Consulting 2002 EAD	corporate	26 Aug 2005	EUR	7,000,000	26 Aug 2010
14	Interlease Auto EAD	corporate	01 Sept 2005	EUR	3,000,000	01 Sept 2008
15	St. Constantine and Helena Holding AD – Varna	corporate	18 Nov 2005	EUR	5,000,000	18 Nov 2010
Amount of the public issued debt via corporate and municipal bonds (BGN)					161,584,931	

Appendix 11.2.2A

Equity, assets and market concentration for collective investment schemes

Company	Equity (BGN)		Assets total (BGN)		Net assets (BGN)		Share in the net assets of the type of collective investment scheme		Share in the net assets of all collective investment scheme	
	31 Dec 2004	31 Dec 2005	31 Dec 2004	31 Dec 2005	31 Dec 2004	31 Dec 2005	31 Dec 2004	31 Dec 2005	31 Dec 2004	31 Dec 2005
IC Golden Lev AD	7,464,174	7,737,895	7,968,242	8,016,917	7,464,174	7,737,895	26.16%	9.88%	22.45%	8.23%
IC Elana Eurofund AD	5,746,578	10,449,046	5,774,627	10,488,284	5,746,578	10,449,046	20.14%	13.34%	17.28%	11.11%
IC TBI Eurobond AD	4,979,796	22,339,259	4,994,153	22,430,080	4,979,796	22,339,259	17.45%	28.52%	14.98%	23.75%
IC Advance Invest AD	6,974,771	19,738,092	7,164,235	19,793,758	6,974,771	19,738,092	24.44%	25.20%	20.98%	20.98%
IC Capman Capital AD	1,603,692	3,881,182	1,610,246	3,934,845	1,603,692	3,896,264	5.62%	4.97%	4.82%	4.14%
IC KD Pelikan AD	662,056	5,262,411	665,229	5,274,165	662,056	5,262,411	2.32%	6.72%	1.99%	5.59%
IC UBB Balanced Fund AD	1,102,000	4,138,000	1,121,000	4,164,000	1,102,000	4,152,657	3.86%	5.30%	3.31%	4.41%
IC Elana High Yield Fund AD		4,743,273		4,944,631		4,743,279		6.06%		5.04%
Open-end investment funds	28,533,067	78,289,158	29,297,732	79,046,680	28,533,067	78,319,243	100%	100%	85.82%	83.26%
IC Nadezhda AD	3,574,009	4,210,794	3,661,739	4,233,167	3,573,920	4,211,000	75.81%	77.35%	10.75%	4.48%
IC Industrial Fund AD	1,141,000	1,365,492	1,153,731	1,369,716	1,140,532	1,233,404	24.19%	22.65%	3.43%	1.31%
Close-end investment funds	4,715,009	5,576,286	4,815,470	5,602,882	4,714,452	5,444,404	100%	100%	14.18%	5.79%
CF TBI Dynamik		1,741,143		1,744,773		1,741,143		16.89%		1.85%
CF Sentinel Principal		1,116,789		1,121,270		1,116,789		10.84%		1.19%
CF Sentinel Rapid		1,006,576		1,007,488		1,006,576		9.77%		1.07%
CF DSK Standart		667,397		668,346		667,397		6.48%		0.71%
CF DSK Balance		708,531		712,372		708,531		6.87%		0.75%
CF Elana Balanced Euro Fund		4,706,315		4,919,343		4,706,315		45.67%		5.00%
CF Benchmark Fund - 1		261,301		263,134		261,301		2.54%		0.28%
CF TBI Comfort		11,276		11,830		11,276		0.11%		0.01%
CF TBI Harmony		86,763		88,498		86,763		0.84%		0.09%
CF Capman Max										
CF UBB Premium Stocks										
CF UBB Platinum Bonds										
CF DSK Growth										
CF Standart Investment High Yield Fund										
CF Standart Investment Balanced Fund										
Contractual funds		10,306,091		10,537,054		10,306,091		100%		10.96%
Collective investment schemes	33,248,076	94,171,535	34,113,202	95,186,616	33,247,519	94,069,738			100%	100%

Appendix 11.2.2B

Investment profile, net value of the assets per share, rate of return

Company	Investment profile	Net value of assets per share	Rate of return*	Starting date of the public offering
IC Golden Lev AD	balanced	5.51	17.26%	1999
IC Elana Eurofund AD	conservative	130.85	6.25%	04 Dec 2002
IC TBI Eurobond AD	conservative	250.54	7.15%	17 Nov 2003
IC Advance Invest AD	aggressive	1.83	32.62%	25 May 2004
IC Capman Capital AD	balanced	14.69	22.07%	01 Oct 2004
IC KD Pelikan AD	balanced	14.94	19.71%	17 Dec 2004
IC UBB Balanced Fund AD	balanced	119.13	16.81%	31 Jan 2005
IC Elana High Yield Fund AD	aggressive	95.78	6.24%	20 Jun 2005
IC Nadezhda AD	-	2.54	-0.39%**	closed-end
IC Industrial Fund AD	-	1.53	8.14%	closed-end
CF TBI Dynamik	aggressive	10.20	1%	07 Sept 2005
CF Sentinel Principal	balanced	0.9911	-0.9%	12 Sept 2005
CF Sentinel Rapid	conservative	1.0018		15 Nov 2005
CF DSK Standart	conservative	1.00277		01 Dec 2005
CF DSK Balance	balanced	0.9987		01 Dec 2005
CF Elana Balanced Euro Fund	balanced	99.61		07 Dec 2005
CF Benchmark Fund - 1	balanced	99.85		14 Dec 2005
CF TBI Comfort	conservative			27 Dec 2005
CF TBI Harmony	balanced			27 Dec 2005
CF Capman Max	aggressive			05 Jan 2006
CF UBB Premium Stocks	aggressive			30 Jan 2006
CF UBB Platinum Bonds	conservative			30 Jan 2006
CF DSK Growth	aggressive			01 Mar 2006
CF Standart Investment High Yield Fund	aggressive			01 Mar 2006
CF Standart Investment Balanced Fund	balanced			01 Mar 2006

* Calculated after the following formula (Net value of the share as of 31 Dec 2005 - Net value of the share as of 31 Dec 2004)/ Net value of the share as of 31 Dec 2004

** The value of the rate of return is effected by the decision of the Annual General Meeting from 26 May 2005 to decrease the par value of *Nadejda* shares from 3 to 1 BGN which resulted in an increase in the number of the shares in circulation from 551 836 to 1 655 508.

Appendix 11.2.2C

Structure of collective investment schemes' assets:

Structure of open-end investment companies' assets

Assets	IC Golden Lev AD		IC Elana Eurofund AD		IC TBI Eurobond AD		IC Advance Invest AD		IC Capman Capital AD		IC KD Pelikan AD		IC UBB Balanced Fund AD		IC Elana High Yield Fund AD	
	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)
<i>Cash. incl.</i>	783,680	9.78	3,802,055	36.25	8,453,677	37.69	3,939,735	19.90	527,947	13.42	2,171,949	41.18	806,000	19.36	558,318	11.29
<i>Bank deposits</i>	780,000	9.73	3,707,065	35.34	8,364,447	37.29	3,380,000	17.08			1,015,880	19.26	660,000	15.85	500,000	10.11
<i>Equities</i>	3,551,120	44.30					9,769,245	49.36	1,504,058	38.22	1,452,270	27.54	1,121,000	26.92	3,231,629	65.36
<i>Corporate bonds</i>	987,633	12.32	3,101,908	29.57	9,132,407	40.71	4,245,827	21.45	788,871	20.05	331,741	6.29	1,721,000	41.33	546,878	11.06
<i>Mortgage bonds</i>	906,940	11.31	1,695,642	16.17	849,396	3.79	750,223	3.79					360,000	8.65	378,660	7.66
<i>Municipal bonds</i>			912,905	8.70	407,342	1.82							139,000	3.34		
<i>Compensatory notes</i>																
<i>Government securities</i>	669,379	8.35	838,997	8.00	3,585,224	15.98			1,060,963	26.96	1,314,000	24.91				
<i>Euro-bonds</i>	609,456	7.60														
<i>Foreign securities</i>	375,445	4.68					925,160	4.67								
<i>Receivables</i>	133,264	1.66	136,485	1.30	2134	0.01	154,783	0.78	53,006	1.35	80		7,000	0.17	225,583	4.56
<i>Non-financial assets</i>	133,264	1.66	136,485	1.30	2134	0.01	158,099	0.80	53,006	1.35	80		7,000	0.17	225,583	4.56
Assets (balance sheet)	8,016,917	100	10,488,284	100	22,430,080	100	19,793,758	100	3,934,845	100	5,274,165	100	4,164,000	100	4,944,631	100
Profit	574,957	7.17	466,054	4.44	1,392,309	6.21	1,302,393	6.58	394,029	10.01	13,220	0.25	180,000	4.32	-54,533	-1.10

Structure of closed-end investment companies' assets

Assets	IC Nadezhda AD		IC Industrial Fund AD	
	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)
Cash, incl.	724,089	17.11	521,252	38.06
<i>Bank deposits</i>	345,384	8.16	502,926	36.72
Equities	2,497,375	59.00	779,527	56.91
Corporate bonds	519,603	12.27		
Mortgage bonds				
Municipal bonds				
Compensatory notes	140,620	3.32		
Government securities	290,983	6.87		
Euro-bonds				
Foreign securities				
Receivables	22,087	0.52	26,582	1.94
Non-financial assets	22,087	0.52	26,582	1.94
Assets (balance sheet)	4,233,167	100	1,369,716	100
Profit	433,482	10.24	240,590	17.56

Structure of contractual funds' assets

Assets	CF DSK Standart		CF Sentinel Principal		CF TBI Dynamik		CF Benchmark Fund - 1		CF DSK Balance		CF Sentinel Rapid		CF Elana Balanced Euro Fund	
	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)
<i>Cash, incl.</i>	513,824	76.88	127,198	11.34	252,419	14.47	175,830	66.82	348,884	48.97	200,796	19.93	1,565,099	31.82
<i>Bank deposits</i>	401,633	60.09	110,731	9.88	247,069	14.16			200,000	28.08	190,141	18.87	1,400,000	28.46
<i>Equities</i>			192,562	17.17	1,092,574	62.62	85,666	32.56	156,633	21.99			1,476,568	30.02
<i>Corporate bonds</i>	103,040	15.42	484,566	43.22	278,206	15.95			152,633	21.43	143,897	14.28	808,300	16.43
<i>Mortgage bonds</i>	49,848	7.46	117,658	10.49					48,921	6.87	291,190	28.90	632,257	12.85
<i>Municipal bonds</i>											27,649	2.74	95,721	1.95
<i>Compensatory notes</i>														0.00
<i>Government securities</i>			53,496	4.77							343,774	34.12	107,274	2.18
<i>Euro-bonds</i>			128,020	11.42										
<i>Foreign securities</i>			16,533	1.47										
<i>Receivables</i>	4,215	0.63	1,238	0.11	121,574	6.97	1,638	0.62	5,301	0.74	182	0.02	234,123	4.76
<i>Non-financial assets</i>	4,215	0.63	1,238	0.11	121,574	6.97	1,638	0.62	5,301	0.74	182	0.02	234,123	4.76
Assets (balance sheet)	668,346	100	1,121,270	100	1,744,773	100	263,134	100	712,372	100	1,007,488	100	4,919,343	100
Profit	1,508	0.23	4,734	0.42	-830	-0.05	-857	-0.33	-873	-0.12	1,673	0.17	100	

Structure of contractual funds' assets

АКТИВИ	CF UBB Premium Stocks		CF UBB Platinum Bonds		CF Capman Max		CF TBI Comfort		CF TBI Harmony		CF DSK Growth		CF Standart Investment High Yield Fund		CF Standart Investment Balanced Fund	
	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)
<i>Cash, incl.</i>							11,830	100.00	88,493	99.99						
<i>Bank deposits</i>									81,000	91.53						
<i>Equities</i>																
<i>Corporate bonds</i>																
<i>Mortgage bonds</i>																
<i>Municipal bonds</i>																
<i>Compensatory notes</i>																
<i>Government securities</i>																
<i>Euro-bonds</i>																
<i>Foreign securities</i>																
<i>Receivables</i>																
<i>Non-financial assets</i>																
Assets (balance sheet)							11,830	100.00	88,498	100.00						
Profit																

Structure of collective investment schemes' assets

Assets (BGN)	Investment companies	Share	Contractual funds	Share	Collective investment schemes	Share
<i>Cash, incl.</i>	22,288,702	26.33%	3,284,373	31.17%	25,573,075	26.87%
<i>Bank deposits</i>	19,255,702	22.75%	2,630,574	24.96%	21,886,276	22.99%
<i>Equities</i>	23,906,224	28.24%	3,004,003	28.51%	26,910,227	28.27%
<i>Corporate bonds</i>	21,375,868	25.25%	1,970,642	18.70%	23,346,510	24.53%
<i>Mortgage bonds</i>	4,940,861	5.84%	1,139,874	10.82%	6,080,735	6.39%
<i>Municipal bonds</i>	1,459,247	1.72%	123,370	1.17%	1,582,617	1.66%
<i>Compensatory notes</i>	140,620	0.17%			140,620	0.15%
<i>Government securities</i>	7,759,546	9.17%	504,544	4.79%	8,264,090	8.68%
<i>Euro-bonds</i>	609,456	0.72%	128,020	1.21%	737,476	0.77%
<i>Foreign securities</i>	1,300,605	1.54%	16,533	0.16%	1,317,138	1.38%
<i>Receivables</i>	761,004	0.90%	368,271	3.50%	1,129,275	1.19%
<i>Non-financial assets</i>	764,320	0.90%	368,271	3.50%	1,132,591	1.19%
Assets (balance sheet)	84,649,563	100.00%	10,537,054	100.00%	95,186,617	100.00%
Profit	4,942,501	5.84%	5,455	0.05%	4,947,956	5.20%

Appendix 11.2.2D

Foreign collective investment schemes

Foreign collective investment schemes	Funds / subfunds	Capital attracted by the funds in Bulgaria (BGN)	Management company	Investment intermediary (distributor) in Bulgaria	Share in the total amount of attracted capital by foreign collective investment schemes in Bulgaria
Pioneer funds (Luxemburg)	13 subfunds	51,323,424	Pioneer Assets Management S.A	CB Bulbank AD	99.7%
Capital invest funds (Austria)	1. Capitalinvest America Stock; 2. Capitalinvest Corporate Bond; 3. Capitalinvest Dollar Bond; 4. Capitalinvest Euro Cash; 5. Capitalinvest Euro Government Bond; 6. Capitalinvest Guarantee Basket 2010; 7. Capitalinvest Master Fund I /Traditionel/; 8. Capitalinvest Master Fund II /Dinamish/; 9. Capitalinvest Select Europe Stock.	147,806	Capitalinvest	CB HVB Biochim AD	0.287%
SGAM Fund (Luxemburg)	1. SGAM Fund/Bonds Europe; 2. SGAM Fund/Bonds World; 3. SGAM Fund/Equities Europe; 4. SGAM Fund/Equities International; 5. SGAM Fund/Equities US Concentrated Core; 6. SGAM Fund/Money Market (EUR); 7. SGAM Fund/Money Market (USD)	980	Societe Generale Asset Management S.A.	CB Societe Generale Expressbank AD	0.002%
	TOTAL	51,472,210			100.00%

Appendix 11.2.2E. Equity, assets managed by and contracts concluded by management companies

Management company	Authorized capital (BGN)	Equity (BGN)	Assets managed as of 31 Dec 2005 (BGN)	Management contracts concluded by the company as of 31 Dec 2005
MC Golden Lev Capital AD	250,000	327,277	7,758,620	1. IC Golden Lev AD
MC Elana Fund Management AD	260,000	344,038	20,589,557	1. IC Elana Eurofund AD 2. IC Elana High Yield Fund AD 3. CF Elana Balanced Euro Fund 4. VZK Dobrudja - M - Life 5. Health Insurance Company – Planet AD 6. Elana Agricultural Land Opportunity Fund SPV
MC TBI Asset Management	1,400,000	1,057,893	53,546,681	1. IC TBI Eurobond AD 2. CF TBI Dynamik 3. CF TBI Comfort 4. CF TBI Harmony 5. ZAD Bulstrad Life Insurance AD 6. ZPAD Bulstrad AD 7. Voluntary Health Insurance Network – Zdrave AD 8. Guarantee Fund 9. National Bureau of Bulgarian Motor Insurers 10. Bulstrad - Health Insurance AD
MC Capman Asset Management AD	250,000	263,283	3,934,845	1. IC Capman Capital AD 2. CF Capman Max
MC Karoll Capital Management EAD	250,000	583,036	19,793,758	1. IC Advance Invest AD
MC KD Investments EAD	1,000,000	177,000	5,274,165	1. IC KD Pelikan AD
MC FFBH Asset Management AD	250,000	280,573	4,233,167	1. IC Nadezhda AD
MC UBB Asset Management EAD	300,000	293,000	4,139,396	1. IC UBB Balanced Fund AD 2. CF UBB Premium Stocks 3. CF UBB Platinum Bonds
MC DSK Asset Management EAD	350,000	333,858	3,890,820	1. CF DSK Standart 2. CF DSK Balance 3. CF DSK Growth 4. ZK DSK Garantzia AD 5. ZHZK DSK Garantzia AD
MC Sentinel Asset Management AD	250,000	231,872	2,128,758	1. CF Sentinel Principal 2. CF Sentinel Rapid
MC BanchMark Asset Management AD	260,000	252,422	263,134	1. CF Benchmark Fund - 1 2. IC Benchmark Fund - 2
MC Standart Asset Management AD	250,000	258,200	291,290	1. CF Standart Investment High Yield Fund 2. CF Standart Investment Balanced Fund
MC Raiffeizen Asset Management	250,000	250,000		
Total		4,652,452	125,844,191	

Appendix 11.2.2F

Equity, assets accumulated and market share of special purpose vehicles as of 31 Dec 2005

Company	Authorized capital (BGN)	Equity (BGN)	Assets (BGN)	Market share	Specific activity
Capital Direct - PLC for Special Investment Purposes	650,000	683,000	5,361,000	100.00%	securitization of receivables
Prime Property BG REIT	15,225,383	22,576,532	22,876,486	17.72%	securitization of real estate
Benchmark Fund Estates REIT	7,800,000	8,284,000	8,825,000	6.83%	securitization of real estate
Colos – 1 REIT	603,000	443,000	485,000	0.38%	securitization of real estate
ERG Capital - 1 REIT	3,000,000	4,429,000	12,882,000	9.98%	securitization of real estate
Bulgarian Real Estate Fund Inc. REIT	20,150,000	20,569,000	20,665,000	16%	securitization of real estate
Aktiv Properties REIT	650,000	680,000	1,282,000	0.99%	securitization of real estate
Elana Agricultural Land Opportunity Fund JSC SIP	19,931,843	23,824,000	23,931,000	18.53%	securitization of real estate
Park REIT	650,000	718,000	814,000	0.63%	securitization of real estate
Advance Terrafund REIT	11,050,000	11,481,000	11,851,415	9.18%	securitization of real estate
Intercapital Property Development REIT	3,250,000	6,332,000	6,733,000	5.21%	securitization of real estate
Quantum Developments REIT	500,000	491,074	772,874	0.60%	securitization of real estate
ERG Capital - 2 REIT	2,300,000	2,243,000	18,011,000	13.95%	securitization of real estate
Total	84,360,226	101,719,350	128,590,596	100.00%	

Appendix 11.2.2G Structure of special purpose vehicles' assets as of 31 Dec 2005

Assets (BGN)	Prime Property BG REIT	Benchmark Fund Estates REIT	Colos – 1 REIT	ERG Capital - 1 REIT	Bulgarian Real Estate Fund Inc. REIT	Aktiv Properties REIT	Elana Agricultural Land Opportunity Fund	Park REIT	Advance Terrafund REIT	Intercapital Property Development REIT	Quantum Developments REIT	ERG Capital - 2 REIT	Total
<i>Property rights</i>			3,000									0	3,000
<i>Investment property (land, terrains)</i>	7,281,928	1,893,000		797,000		166,445		608,000		6,224,000	130,000	3,419,000	20,519,373
<i>Investment property (buildings, equipment)</i>		5,108,000		10,737,000		1,071,554						13,285,000	30,201,554
<i>Investment property (farm land)</i>					2,928,000		4,149,000		3,719,401				10,796,401
<i>Property in process of building (acquisition)</i>		50,000	448,000										498,000
<i>Financial assets</i>							2,001,000						2,001,000
<i>Cash</i>	14,305,216	169,000	34,000	1,329,000	17,256,000	6,000	17,470,000	198,000	7,779,733		642,798	406,000	59,595,747
<i>Receivables</i>	281,533	1,605,000			481,000	20,000	299,000	4,000	331,390	92,000		1,012,000	4,125,923
Assets (balance sheet)	22,876,486	8,825,000	485,000	12,882,000	20,665,000	1,282,000	23,931,000	814,000	11,851,415	6,733,000	772,874	18,011,000	129,128,775
Profit	1,258,823	484,000	-80,000	519,000	419,000	30,000	384,000	66,000	-363,813		-8,926	293,000	3,001,084
Income per share (BGN per share)	0.08	0.06	-132.67	0.17	0.02	0.05	0.02	0.10	-0.03		-0.02	0.13	

Assets (BGN)	Capital Direct - PLC for Special Investment Purposes
<i>Cash</i>	337,000
<i>Receivables under interest</i>	17,000
<i>Receivables under commercial loans (up to 1 year)</i>	548,000
<i>Receivables under commercial loans (over 1 year)</i>	4,459,000
Assets (balance sheet)	5,361,000
Profit	257,000
Income per share (BGN per share)	39.54

Appendix 11.2.2H

Special purpose vehicles – date of establishment, envisaged period of existence, main shareholders

Company	Date of establishment (registration in the Court)	Envisaged period of existence	Main founders	Main shareholders
Capital Direct - PLC for Special Investment Purposes	06 Aug 2003 (11.09.2003 Sofia Town Court)	undetermined	1. Bulgarian American Investment Fund (BAIF) – 70% 2. CB BACB – 30%	1. BAIF – 76.92% 2. Bulgarian American Property Management – 23.08%
Prime Property BG REIT	08 Sept 2003 (06 Oct 2003 Sofia Town Court)	8 years	1. Balkan Consulting Company – 50% 2. ZPAD Bulstrad AD – 48.8% 3. TBI Invest EAD – 0.2%	1. Immoeast Beteiligung Gmbh (Vienna) – 42.23% 2. Hansapank Clients (Talin) – 13.12% 3. VPF Doverie – 6% 4. OPF Doverie – 7% 5. UPF Doverie – 7% 6. ZPAD Bulstrad AD – 9.4%
Benchmark Fund Estates REIT	29 Jun 2004 (11 Jul 2004 Sofia Town Court)	7 years	1. Razvitie Industry Holding AD – 30%	1. Hansapank Clients (Talin) – 8.97%
Colos – 1 REIT	29 Oct 2003 (31 Oct 2003 Sofia Town Court)	undetermined	1. V-vesta Holding AD – 74.4% 2. Perla AD – 25.6%	1. V-vesta Holding AD – 63.35% 2. Perla AD – 32.84%
ERG Capital - 1 REIT	05 Aug 2004 (18 Aug 2004 Sofia Town Court)	7 years	1. BAIF – 99.9%	1. BAIF – 70% 2. Foreign natural persons
Bulgarian Real Estate Fund Inc. REIT	04 Oct 2004 (11 Dec 2004 Sofia Town Court)	7 years	1. IC Nadezhda AD – 40%	1. AS Hansapank (Talin) – 39.1%
Aktiv Properties REIT	23 Dec 2004 (20 Jan 2005 Plovdiv District Court)	undetermined	1. PT Holding AD – 65.5% 2. IC Advance Invest AD – 30%	1. PT Holding AD – 59.42% 2. IC Advance Invest AD – 10% 3. Andi – L EOOD – 5% 4. Dilian Peichev Panev – Executive Director
Elana Agricultural Land Opportunity Fund	14 Mar 2005 (07 Apr 2005 Sofia Town Court)	7 years	1. Elana Holding AD – 70% 2. VZK Dobrudja-M-Life – 20% 3. Health insurance company Planet AD – 10%	1. QVT FUND LP (Cayman Islands) – 26.21%
Park REIT	23 Mar 2005 (05 Apr 2005 Sofia Town Court)	5 years	1. Zagora Invest OOD – 20% 2. RHL AD – 30% 3. Beta Corp AD – 12%	1. Zagora Invest OOD – 20.77% 2. Vitazone OOD – 12.54% 3. FairPlay International AD – 20.77% 4. Beta Corp AD – 8.23% 5. Contract Co – 6.54% 6. Mihail Zaimov – 6.31% - Procurator 7. Martin Zaimov - 6.31% - Chairman
Advance Terrafund REIT	12 Apr 2005 (26 Apr 2005 Sofia Town Court)	undetermined	1. Karoll Standard EOOD – 70% 2. IC Advance Invest AD – 30%	1. IC Advance Invest AD – 17.81%
Intercapital Property Development REIT	18 Feb 2005 (29 Mar 2005 Sofia Town Court)	undetermined	1. Roads Holding Company AD – 31.7% 2. Naver Investment Inc. – 43.2% 3. Intercapital EOOD – 18.9%	1. Naver Investment Inc. – 12.13% 2. Foreign natural persons – 7.50%
Quantum Developments REIT	18.10.2005 (04 Nov 2005 Sofia Town Court)	undetermined	1. AC Carpet EOOD – 70% 2. CB Corporate Commercial Bank – 30%	1. AC Carpet EOOD – 52.5% 2. Quantum Developments AD – 47.5%
ERG Capital - 2 REIT	25 May 2005 (08 Jun 2005 Sofia Town Court)	31 Dec 2012	1. BAIF – 70%	1. BAIF – 70% 2. Foreign natural persons

Appendix 12.1.1.

Insurers' premium income by capital ownership

	Indicators	Premium income (thousand BGN)		Growth (%)
		2004	2005	
1	Gross premium income from insurance	834,296	1,069,204	28.16
	Local companies' gross premium income	829,484	1,063,545	28.22
	Gross premium income of insurance companies with controlling stake owned by local natural persons or legal entities	381,251	340,419	-10.71
	Gross premium income of insurance companies with controlling stake owned by foreign natural persons or legal entities	448,232	721,931	61.06
	Gross premium income of branches of foreign insurance companies	4,812	5,659	17.60
2	Gross premium income from non-life insurance	733,214	919,190	25.36
	Local companies' gross premium income	728,402	913,531	25.42
	Gross premium income of non-life insurance companies with controlling stake by local natural persons or legal entities	335,041	293,263	-12.47
	Gross premium income of non-life insurance companies with controlling stake owned by foreign natural persons or legal entities	393,361	619,073	57.38
	Gross premium income of branches of foreign non-life insurance companies	4,812	5,659	17.60
3	Gross premium income from life insurance	101,082	150,014	48.41
	Local companies' gross premium income	101,082	150,014	48.41
	Gross premium income of life insurance companies with controlling stake owned by local natural persons or legal entities	46,210	47,156	2.05
	Gross premium income of life insurance companies with controlling stake owned by foreign natural persons or legal entities	54,871	102,858	87.45

Appendix 12.2.1.

Premium income, paid up indemnities and market share of non-life insurance companies in 2005

Insurers	Premium income			Paid up indemnities			Main balance sheet indicators(thousand BGN)			
	thousand BGN	Market share (%)	growth	thousand BGN	Market share (%)	growth	Equity	Technical reserves	Technical result	Financial result
DZI - General Insurance AD	186,265	20.26	49.62%	50,675	20.26	49.62%	36,720	96,030	11,783	8,950
ZPAD Allianz Bulgaria AD	132,737	14.44	18.74%	53,430	14.44	18.74%	42,359	75,952	9,361	14,967
ZPAD Bulstrad AD	139,848	15.21	32.74%	67,295	15.21	32.74%	31,957	79,088	4,520	2,477
ZD Bul Ins AD	114,326	12.44	13.51%	45,265	12.44	13.51%	23,151	60,248	6,479	4,480
ZK Orel AD	30,356	3.30	-38.56%	15,248	3.30	-38.56%	13,440	5,639	122	883
ZPD Vitosha AD	54,758	5.96	35.12%	25,098	5.96	35.12%	9,864	10,900	971	1,184
ZK Lev Ins AD	55,109	6.00	36.34%	11,769	6.00	36.34%	17,416	13,560	7,642	7,522
ZAD Energia	47,018	5.12	17.75%	2,753	5.12	17.75%	52,752	9,468	18,249	20,559
ZD Evro Ins AD	40,327	4.39	36.83%	15,028	4.39	36.83%	7,295	7,388	1,818	1,393
ZAD Armeez AD	44,745	4.87	62.44%	9,682	4.87	62.44%	15,981	22,769	3,005	6,697
AIG Bulgaria ZPD AD	12,471	1.36	2.89%	2,678	1.36	2.89%	6,722	1,626	1,115	1,433
ZK Balgarski imoti AD	17,467	1.90	48.44%	5,333	1.90	48.44%	9,697	7,106	-90	-505
ZAD Victoria AD	14,504	1.58	83.62%	3,299	1.58	83.62%	10,298	5,611	-112	159
HDI ZAD	8,234	0.90	24.81%	2,674	0.90	24.81%	6,900	3,519	-273	7
QBE International Insurance Limited – branch Sofia	5,659	0.62	17.60%	1,272	0.62	17.60%	3,265	3,731	164	169
Interamerikan Bulgaria ZAD	6,069	0.66	32.19%	1,039	0.66	32.19%	3,041	529	-119	37
Obstinska zastrahovatelna kompanija AD	4,598	0.50	12.45%	2,017	0.50	12.45%	4,392	1,600	-281	-157
BAEZ AD	2,824	0.31	157.90%	206	0.31	157.90%	11,993	1,270	489	955
ZK DSK Grantzia AD	680	0.07	-	0	0.07	-	2,143	221	-874	-857
MZK Evropa AD	1,195	0.13	-46.63%	637	0.13	-46.63%	1,985	1,184	-874	-813
Total	919,190	100.00	25.36%	315,398	100.00	25.36%	309,422	407,439	63,084	69540

Appendix 12.2.2.

Premium income, paid up indemnities and market share of life insurance companies in 2005

Insurers	Premium income			Paid up indemnities			Main balance sheet indicators (thousand BGN)			
	thousand BGN	Market share (%)	growth	thousand BGN	Market share (%)	growth	Equity	Technical reserves	Technical result	Financial result
DZI AD	45,468	30.31	59.69%	23,240	47.18	6.66%	83,978	45,292	1,233	5,249
ZAD Allianz Bulgaria Life AD	36,867	24.58	32.54%	4,056	8.23	30.54%	17,154	73,610	4,162	4,586
AIG Life Bulgaria ZAD AD	15,235	10.16	39.62%	1,115	2.26	299.64%	5,863	16,699	2,467	2,467
ZK Orel Life AD	14,523	9.68	28.88%	9,270	18.82	31.36%	6,675	6,076	447	310
ZAD Bulstrad-Life AD	9,546	6.36	38.77%	3,419	6.94	110.40%	6,047	6,752	661	678
ZK Vitosha Life AD	9,184	6.12	91.01%	4,391	8.91	186.62%	2,620	4,383	76	194
Grawe Bulgaria AD	7,731	5.15	35.02%	173	0.35	105.95%	5,855	12,761		222
ZHZK DSK Garantzia AD	6,913	4.61	340.88%	1,894	3.84	-	3,422	3,146	-930	-914
Life Insurance Company /ZHVK/ Bulgarski Imoti AD	2,859	1.91	45.05%	1,149	2.33	-80.98%	7,251	2,942	-12	69
VZK Dobrudja-M-Life*	987	0.66	-20.47%	109	0.22	-80.47%	896	2,820	523	32
SIVZK*	701	0.47	66.90%	445	0.90	2125.00%	461	117	149	124
Total	150,014	100.00	48.41%	49,261	100.00	17.03%	140,222	174,598	8,776	13,017

*Mutual life insurance cooperative society

Appendix 12.2.3.

Premium income, paid up indemnities and market share of Health insurance companies in 2005

Health Insurance Companies	Premium income			Paid up indemnities			Main balance sheet indicators (thousand BGN)			
	thousand BGN	Market share (%)	growth	thousand BGN	Market share (%)	growth	Equity	Technical reserves	Technical result	Financial result
Bulgarian Health Insurance Company Zakrila AD	10,710	60.21	43.51%	7,297	76.37	64.27%	2,395	1,451	-180	105
United Health Insurance Fund Doverie AD	863	4.85	-34.62%	303	3.17	13.06%	2,144	586	-3	53
TBI – Health insurance AD	463	2.60	-64.19%	161	1.68	747.37%	662	249	-180	-179
Health Insurance Joint Stock Company DZI AD	428	2.41	-43.46%	84	0.88	133.33%	2,014	100	-59	4
Health Insurance Fund Medico – 21 AD	2,430	13.66	883.81%	925	9.68	15.63%	759	761	222	203
Bulgarian Health Insurance Fund AD	200	1.12	-8.26%	36	0.38	111.76%	796	55	-16	-13
Health Insurance Company Bulgaria Zdrave AD	168	0.94	20.86%	23	0.24	475.00%	558	32	54	54
Voluntary Health Insurance Network Zdrave AD	1,741	9.79	1260.16%	689	7.21	943.94%	1,429	498	366	377
Health Insurance Company Nadezhda AD	326	1.83	715.00%	30	0.31	-	512	82	10	11
Health Insurance Company Planet AD	404	2.27	1124.24%	1	0.01	-	534	405	-79	3
Health Security Company St. Nicola AD	53	0.30	-	6	0.06	-	538	21	-90	-54
HealthInsurance Institut AD	1	0.01	-	0	0.00	-	499	1	-1	-1
Total	17,787	100.00	52.84%	9,555	100.00	69.06%	12,840	4,241	44	563

Appendix 12.2.5.

Insurance brokers revenue by types of insurances in 2005

Type of insurance	Premium income (BGN)	Share	Commissions income (BGN)	Share
Non-life insurance				
Accident	3,404,145	2.17%	825,157	2.66%
Sickness	630,860	0.40%	101,370	0.33%
Land vehicles, excl. railway rolling stock	65,617,021	41.84%	17,054,089	55.07%
Railway rolling stock	832,958	0.53%	135,208	0.44%
Aircrafts	241,238	0.15%	7,475	0.02%
Vessels	1,127,503	0.72%	124,250	0.40%
Loads in transit	3,700,700	2.36%	690,195	2.23%
Fire and natural perils	11,529,750	7.35%	2,101,654	6.79%
Property damage	14,382,950	9.17%	2,240,247	7.23%
Motor vehicle third party liability	40,526,317	25.84%	5,323,614	17.19%
Third party liability related to the possession and use of aircrafts	1,335,569	0.85%	92,622	0.30%
Third party liability related to the possession and use of vessels	1,357,251	0.87%	148,146	0.48%
General third party liability	4,978,258	3.17%	935,161	3.02%
Credits	1,667,635	1.06%	262,425	0.85%
Suretyship	134,792	0.09%	20,973	0.07%
Various financial losses	3,532,605	2.25%	464,038	1.50%
Legal expenses	29085.39	0.02%	269.83	0.00%
Travel assistance	1,785,168	1.14%	441,971	1.43%
Total	156,813,805	82.55%	30,968,863	85.03%
Life insurance				
Life insurance and annuities	31,929,473	96.29%	5,268,771	96.61%
Marriage and child insurance	7,804	0.02%	520	0.01%
Unit linked life insurance	243,755	0.74%	14,435	0.26%
Long-term health insurance	305,838	0.92%	60,061	1.10%
Capital redemption	0	0.00%	12817	0.24%
Supplementary insurance	672,216	2.03%	96,829	1.78%
Total	33,159,087	17.45%	5,453,432	14.97%
TOTAL	189,972,891	100.00%	36,422,295	100.00%

Appendix 13.1A

Equity and assets of pension insurance companies. Assets and number of persons insured in supplementary pension insurance funds as of 31 Dec 2005

Pension insurance company	Equity of the pension insurance company (thousand BGN)	Assets of the pension insurance company (thousand BGN)	Assets of the supplementary pension insurance funds managed (thousand BGN)				Number of persons insured			
			Universal	Occupational	Voluntary	Total	Universal	Occupational	Voluntary	Total
PIC Doverie PLC	4,318	7,134	181,100	107,078	77,617	365,795	903,847	72,426	153,422	1,129,695
PIC Saglasie PLC	6,076	6,844	51,093	44,579	13,805	109,477	270,395	31,780	32,686	334,861
PIC DSC-Rodina PLC	2,891	3,221	30,694	8,952	24,006	63,652	173,841	9,136	23,945	206,922
PIC Allianz – Bulgaria PLC	10,991	12,622	101,227	60,499	226,878	388,604	454,054	37,263	261,092	752,409
ING PIC PLC	3,634	4,161	42,582	11,183	37,137	90,902	210,131	10,599	26,631	247,361
PIAD CCB - Sila PLC	5,448	5,688	14,327	4,654	5,646	24,627	100,029	7,738	17,456	125,223
PIC Lukoil Garant – Bulgaria PLC	3,848	4,237	16,166	16,960	32,223	65,349	85,997	10,923	30,763	127,683
DZI - PI PLC	4,905	5,062	4,583	1,211	3,243	9,037	41,218	2,611	3,856	47,685
TOTAL	42,111	48,969	441,772	255,116	420,555	1,117,443	2,239,512	182,476	549,851	2,971,839

Appendix 13.1B

Main shareholders in pension insurance companies

Pension insurance company	Shareholders	BULSTAT	Share (%)	Share of indirect possession (%)
PIC Doverie PLC	BZP Group AD	130131469	73.52	
	ZPAD Bulstrad AD	000694286	11.45	
PIC Saglasie PLC	ZPD Vitosha AD	0404518650208	15.00	
	Bulgarian Industrial Association	831391124	20.60	
	Himimport AD	000627519	49.28	
PIC DSC-Rodina PLC	CB DSK Bank AD	121830616	97.00	
PIC Allianz – Bulgaria PLC	Allianz Bulgaria Holding Ad	0040812785	65.40	
	Natsionalna Elektricheska Kompania EAD	0000649348	34.00	
ING PIC PLC	ING Continental Europe Holding		100.00	
PIAD CCB - Sila PLC	CCB Assets Management EAD	121749139	89.26	99.20
	CB Central Cooperative Bank AD	831447150	9.95	99.20
PIC Lukoil Garant – Bulgaria PLC	Lukoil Neftochim Bourgas AD	812114069	30.00	
	Lukoil Bulgaria EOOD	121699202	30.00	
	Private Pension Fund Lukoil Garant - Russia	042450562	30.60	
DZI - PI PLC	Interhotel Sandansky – Bulgaria AD	101511550	25.00	
	Universe Company OOD	130948859	15.00	
	Golden Union OOD	130948827	15.00	
	Ceramic - Style OOD	121551239	11.04	
	Beta Trading Corporation OOD	130948866	10.00	
	East Trading Corporation OOD	130948811	10.00	

Appendix 13.2.1.

Financial and economic indicators of pension insurance companies and supplementary pension insurance funds

<i>Pension insurance company</i>				
<i>1. Equity analysis</i>			31 Dec 2004	31 Dec 2005
1.1.	Extent of coverage of equity	%	79.14	86.13
1.2.	Earnings capacity of equity	%	1.90	1.52
<i>2. Analysis of the supplementary pension insurance funds activity</i>				
2.1.	Extent of coverage of assets of supplementary pension insurance funds	%	29.30	13.34
2.2.	Earnings capacity of assets of supplementary pension insurance funds	%	0.72	1.48
2.3.	Growth in assets of supplementary pension insurance funds	%	30.39	9.51
<i>3. Analysis of the incomes and expenses of supplementary pension insurance funds</i>				
3.1.	Efficiency of the pension insurance company's activity	%	103.57	107.37
3.2.	Fees and deductions per insured person in the supplementary pension insurance fund	BGN	6.74	8.11
3.3.	Expenses from activity per insured person in the supplementary pension insurance fund	BGN	10.39	9.98
3.4.	Fees and deductions per 100 BGN of the supplementary pension insurance fund assets	BGN	2.68	2.44
3.5.	Expenses from activity per 100 BGN of the supplementary pension insurance fund assets	BGN	5.51	3.25
<i>Supplementary pension insurance funds</i>				
<i>1. Assets</i>			31 Dec 2004	31 Dec 2005
1.1.	Rate of return on the universal supplementary pension insurance fund assets	coefficient	0.11	0.08
1.2.	Rate of return on the occupational supplementary pension insurance fund assets	coefficient	0.11	0.08
1.3.	Rate of return on the universal voluntary pension insurance fund assets	coefficient	0.11	0.08
1.4.	Managed assets per insured person in universal supplementary pension insurance funds	BGN	116.16	179.23
1.5.	Managed assets per insured person in occupational supplementary pension insurance funds	BGN	924.08	1,144.64
1.6.	Managed assets per insured person in voluntary supplementary pension insurance funds	BGN	595.79	798.61
1.7.	Growth in the assets of universal supplementary pension insurance funds	%	130.13	68.07
1.8.	Growth in the assets of occupational supplementary pension insurance funds	%	42.45	24.40
1.9.	Growth in the assets of voluntary supplementary pension insurance funds	%	28.19	28.87
<i>2. Persons insured in a pension insurance fund</i>				
2.1.	Growth in the number of persons insured in the universal supplementary pension insurance funds	%	24.22	11.71
2.2.	Growth in the number of persons insured in the occupational supplementary pension insurance funds	%	6.72	3.58
2.3.	Growth in the number of persons insured in the voluntary supplementary pension insurance funds	%	3.67	2.64

Note: The average value of all indicators is calculated as an arithmetic average of the value of the indicators for all pension insurance companies/funds except for the indicators for growth in the assets of the supplementary pension insurance funds and the growth in the number of persons insured in the supplementary pension insurance funds which are calculated as a ratio of the annual increase/decrease in their value and their initial value in the beginning of the year.

Appendix 13.2.2. Structure of supplementary pension funds' investments

Investment instruments	Universal pension funds				Occupational pension funds			
	2004		2005		2004		2005	
	Amount (thousand BGN)	Share (%)	Amount (thousand BGN)	Share (%)	Amount (thousand BGN)	Share (%)	Amount (thousand BGN)	Share (%)
Investments	260,813	100.00%	434,045	100.00%	203,679	100.00%	250,195	100.00%
Securities issued or guaranteed by the state	148,956	57.11%	238,117	54.86%	116,819	57.35%	140,099	56.00%
Securities admitted to be traded on the regulated securities markets	29,005	11.12%	75,389	17.37%	19,966	9.80%	43,116	17.23%
<i>Equities</i>	10,708	4.11%	31,160	7.18%	5,103	2.51%	20,324	8.12%
<i>Corporate bonds</i>	18,297	7.02%	44,229	10.19%	14,863	7.30%	22,792	9.11%
Municipal bonds	2,315	0.89%	3,045	0.70%	2,114	1.04%	2,451	0.98%
Bank deposits	49,003	18.79%	75,049	17.29%	38,314	18.81%	41,242	16.48%
Mortgage bonds	28,864	11.07%	35,049	8.08%	22,894	11.24%	19,794	7.91%
Investment property	1,141	0.44%	0,989	0.23%	3,083	1.51%	389	0.16%
Securities derivatives	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Investments abroad	1,530	0.59%	6,407	1.48%	489	0.24%	3,104	1.24%
Investment instruments	Voluntary pension funds				Supplementary pension insurance funds			
	2004		2005		2004		2005	
	Amount (thousand BGN)	Share (%)	Amount (thousand BGN)	Share (%)	Amount (thousand BGN)	Share (%)	Amount (thousand BGN)	Share (%)
Investments	321,564	100.00%	398,222	100.00%	786,056	100.00%	1,082,462	100.00%
Securities issued or guaranteed by the state	172,374	53.60%	181,654	45.62%	438,149	55.74%	559,870	51.72%
Securities admitted to be traded on the regulated securities markets	33,522	10.42%	66,511	16.70%	82,493	10.49%	185,016	17.09%
<i>Equities</i>	10,016	3.11%	28,694	7.21%	25,826	3.29%	80,179	7.41%
<i>Corporate bonds</i>	23,507	7.31%	37,817	9.50%	56,666	7.21%	104,837	9.69%
Municipal bonds	1,217	0.38%	1,882	0.47%	5,646	0.72%	7,379	0.68%
Bank deposits	65,489	20.37%	92,808	23.31%	152,806	19.44%	209,099	19.32%
Mortgage bonds	38,319	11.92%	45,149	11.34%	90,078	11.46%	99,993	9.24%
Investment property	9,017	2.80%	6,149	1.54%	13,240	1.68%	7,526	0.70%
Securities derivatives	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Investments abroad	1,624	0.51%	4,069	1.02%	3,643	0.46%	13,580	1.25%

