



**FINANCIAL SUPERVISION COMMISSION**

# 2006 ANNUAL ACTIVITY REPORT

# Address of the Commission's Chairman

Ladies and gentlemen,

It is my pleasure to present to your kind attention the Annual Report on the activities of the Financial Supervision Commission (FSC) for year 2006.

The past year was exceptionally successful for the market in financial services, while at the same time being filled with challenges, caused by the forthcoming accession of Bulgaria to the EU and the necessity to achieve a number of criteria in this direction. All segments of the financial industry's non-banking sector registered growth, where for yet another year intermediation through the non-banking system confirmed its outrunning rate of development, compared to the remaining sectors of the economy.

At the same time, intermediation through the non-banking financial institutions has not exhausted its potential for further development. The prospects facing the sector are exceptionally favourable with a view to the integration of the Bulgarian market of non-banking financial services in the European one. It is expected that the said process will contribute to the introduction of new players, increase in competition and processes of horizontal and vertical mergers that are more and more intensified, which shall inevitably lead to improving the quality and diversifying the products and services offered.

On its own part, the more and more increasing role of the non-banking financial intermediation, being a more flexible and advanced alternative to banking lending is of considerable importance for the economic processes running in the country with regard to the accession to the single European market for financial services. On the one hand, the well developed and functioning non-banking financial sector ensures more efficient reallocation of the financial assets by the investors towards the real sector, and on the other hand accelerates the investment process through provision of good opportunities for local and foreign investments.

The FSC in its capacity of a single authority entrusted with the task to regulate and supervise the said sector, is fully aware of its responsibility to pursue a government policy that is consistent and aiming at creating optimal conditions for realization of the economic potential of non-banking financial intermediation. Hence, throughout the past year a number of projects for refining the legal framework in the direction of enhancing transparency, confidence and competitiveness of the financial markets were commenced. The requirements imposed on information disclosure by the issuers whose securities are traded on a regulated market were worded more strictly and in a greater detail. The capital requirements set towards the investment intermediaries were amended, where their scope of activity was also extended. New requirements for the introduction of competition between the stock exchanges and other trading platforms were introduced and vital steps were undertaken in this direction. Under reinforced measures to protect the consumers, the restrictions imposed on the investments made by the pension funds and the reserves of the insurers (especially following the Bulgaria's accession to the EU) were considerably liberalised.

The report on the activities of the FSC comprises three parts; each one covering different aspects of the Commission's activities. The activities undertaken in its capacity of a regulatory, licensing and supervisory authority of the non-banking financial sector as realized by the FSC is outlined in the first part. The policy with regard to human resources, the activities and the processes within the frameworks of the international and local co-operation, as well as the improvements in the sphere of the information technologies being a significant instrument for enhancing the efficiency of the Commission's supervisory activities is also presented. The Profit and Loss Account gives the financial picture of the FSC's activities in year 2006. During the year, two new units were also established within the structure of the

FSC. The purpose of the said two units is to enhance the efficiency and transparency of the activities implemented by the Commission. The Internal Audit Unit guarantees the expedient and efficient use of the supervisory institution's financial resources and the Inspectorate exercises internal control with regard to the activities of the officers with the Commission's administration, which activities have been undertaken in connection with the fulfillment of their duties.

The Commission's development strategy in its capacity of a regulatory and supervisory authority is elaborated in the Report's second part. The objectives which the FSC strives to achieve not only with regard to the creation and refinement of the legislation on the operation and functioning of the non-banking financial sector, but also where supervision is exercised over it are described.

The last part of the Report provides information on the development of the non-banking financial sector in year 2006. Data and analyses on the status of the capital, insurance and health insurance markets, as well as on the supplementary pension insurance market are included.

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

**Apostol Apostolov**

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## **List of Used Acronyms**

ABI – Association of Bulgarian Insurers  
SPV – Special Purpose Vehicle  
AEAV – Act of Establishment of Administrative Violation  
BNB – Bulgarian National Bank  
BTC – Bulgarian Telecommunications Company  
BSE – Bulgarian Stock Exchange  
GF – Guarantee Fund  
VPF – Voluntary Pension Fund  
CF – Contractual Fund  
GS – Government Securities  
FSCA – Financial Supervision Commission Act  
LPOS – Law on Public Offering of Securities  
II– Investment Intermediary  
IC – Insurance Code  
CIS –Collective Investment Schemes  
FSC – Financial Supervision Commission  
SIC – Social Insurance Code  
CAM – Coercive Administrative Measure  
PC – Public Company  
PIC – Pension Insurance Company  
OPF – Occupational Pension Fund  
UPF – Universal Pension Fund  
SPIF – Supplementary Pension Insurance Fund

# I. FSC' Activities in 2006

## 1. Regulatory Activity

In relation to the Commission's powers according the Rules of the Structure and Operation of the Commission<sup>2</sup> and under the Financial Supervision Commission Act (FSCA), the statutory acts adopted by the Commission in year 2005 were in consistence with *the program of the legislative activity for the period 1 January – 31 December, 2006*.<sup>3</sup>

In 2006 substantial amendments and supplements were made to the legislative framework, which also included proposals for amendment to the prevailing at the time statutory acts, to be in consistence with the best practices and achievements of the *acquis communautaire*. As a result of it, the Bulgarian legislation in the non-banking sector was further developed, aiming at promoting the development of the capital market, the market of the social insurance and insurance services. A clear indication for the fulfillment of that objective during the past year were the improved indicators of the financial markets, which was achieved mainly by the amendments introduced to the legislative framework, regulating the insurance, health insurance, investment activity and pension insurance. In this sense in 2006 the Commission adopted a number of sub-statutory acts, which already became a part of the legislative framework, regulating the activities of insurance, investment and social insurance activities.

### 1.1. Amendments to the Legislative Framework

#### 1.1.1. Amendments to the Legislative Framework Regulating the Investment Activity

The amendments to the legislative framework, regulating the investment activity in year 2006 covered the adoption of the Law on Measures Against Market Abuse with Financial Instruments<sup>4</sup> (LMAMAFI), a Law on Amendment and Supplement to the Law on Public Offering of Securities<sup>5</sup> (LASLPOS), as well as the elaboration of two draft laws – Draft of Act on Financial Instruments and Draft Law on Amendment and Supplement to the Special Purpose Vehicles Act.

##### **Law on Measures Against Market Abuse with Financial Instruments**

By the adoption of the LMAMAFI, the country fulfilled the recommendation made in the 2005 EC Monitoring Report, according which the transposing of the *acquis communautaire* in the field of securities must continue during the reporting period, too. The following directives were transposed in whole by LMAMAFI: Directive 2003/6/EC on insider dealing and market manipulation (market abuse) and the Directives of its implementation, adopted according the Lamfalussy Procedure concerning the adoption of the legislation in the field of financial services, 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 interests and Directive 2004/72/EC as regards accepted market practices, the definition of inside information in relation to derivatives on commodities, the

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<sup>2</sup> Art. 13, para. 2

<sup>3</sup> The Program has been adopted by Protocol № 59 from 28 Dec., 2005 and Protocol № 33 from 30 June, 2006. 2

<sup>4</sup> Law on Measures Against Market Abuse with Financial Instruments (prom. SG, iss. 84 from 17 Oct., 2006)

<sup>5</sup> Law on Amendment and Supplement of the Law on Public Offering of Securities (prom. SG, iss. 86 from 24 Oct., 2006)

drawing up of lists of insiders, the notification of manager's transactions and the notification of suspicious transactions.

The provisions of the LMAMAFI cover both activities carried out on the territory of the Republic of Bulgaria and relating to financial instruments which are traded in a regulated market in the country or in a Member State, and activities performed on the territory of a Member State and relating to financial instruments which have been admitted to trading on a regulated market in the Republic of Bulgaria. Within the Act's scope fall all financial instruments which are traded on a regulated market in the Republic of Bulgaria, or in a Member State, or for which admission to trading on such market was requested, even though the transactions with these financial instruments to have been concluded outside the regulated market. It is envisaged the prohibitions concerning insider dealing to apply also to all other financial instruments, whose value depends on admitted to trading on a regulated market financial instruments, regardless of whether they are traded or not traded on a regulated market, targeting the covering of all cases which may constitute insider dealing and result in prejudice to the efficient functioning of the capital market.

The LMAMAFI provides for two forms of market abuse – insider dealing and manipulation of the market of financial instruments. In this relation and with the purpose of setting up conditions for the promotion of an open, transparent and efficient market of financial instruments, categorical bans have been introduced from committing market abuses and various measures have been envisaged for their prevention and detection.

The LMAMAFI gives a detailed definition of the concept insider dealing, separate concepts being also envisaged for insider dealing with regard to derivatives on commodities and insider dealing concerning persons, who execute orders in relation to financial instruments. To facilitate the understanding of the concept of the financial instruments market manipulation, beside its detailed defining in the Law, examples have also been given of conduct, which constitutes manipulation of the financial instruments market. With the purpose of limiting the possibility for realization of insider dealing and of ensuring level playing field to market participants with respect to the information, which may significantly influence the financial instruments' price, the requirement has been introduced the issuer to notify in time the Commission and the regulated market on which the financial instruments were admitted to trading of the inside information directly related to it. In order to achieve greater consistency and accuracy in the fulfillment of this duty on the side of the issuers of financial instruments, it is envisaged an ordinance to be issued, which is to indicate the facts and circumstances which may be considered inside information. The Commission and the regulated market will make public the inside information received about any issuer. To ensure the issuer's legal interests, in certain circumstances the possibility has been provided the issuer to defer for given period the provision of this information and its public disclosure.

A requirement has been introduced the issuers to make a list of the persons who work for it under a labor or civil contract and have an access to inside information which relates to them. The issuer and the persons who act on its behalf or for its account, must update and keep the list in the course of 5 years after its drawing up or updating.

The LMAMAFI provides for the persons who perform managerial functions in an issuer and the persons closely related to them, to notify the Commission of the concluded for their account transactions with shares issued by the issuer, or with financial instruments linked to these shares. The notification must be forwarded within 5 business days of the transaction's conclusion and contain the data laid down in detail in the Law. The Commission will make the information received about these transactions public, through the register kept by it under Art. 30, para 1 of the FSCA.

As another measure for detection of market manipulations, it has been envisaged the investment intermediaries to notify the Commission about transactions with financial

instruments for which they have suspicious of constituting insider dealing or manipulation of the market of financial instruments. To facilitate the application of the Law and compliance with this obligation, a non-exhaustive list of the signals for market manipulation has been drawn up in the form of an appendix to the Law. The content and manner of making the notification have been set forth in detail, a prohibition being introduced the notification to be made known to third persons, including the persons for whose account the transaction was executed. The Law also provides for the interaction and cooperation among the Member States in relation to the prevention, disclosure and investigation of the market abuses. The Commission may require information which is needed for the fulfillment of the entrusted to it functions, as well as to ask the competent authority of a Member State to perform concrete actions for the establishment of certain facts or circumstances in connection with found breaches of the Law or to delegate officials from the Commission's administration in the relevant Member State, as well as to participate in their performance. It is envisaged the control over compliance with the Law and its implementing instruments to be exercised by the Commission and by the deputy chairperson.

**With § 2 of the Final Provisions of the LMAMAFI amendments have also been made to the LPOS.** The amendments to the LPOS are related mainly to the newly adopted LMAMAFI. In the LPOS the provisions concerning the insider dealing and the manipulation of the securities market were canceled in the part in which they were settled by the present LMAMAFI. Also amended are the provisions, which regulate the supply of definite information by the issuer to the Commission, which is also settled by the new LMAMAFI.

**With § 3 of the Final Provisions of the LMAMAFI amendments have also been made to the LPOS.** With the amendments additional powers of the Commission have been established, which will be able to give written directions and interpretations on the LMAMAFI, on the other hand additional independent power has been introduced also for the deputy chairperson in charge, who will be able to impose coercive administrative measures in accordance with Chapter Six of the LMAMAFI, as well as to appoint independently the persons from the Commission's administration, who have the right to draw up acts for the establishment of offences of the LMAMAFI and its implementing instruments. To achieve more efficient control and cooperation with the competent authorities from the other states, exercising financial supervision, the possibility has been envisaged the Commission and the appointed officials to be able to demand information, documents and other data on the occasion of received in the Commission signals, complaints or requests.

#### **Law on Amendment and Supplement to the Law on Public Offering of Securities**

With the last amendments and supplements to the LPOS provisions of the following Directives have been transposed: Directive 2003/71/EC on the prospectus to be published when securities are offered to the public, amending Directive 2001/34/EC; Directive 2004/39/EC on markets in financial instruments, amending Directive 85/611/EEC, 93/6/EEC and Directive 2000/12/EC and repealing Directive 93/22/EEC; Directive 2004/109/EC of 15 Dec., 2004 on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC; Directive 97/9/EC of the European Parliament and the Council of 3 March, 1997 on investor-compensation schemes; Council Directive 85/611/EIO of 20 December, 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS). The provisions of Directive 93/22/EEC of 10 May, 1993 on investment services in the securities field have also been also introduced. The Directive aims to harmonize the requirements to the issue of an authorization for taking up business and the requirements to the investment intermediary's activities, harmonizing simultaneously also some conditions in relation to the organization of the regulated markets.

The amendments and supplements made with the LAS LPOS relate to :

- the legal definition of a regulated market, which covers not only the regulated markets which have been granted a license and pursue business under the LPOS, but also the regulated markets, which carry out activity according to the legislation of another Member State;
- the concept „financial instruments“ has been introduced, which to the utmost extent is complied with Directive 2004/39/EC and includes securities, as well as units of collective investment undertakings, money market instruments and derivative financial instruments with various underlying assets;
- the investment intermediaries which have been granted a license to perform the services and activities in accordance with Art. 54, para 2 and 3 in relation to securities, will have the right to perform these services and activities also in relation to financial instruments, other than securities;
- with the purpose of investor protection and more efficient realization of trade with financial instruments, it is envisaged the regulated market to provide detailed information on a daily basis to the Commission about the concluded transactions with securities, admitted to trading on a regulated market; - the regime of shareholding in an investment intermediary from authorization has been altered to notification;
- in relation to the mutual recognition of the supervision in the Member States and the exercising of supervision by the state in which the investment intermediary's seat is located, explicit supervisory powers have been envisaged for the Commission and the Deputy Chairman in regard to the activities of an investment intermediary, having obtained a license to pursue business in the Republic of Bulgaria and pursuing business in another Member State through a subsidiary or under the freedom to provide services; the possibility has been provided for the imposition of coercive administrative measures with regard to investment intermediaries in case of failure to pay one executable amount of the annual contribution, instead of two, as it was pursuant to the Law acting at the time of coming into effect of this LAS LPOS ;
- the possibility the Fund for Compensation of Investors in Securities to review the raised by a client of the investment intermediary claim and to pay the compensation not later than three months from establishment of the ground and the amount of the receivable of the investment intermediary's client, and not from the raising of the claim by the client as it is according to the acting legal regulations; the possibility has been provided for instituting pretensions of an investment intermediary's client against the FCIS through the court;
- to achieve uniformity of the regime of offering securities in the Republic Bulgaria with that of the European Union, under the LAS LPOS the concept of public offering of securities has been broadened; new deadlines have been envisaged for the Commission's pronouncement on the approval of a prospectus, as well as for notification of the decision taken; the possibility has been envisaged with the consent of the relevant competent authority from the Member State, the Commission to delegate its power of prospectus approval to another competent authority from a Member State, depending on the type of issuer and the offered securities or the specifics of the public offering; "single passport" has been introduced, valid on the territory of all EU Member States, in relation to the publication of prospectus, whereby the administrative procedures are simplified in cross-border offering and capital flows, making uniform the regime of financial services on the territory of all EU Member States; also supplemented have been the provisions in relation to the so called "single passport" in carrying out of activity by a management company, that has been granted a license under the Law, within the EU and a management company from a Member State, carrying out activity on the territory of the Republic of Bulgaria.

- In relation to the efficient control over the public offering and admission to trading on a regulated market of securities, the possibility has been envisaged the Commission to cooperate and exchange information with the relevant competent authorities of the other Member States; the Commission's powers have been complemented with respect to the control over compliance with the provisions concerning the publication of a prospectus in the cases of public offering or admission to trading on a regulated market of securities; the scope of the financial instruments in which the assets of an open-end investment company and a contractual fund may be invested has been broadened, and the requirements which these financial instruments should meet have been enhanced, with a view to ensuring the liquidity and safety of the invested in them assets.

### **Draft of Markets in Financial Instruments Act (MFIA)**

With the MFIA the provisions of Directive 2004/39/EC on markets in financial instruments amending Directive 85/611/EEC, Directive 93/6/EC and Directive 2000/12/EC and repealing Directive 93/22/EEC (MiFID) have been finally transposed. Presently the Directive on markets in financial instruments has been implemented in part through the relevant provisions in the LPOS and Ordinance № 1 of 15 Sept., 2003 on the requirements to the activities of investment intermediaries (prom., „SG”, iss. 90 from 10 Oct., 2003). The Act is forthcoming to be adopted in year 2007.

With §1 of the Transitional and Final Provisions of the draft MFIA, amendments have also been envisaged to the Law on Public Offering of Securities. The amendments aim at full transposition of the following directives: Directive 2004/109/EC on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC; and Directive 2004/25/EC on takeover bids.

In this connection, it must be borne in mind that in the statutory acts' elaboration the modern tendencies in the legislation of the Europeans states have been taken into consideration. The deadline of transposition of the directives' provisions in the Bulgarian legislation was January, 2007.

## **1.1.2. Amendments to the Legislative Framework Regulating the Insurance Activity**

The amendments to the legislative framework regulating the insurance activity were reflected in the adopted **Law on Amendment and Supplement to the Insurance Code.**<sup>6</sup>

The amendments provide for measures to maintain a high scope of the obligatory Third Party Liability Insurance, improvement of the capacity of the Guarantee Fund and ensuring a reinsurance cover on the international market. The Guarantee Fund may be relieved of that liability when sufficient financial capacity is achieved. The adopted amendments are a prerequisite for the removal of the border check for the availability of Third Party Liability Insurance within the EU. From now on the insurance brokers will be obligated to file with the Commission annual and periodical reports and check-ups according a model form, approved by an order of the Deputy Chairperson in charge. More stringent requirements have been introduced also to the auditors of the insurance and reinsurance companies, where in case of failure to perform their duties or certifying incorrect statements, the auditors will be deleted from the Commission's register. The auditor will be able to apply for a new filing in the register not earlier than 3 years after the date of effectuation of the decision for deletion. One of the most important amendments to the IC was the fixing of the date 1<sup>st</sup> September, 2006 as

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<sup>6</sup> Law on Amendment and Supplement of the Insurance Code (prom. SG, iss. 54 from 4 July, 2006)

a deadline till which all companies which would sell a Third Party Liability Insurance might file document for relicensing.

### **1.1.3. Amendments to the Legislative Framework Regulating the Activities of Supplementary Pension Insurance**

In 2006 two Laws on **Amendment and Supplement to the Social Insurance Code** were adopted, promulgated on 24 Feb., 2006 and on 11 July, 2006. With the Law on Amendment and Supplement to the Insurance Code from 24 Feb., 2006 the investment regulations concerning the supplementary pension insurance funds were substantially amended. The commitment undertaken by our country was fulfilled for the dropping off of the requirement for investment of the pension fund's moneys in government securities – over 50 % of the assets of a supplementary obligatory pension insurance fund and over 30 % of the assets of a supplementary voluntary pension insurance fund. These provisions in the SIC were not in compliance with the requirements of Art. 102 of the Treaty establishing the European Community (TEC) and Council Regulation 3604/93, according which the local legislation must not provide privileged access of the state or the local institutions (municipalities) to the funds of private financial institutions. The removal of these provisions in the SIC led to overall review of the investment limitations with respect to the other types of instruments in which the pension funds' resources may be invested.

The Law on Amendment and Supplement to the Social Insurance Code of 11 July, 2006 was adopted in connection with the need for introduction in the Bulgarian legislation of the provisions of Directive 86/378/EEC on the implementation of the principle of equal treatment for men and women in occupational social security schemes; Directive 98/49/EC on safeguarding the supplementary pension rights of persons moving within the Community and of Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, as well as compliance of the texts of the SIC with article 43-49 of the Treaty establishing the European Community. The amendments are mainly in Section III of Part II of the SIC, in which a comprehensive legal framework for occupational schemes has been set forth. With the amendments a detailed legislative framework has been implemented in our social insurance legislation for occupations schemes.

According the adopted definition "occupational scheme" means rules of supplementary voluntary pension insurance, negotiated in a collective agreement or collective labor contract between the insurance undertaking and the persons under Art. 4, para 1 and para 3, item 5 and 6 of the SIC. The moneys gathered according them are accumulated and managed in a separate type of funds – supplementary voluntary pension insurance funds with occupational schemes. These funds have been envisaged to be arranged and to operate on the same principles as the hitherto existing supplementary voluntary pension insurance funds, being managed by the current pension insurance companies. The regime of authorization for management and filing in the court, as well as of licensing the new funds is identical with that of the current supplementary voluntary pension insurance funds. There are differences in the name of the fund, as well as in the grounds for withdrawal of the authorization for management of the new funds – in case of systematic violations of the applicable labor and social legislation, the statutory requirements related to the investment activity and disclosure of information. In connection with the introduced occupational scheme, a new registration regime has been established for these schemes. Within a 10-day period of conclusion of the pension contract, the pension insurance company files with the Deputy Chairperson in charge of the Social Insurance Supervision Division, in an approved by him/her model form, a written application for the registration of an occupational scheme, along with a copy – abstract with the conditions of the collective agreement, or the collective labor contract

related to the occupational scheme, and a copy of the pension insurance contract between the undertaking insurer and the company. Within a 7-day period of submission of the application the deputy chairperson will issue an order for registration of the occupational scheme in a public register of the occupational schemes.

In view of the concept of occupational schemes and the requirement of the Directive, these are schemes operating on the fully funded principle. Contributions to the supplementary voluntary pension insurance with occupational schemes can be made by the insurance undertakings established according the legislation of the Republic of Bulgaria and of any other Member State or a state – a party to the agreement for the European Economic Area – about the insured by them persons in the occupational scheme, as well as by natural persons insured under an occupational scheme.

On the other side, to the obligatory requisites of the pension contract, in case of pension insurance under an occupational scheme, must be also added the information about the conditions and scope of the insurance; the types of pension payments and the amount of the insurance contribution.

The Law has also provided for coercive administrative measures concerning a foreign institution for occupational pension insurance. In case of failure to comply with the relevant to the occupational pension scheme provisions of the Bulgarian labor and social legislation, including those related to the investment activity and disclosure of information, the Commission's Deputy Chairman in charge of the Social Insurance Supervision Division may order in writing the admitted offences and the harmful consequences of them to be terminated and removed within a set term, as well as to prohibit the institution from managing an occupational scheme.

**With the Transitional and Final Provisions of the Law** amendments have also been made to the FSCA, it being envisaged the occupational schemes to also entered in the public register kept by the Commission.

#### **1.1.4. Other Amendments to the Legislative Framework**

In 2006 the Commission participated in task forces jointly with other institutions in connection with the elaboration of a draft of **Law on Supplementary Supervision of Financial Conglomerates**<sup>7</sup>. (LSSFC). The adoption of the Law was in relation to the commitments undertaken by the Commission, which were included in the 2006 Action Plan to the Strategy for acceleration of the negotiations of the Republic of Bulgaria for accession to the European Union.

With the LSSFC the provisions have been transposed of Directive 2002/87/EC on the supplementary supervision of the credit institutions, insurance undertaking and the investment companies in a financial conglomerate, amending Council Directive 73/239/EEC, 79/267/EEC, 92/49/EEC and 93/22/EEC and Directives 98/78/EC and 2000/12/EEC of the European Parliament and the Council. The financial conglomerates include entities, both from the banking sector and from the non-banking sector. The supplementary supervision is exercised, in regard to the insurers, credit institutions and the investment intermediaries which form a financial conglomerate, as well as with regard to the mixed activities financial holdings, which are not regulated entities of the Bulgarian National Bank (BNB) or the Commission. The supplementary supervision over the regulated entities, representing a part of such an intersector financial group is not equivalent to the supervision on a consolidated basis or to the supplementary supervision of the insurance group, but is exercised simultaneously with the supervision over the bank sector, over the insurance sector and over the investment

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<sup>7</sup> Law on Supplementary Supervision of Financial Conglomerates (prom., SG, iss. 59 from 21 July, 2006 in effect from 1 Jan., 2007)

services sector. The LSSFC regulates the forms of exchange of information between the separate competent authorities and mixed activities financial conglomerates. Defined are basic concepts, whereby uniformity is achieved of these legal concepts with the definition under Credit Institutions Act and the IC. Thresholds have been statutorily established for the identification of groups as financial conglomerates. In certain cases the BNB and the Commission, as competent supervisory authorities are vested with discretion to decide whether a given group is to be considered a financial conglomerate, although it formally meets the criteria indicated in the Law. Subject of supplementary supervision on the level of financial conglomerate according the Law is any regulated entity: which is ahead of a financial conglomerate; or whose parent undertaking is a financial holding group engaged in mixed-activities with a registered office in a Member State; or which is a related entity to an entity from another financial sector in a horizontal group. The LSSFC does not envisage the BNB and the Commission to exercise supervisory powers on an independent basis in relation to a financial holding company engaged in mixed activities, regulated entities from a third country which are a part from a financial conglomerate, or entities from a financial conglomerate which are not regulated entities. The Law sets forth in details the cases in which the BNB or the Commission will perform the functions of a coordinator in relation to a financial conglomerate. The possibility is also settled the BNB and the Commission to conclude between themselves and the other concerned competent authorities agreements for the purposes of the supplementary supervision. These agreements may envisage additional functions of the coordinator, procedure of taking decisions among the relevant competent authorities, as well as for cooperation with other competent authorities, and for the information sharing among them. The Law contains provisions, by virtue of which the BNB and the Commission may impose coercive administrative measures in relation to a licensed by either of them regulated entity or in relation to a holding company engaged in mixed activities, if any of them exercises the functions of a coordinator. This power may be realized when specific requirements of the Law have been broken or where the financial situation of a regulated entity in a financial conglomerate, or of the conglomerate as a whole may be endangered. A possibility has also been provided for the BNB and the Commission to exercise supplementary supervision also in relation to regulated entities whose parent undertakings are with a registered office in a third country, if these entities are not subject to equivalent supervision by a competent authority of that country.

With § 5 of the Transitional and Final Provisions of the LSSFC, amendments and supplements were also made to the **Insurance Code**. Amendments have been introduced to Art. 28 of the IC, by which the definition of insurance holding company engaged in mixed-activities is amended. Amendments were also made to other basic concepts established with the provisions of the IC, such as for instance the definition of „control“, „participation“, on the other hand new concepts have been established such as „financial holding company engaged in mixed activities“.

## **1.2. Amendments to the Sub-statutory Legislative Framework**

### **1.2.1. Amendments to the Sub-legislative Framework Regulating the Investment Activity**

During the past 2006, the Commission continued to develop the legislative framework regulating the state supervision over the investment activity related to the capital market, by updating the acting Bulgarian legislation and its harmonization with the *acquis communautaire*, as well as by the removal of some imperfections in the existing legislative base. In this sense the following statutory acts have been adopted:

**Ordinance on Amendment and Supplement to Ordinance № 2 in 2003** on the prospectuses in the case of public offering of securities and on the disclosure of information by the public companies and other issuers of securities<sup>8</sup>. The amendments to the Ordinance are related predominantly to the most recent amendments to the LPOS („SG“, iss. 39 from 10 May, 2005). It has been envisaged in the greater part of the cases the information provided by the public companies and the other securities issuers to be submitted to the Commission instead of to Deputy Chairman, in charge of Investment Activity Supervision Division. The other amendments are related to achieving uniformity with the adopted by the Law terminology.

**Ordinance on Amendment and Supplement to Ordinance № 15 in 2004** for keeping and storing of the registers by the Financial Supervision Commission and the circumstances subject to entry<sup>9</sup>. The amendments and supplements to the Ordinance are related to amendments to the LPOS<sup>10</sup> from May, 2005. The circumstances of the contractual funds which are subject to entry in the Commission's register have been expressly indicated. The other amendments are connected with the achievement of uniformity with the adopted legal terminology.

**Ordinance on Amendment and Supplement to Ordinance № 6** on the capital adequacy and liquidity of investment intermediaries<sup>11</sup> (canceled „SG“, iss. 97 from 1 Dec., 2006). The amendments to the Ordinance are result of amendments to the LPOS from the month of May, 2005, by which an obligation has been established of the investment intermediaries, which do not perform investment services and activities under Art. 54, para 2, item 3 and 6 of the LPOS and hold client cash and securities, to have at any time capital not less than BGN 100 000.

**Ordinance № 23 from 8 Feb., 2006** on the terms and procedure for client assets valuation<sup>12</sup>. The Ordinance has been issued on the ground of § 16, para 1 of the Transitional and Final Provisions in relation to Art. 77c, para 3 and Art. 77m, para 5 of the LPOS. The Ordinance settles for the first time the issues related to the valuation of the client assets, provided to the investment intermediary in connection with the performance of one or more of the services and activities under Art. 54, para 2 and 3 of the LPOS. The client asset valuation is made in the investment intermediaries with the purpose of calculation of the amount of the annual contribution, which the investment intermediaries have to make in the Fund for Compensation of Investors in Securities. On the basis of this valuation also the amount of compensation is determined which the Fund for Compensation of Investors in Securities pays to the investment intermediary's clients in the cases where bankruptcy proceedings are initiated for the investment intermediary or the competent supervisory authority has established that the investment intermediary is unable to fulfill its obligations to its clients. The Ordinance settles in detail the rules for the client asset valuation for the different types of client assets. In consistence with the provisions of the LPOS, it has been envisaged the client assets to be valued at their market value, and the ways in which that value is determined have been expressly established. In the cases when the market value of the securities and the other client assets may not be formed, it has been accepted they to be evaluated with generally accepted methods, expressly stated in the Ordinance or by methods, indicated in written rules of the investment intermediaries on client asset valuation.

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<sup>8</sup> Ordinance on Amendment and Supplement to Ordinance № 2 (prom. SG, iss. 12 from 7 Feb., 2006)

<sup>9</sup> Ordinance on Amendment and Supplement to Ordinance № 15 (prom. SG, iss. 12 from 7 Feb., 2006)

<sup>10</sup> LAS to LPOS (SG, iss. 39 from 10 May, 2005).

<sup>11</sup> Ordinance on Amendment and Supplement to Ordinance № 6 (prom. SG, iss. 17 from 24 Feb., 2006; canceled SG, iss. 97 from 1 Dec., 2006)

<sup>12</sup> Ordinance № 23 ( prom. SG, iss. 19 from 2 March, 2006)

**Ordinance № 26 of 22 March, 2006** on the requirements for the activities of management companies<sup>13</sup>. The Ordinance retains the structure and the principle provisions underlying the Ordinance on the requirements to the activities of management companies, adopted by Decree of the Council of Ministers № 269 in year 2000 and at the same time amendments and supplements have been envisaged aiming at compliance of the statutory act with the amendments to the LPOS from the May, 2005. In this sense the Ordinance provides for additional requirements to the management companies, with a view to broadening their activity with the additional services under Art. 202, para 2 of the LPOS. The minimum content has been regulated of the rules for personal transactions with securities of the members of the management and supervisory bodies, of the investment adviser, working under a contract for the management company, of the management company's officials and related persons. The content of the general conditions on which the management contract is concluded with the management company, has been supplemented in connection with the management of an individual securities portfolio at own discretion, without any special instructions by the client. More stringent requirements have been introduced to the natural persons, who on behalf of the management company accept orders for purchase and sale of an investment company's shares and a contractual fund's units, a possibility being provided to the management company to carry it out also by a contract with a bank or non-banking financial institution. A regime has been established under whose conditions the management company may invest the funds of the collective investment schemes in derivatives. The requirements to the management company's capital adequacy have been rendered concrete and the regime of investment of its equity has been liberalized.

**Ordinance № 25 of 22 March, 2006** on the requirements to the activities of investment companies and contractual funds<sup>14</sup>. Underlying the Ordinance are the main provisions and structure of the Ordinance on the requirements to the activities of investment companies, adopted by a Decree of the Council of Ministers № 268 in year 2000, and the texts relating to the investment companies' operation have been brought in compliance with the amendments to the LPOS from the month of May, 2005, the Commercial Law and the Ownership Act. Concretely have also been listed the requirements to the operation of the contractual funds, which were introduced as a collective investment scheme with the amendments to the LPOS, made in 2005. The Ordinance settles in detail the requirements to the content of the contract which the management company concludes with the depository bank of the fund, in connection with the safekeeping of the contractual fund's assets. The procedure and conditions have also been envisaged, according which in the cases of withdrawal of a license to pursue business, termination or declaring bankrupt of a management company, the management of the fund to be undertaken by another management company. Conditions have been introduced on which the Commission issues authorization for a contractual fund's transformation and termination. The rules have been settled by which valuation of the investment company and contractual fund's assets is made, a specific procedure of making subsequent evaluation being introduced for every specific type of securities and financial instruments, and in the cases when this procedure may not be applied, they to be evaluated by the generally accepted methods, explicitly stated in the Ordinance or by methods indicated in the rules of valuation of the investment company and the contractual fund's assets. The Ordinance establishes an obligation for the contractual funds and the investment companies to bring their operation in compliance with the requirements of the Ordinance within a three-month period of its promulgation in State Gazette.

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<sup>13</sup> Ordinance № 26 (prom. SG, iss. 36 from 2 May, 2006)

<sup>14</sup> Ordinance № 25 of 22 March, 2006 on the requirements to the activities of investment companies and contractual funds (prom. SG, iss. 106 from 27 Dec., 2006)

**Ordinance on Amendment and Supplement to Ordinance № 8** on the Central Depository of Securities<sup>15</sup>. The amendments relate to a provision by which the procedure of payment of dividends, interest and principal is determined by public companies and issuers of debt securities, but only through the Central Depository. They are necessitated by the fact that the hitherto existing formulation of Art. 38, para 1 of the Ordinance allows the public companies and issuers of securities to agree their own procedures of payment of dividends, interest and principals. Such procedures (different for any public company) may lead to delay in payments and increase of the costs for the investors. With the purpose of non-admission of an alternative procedure of payment of dividends, interest and principals, a supplement has been adopted to Art. 38, para 1 of the Ordinance, as a result of which the public company and issuer of debt securities pay dividends, interest and principals only through the Central Depository on the basis of the calculations made under Art. 37a of the Ordinance. New Chapter Five has also been adopted in the Ordinance, which regulates the administrative penal liability of the persons who committed offences of the Ordinance, as well as of the persons who admitted the commitment of such offences.

**Ordinance № 35** on the capital adequacy and liquidity of investment intermediaries<sup>16</sup>. The Ordinance aims at harmonization of the legal regulations with Directive 2006/49 of 14 June, 2006 of the European Parliament and the Council on the capital adequacy of investment intermediaries and credit institutions. With the Ordinance general standards have been implemented of own funds, capital requirements and common supervisory framework in relation to the risks, to which investment intermediaries are exposed when pursuing their business.

The Ordinance also settles in detail the minimum requirements to the amount of own funds, their elements and the capital requirements for the risks to which the investment intermediaries are exposed when carrying out their activities both on individual and consolidated basis. Provisions have been introduced about position risk, settlement risk, credit risk, currency risk, operational and commodity risk. On the other hand, the investment intermediary undertakes to elaborate internal rules of management which are to settle the organizational structure and to set the levels of responsibilities, as well as adequate mechanisms for internal control, specifying accurately the administrative and accounting procedures.

The concept of non-investment portfolio has been introduced which covers the positions of the investment intermediary in financial instruments and commodities, which it holds with the intent for sale or risk hedging. The non-investment portfolio includes both own positions in instruments and commodities, and the positions which arise from the providing of services to clients. Differentiated are the capital requirements to positions in the non-investment portfolio and to the other positions held by the intermediary.

According to the provisions of the Ordinance, the investment intermediary must disclose to the public information both separately for each category of risk, disclosing the objectives and policy in the field of risk management, and information in relation to the Ordinance implementation.

Introduced are also rules concerning the capital requirements on a consolidated basis and respectively the supervision on consolidated basis and the exchange of information between the competent authorities. The Ordinance is in force since 1 Jan., 2007.

The Ordinance supersedes Ordinance № 6 on the capital adequacy and liquidity of investment intermediaries (canceled).

**Ordinance on Amendment and Supplement to Ordinance № 2** on the prospectuses in the case of public offering of securities and on the disclosure of information by the public

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<sup>15</sup> Ordinance on Amendment and Supplement to Ordinance № 8 (SG, iss. 95 from 24 Nov., 2006)

<sup>16</sup> Ordinance № 35 (prom. SG, iss. 97 from 1 Dec., 2006)

companies and other issuers of securities<sup>17</sup>. With the amendments and supplements an additional requirement has been introduced to the summary of the prospectus, which must also contain a warning to any investor who has brought up a claim with regard to the summary content, that a liability may arise for payment of the costs for translation of the prospectus in the instituting of legal proceedings. The persons who have prepared the summary, including its translation shall bear responsibility for any damages only if the contained in it information is misleading, false or contradicts the other parts of the prospectus. The other amendments are related to the subsequent disclosure of information by the public companies and other issuers of securities and have been introduced with the purpose of achieving full conformity with the Laws on Measures Against Market Abuse with Financial Instruments (LMAMAFI). In this connection the concept of inside information has been introduced, the exemplary listing being retained of the facts and circumstances which may constitute inside information, but provided only that they correspond to the concept of inside information defined in the LMAMAFI. Obligations for the issuers instruments have also been introduced in relation to the keeping of the confidential nature of the inside information, in case that the issuer defers its disclosure. It has also been envisaged the issuer to notify the Commission of the inside information in case of violation of its confidentiality. Provisions of Directive 2003/71/EC concerning the publication of prospectus in the public offering of securities have also been transposed.

**Ordinance № 37 of 29 Nov., 2006** on the recognition of the accepted market practices<sup>18</sup>. The Ordinance settles the factors which the Commission takes into account in the recognition of the accepted market practices, the procedure of agreeing in the recognition of the accepted market practices, the announcement of the decisions about the recognized market practices. The Commission must coordinate the draft decision for recognition of the accepted market practices with the representative organizations of the issuers, investment intermediaries and investors, the regulated market and the other participants on the market of financial instruments, with the competent authorities of the other Member States and more especially with those of them where there are markets with similar characteristics concerning the way of organization, the volume and type of transactions. The interested persons may submit proposals and objections within a set by the Commission term, which may not be shorter than one month. The decision of the Commission for recognition of the accepted market practice is published in the official bulletin of the Commission, as well as on its web page. With the Ordinance the provisions have been transposed of 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 .

**Ordinance on Amendment and Supplement to Ordinance № 11 in 2003** on authorizations to carry out activity as stock exchange, organizer of unofficial securities market, investment intermediary, investment company, management company and special purpose vehicle<sup>19</sup>. The amendments to the Ordinance have been conformed with the amendments to the authorization and licensing regimes in the LPOS. An obligation has also been introduced of the Commission to consult the relevant competent authorities from another Member State prior to pronouncing on an application for the issue of a license to an investment intermediary and management company, which are related persons to other investment intermediaries, management companies, credit institutions and insurance companies from other Member States in connection with the requirements of Directive 85/611/EEC and Directive 93/22/EEC.

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<sup>17</sup> Ordinance on Amendment and Supplement to Ordinance № 2 ( prom. SG, iss. 101 from 15 Dec., 2006)

<sup>18</sup> Ordinance № 37 (prom. SG, iss. 101 from 15 Dec. 2006)

<sup>19</sup> Ordinance on Amendment and Supplement to Ordinance № 11 (prom. SG, iss. 101 from 15 Dec., 2006)

**Ordinance on Amendment and Supplement to Ordinance № 13 from 2003** on tender offering for buying and exchange of shares<sup>20</sup>. With the amendments a new Art. 19a has been created according which if as a result of realized tender offer under Art. 16 of the Ordinance, the tender offeror acquires more than 50 per cent, respectively more than 2/3 of the votes in the public company's general meeting, no obligation will arise for the tender offeror to register a new tender offer under Art. 6, item 1 of the Ordinance, or under Art. 10, para 1, only provided the tender offer under Art. 16 of the Ordinance was made to all shareholders and the offered price was fixed as: not lower than the average weighted market price of the shares for the last 3 months – in the cases when the shares of the company are traded actively within the meaning of the Ordinance, or; not lower than the highest value of the fair price calculated on the basis of the generally accepted valuation methods, reasoned according Art. 4, para 2, and the highest price per a share, paid by the offeror during the last 6 months before the registration of the offer – in the cases when the shares of the company are not traded actively. The amendments introduce the provisions of Directive 2004/25/EC on takeover bids.

**Ordinance on Amendment and Supplement to Ordinance № 25 in 2006** on the requirements to the activities of investment companies and contractual funds<sup>21</sup>. The amendments and supplements in the Ordinance were dictated by the necessity to harmonize the national legislation in the field of collective investment with the provisions of Directive 85/611/EEC, as well as to introduce texts in order to bring the Ordinance in compliance with the amended and supplemented provisions of the LPOS. Requirements have been introduced to the operation of the collective investment schemes and management companies in relation to risk management, including development and implementation of a risk management system, implementation of internal rules, regulating in detail the policies and procedures of risk identification, assessment, monitoring and hedging, accounting, appointment of suitable qualified personnel, etc. Simultaneously, the rules of valuation of the collective investment schemes' assets have been complied with the amendments and supplements to the LPOS concerning the structure and the content of the portfolio of the investment companies and contractual funds. Amendments were made to the regime of the collective investment schemes transformation. With the Ordinance amendments have also been introduced in **Ordinance № 26 in 2006** on the requirements to the activities of management companies, the same being directed to more detailed regulation of the contractual relations with banks and non-banking financial institutions in connection with the delegation on the side of the management company of functions and actions for the sale and redemption of units of collective investment schemes. The amendments to the LPOS, relating to the management companies' assets and their valuation for the purposes of their capital adequacy and liquidity have also been reflected in the Ordinance.

### **1.2.2. Amendments to the Sub-statutory Acts Regulating the Insurance and Voluntary Health Insurance**

During the reviewed period the FSC adopted a number of sub-statutory acts concerning the operation of insurers and health insurance companies:

**Ordinance on Amendment and Supplement to Ordinance № 21 of 16 March, 2005** on the own funds and solvency margin of insurers and health insurance companies (the Ordinance)<sup>22</sup>. With the adoption of the Ordinance the undertaken by the country commitments in the Additional Information to Negotiation Position on Chapter Three Freedom to Provide

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<sup>20</sup> Ordinance on Amendment and Supplement to Ordinance № 13 (prom. SG, iss. 101 of 15 Dec., 2006)

<sup>21</sup> Ordinance on Amendment and Supplement of Ordinance № 25 (prom. SG, iss. 106 of 27 Dec., 2006)

<sup>22</sup> Ordinance on Amendment and Supplement to Ordinance № 21 (prom. SG, iss. 22 from 14 March, 2006)

Services have been fulfilled. With the Ordinance separate provisions have been fully transposed from Directive 72/237/EEC and from Directive 2002/83/EC on the requirements to the solvency margin of insurers. The amendments are mainly related to the currently acting IC. New elements have been introduced in the calculation of the insurer's own funds. According the new provisions from the own funds of the insurer are deducted its shareholdings and stakes in the capital of other financial institutions. Amendments and supplements have also been made to Appendix № 3 to Art. 24 of the Methods of calculation the corrected solvency of insurers under Art. 299, para 1, item 1 of the IC. Until the elaboration of the ordinances for the application of Art. 99, para 3 and Art. 101, para 1, item 3 of the IC, the own funds and the solvency margin were calculated on the basis of the data from the annual financial statement, drawn up according the rules of Ordinance 20 in 2005 on the form and content of the annual financial statement of insurers and health insurance companies (SG, iss. 15 in 2005), as well as of the check-ups, determined by Orders № 62/2 Feb., 2004, № 145/1 April, 2004 and № 109/27 April, 2005 of the Deputy Chairperson of the Commission in charge of Insurance Supervision (deputy chairperson).

**Ordinance № 24 of 8 March, 2006 on the compulsory insurance pursuant to Art. 249, items 1 and 2 of the Insurance Code and on the procedure of settlement of claims for compensation of damages caused to motor vehicles<sup>23</sup>.** The Ordinance supersedes the acting at that time Ordinance №18 on the obligatory insurance under Art. 77, para 1, item 1 and 2 of the Law on Insurance. The Ordinance settles the procedure and conditions for carrying out of obligatory insurance of Third Party Liability Insurance of Motorists and Accident Insurance of Passengers, as well as the conditions and procedure for underwriting and accounting for the border Third Party Liability Insurance of Motorists. A uniform procedure has been introduced of the settlement of claims for compensation of damages caused to motor vehicles. The regulated by the Ordinance conditions for the carrying out of the obligatory insurance of Third Party Liability Insurance of Motorists and Accident Insurance of Passengers, have been brought in compliance with the new requirements of the Insurance Code (IC), a possibility being envisaged insurers to be able to apply also conditions, other than those laid down in the Ordinance, but only if they are more favorable for the consumers.

The minimum requirements have been set for the content of the policies for that type of insurances: data about the insurer, data about the insured person and the automobile, premium due, etc. Also specifically stated are the documents which the injured persons have to present, in order their claim to be considered and the insurance compensation to be fixed. The requirement the insurer obligatorily to provide the insured with a sticker has been retained, which is placed on the automobile's front window. A new moment is the requirement the driver always to bring with himself the control slip to the sticker, which is presented together with the insurance policy upon inspection of the control authorities.

The minimum amount of the compensation for damages caused to automobiles is determined by a methodology, an Appendix to the Ordinance. The methodology establishes the procedure for determining the actual vale of the different motor vehicles and the factors which are taken into account in the calculation of the amount of compensation. The methodology is applied by the insurers, which have been granted a license to offer Third Party Liability Insurance of Motorists and Accident Insurance of Passengers, and by the Guarantee Fund, where at their own discretion the insurers may also use another methodology when it is more favorable to consumers and results in the formation of higher in amount compensations.

**Ordinance № 27 of 29 March, 2006 on the procedure and methodology for formation of technical reserves by insurers and of the health insurance reserves.<sup>24</sup>** The

<sup>23</sup> Ordinance № 24 (prom. SG, iss. 25 of 24 March, 2006)

<sup>24</sup> Ordinance № 27 (prom. SG, iss. 36 from 2 May, 2006)

Ordinance has been issued on the grounds of § 12, para 2 in relation to Art. 68, para 4 of the IC and Art. 90c, para 4 of the Health Insurance Act (HIA). The Ordinance transposes the EU Directives on life and non-life insurance in the part concerning the requirements to the technical reserves and has been conformed to the amendments to the IC. The obligation was abolished for distribution of at least 90 per cent of the realized income from investments on the accounts of the life insured persons. The distribution of the income will be based on the individual policies of the insurance companies on market principle. Certain limitations have been changed relating to the formation and disposal with the reserve fund. Some approvals of parameters were abolished in the technical reserves formation, and at the same time greater responsibilities have been assigned to the companies with a view to the specifics of their portfolio. Another novelty is the requirement for a maximum rate of the technical interest under Art. 13, para 10 of the Ordinance, in relation to the insurance contracts concluded after 1 Oct., 2006. The Ordinance superseded the acting at the time Ordinance on the procedure and methodology of formation of the insurance and health insurance reserves, adopted with Decree № 13 of the Council of Ministers from 24 January, 2003 (SG, iss. 10 in 2003).

**Ordinance № 28 from 10 May, 2006 on the conditions and procedure for conducting of an examination for professional qualification of insurance brokers and for recognition of qualification acquired in a Member State<sup>25</sup>.** A ground for adoption of the act was Art. 157, para 7 of the IC. The Ordinance settles the conditions and procedure of conducting and examination for professional qualification of the persons who wish to pursue the business of insurance broker. The provisions of the Ordinance also apply to the members of the management body of an insurance broker – a legal entity and to the persons, authorized to manage or represent an insurance broker – legal entity, as well as to the natural persons representing the legal entity – a member of the management and supervisory bodies of the insurance broker – a legal entity. Under the Ordinance the qualification of the above stated persons acquired in an EU Member State is recognized as well. To be filed in the register under Art. 30, para 1, item 9 of the FSCA, the persons under Art. 1, para 1 of the Ordinance must have successfully passed an examination, organized by the Commission. For the purpose the applicant files an application for admission to an exam (respectively, for recognition of the acquired qualification in a Member State), by a model form approved by the Deputy Chairman. To the application are applied the documents concretely listed in the Ordinance, certifying the requirements which the applicants must satisfy (Art. 157 IC). On the other hand, with the provision of Art. 14 of the Ordinance, the legal possibility is created the Commission to refuse to recognize acquired qualification, provided specified hypothesis exist. The persons whose qualification acquired in a Member State has been recognized receive a certificate issued by the Deputy Chairman. With the Transitional and Final Provisions of the Ordinance a possibility has been provided for the existing insurance brokers who have brought their activity in compliance with the legal requirements within a period by 31 March, 2006 and who satisfy the requirement for professional experience within the meaning of Art. 2, para 3 of the Ordinance, to file an application with the Deputy Chairman and to be officially entered in the register under Art. 30, para 1, item 9 of the FSCA, without sitting for an examination. Where the existing insurance broker is a legal entity and the requirement regarding professional experience is not available with respect to all members of its management body, an obligation has been envisaged for all persons – members of its management body to sit for an examination ( Art. 6, para 1 of the Ordinance).

**Ordinance on Amendment and Supplement to Ordinance № 15 on keeping and storing the registers by the Financial Supervision Commission and the circumstances subject to entry<sup>26</sup>.** A ground for making amendments to the Ordinance has been § 13, item 9

<sup>25</sup> Ordinance № 28 (prom. SG, iss. 42 of 23 May, 2006)

<sup>26</sup> Ordinance on Amendment and Supplement to Ordinance № 15 (prom. SG, iss. 53 of 30 June, 2006 )

of the Transitional and Final Provisions of the IC, whereby Art. 30 of the FSCA is amended and supplemented. With the amendment to the Ordinance a new register has been created – for the persons who have acknowledged legal capacity of a responsible actuary. Since the coming into effect of the amendments to the Ordinance, the insurance agents will be included in the register as well. Amendments have been also made to the sections, related to circumstances subject to entry in the register of insurers and reinsurers, and of insurance brokers and insurance agents.

**Ordinance № IB-991 from 3 July, 2006 on the forms and way of exchange of information and interaction between the Information Center for the obligatory Third Party Liability Insurance of Motorists and Accident Insurance of Passengers, the Ministry of Interior (MI) and the Ministry of Transport (MT)**<sup>27</sup>. A ground for the adoption of the act has been Art. 295, para 6 and Art. 292, para 1, item 1 and item 5 of the IC. According the ordinance, the Information Center exchanges information and realizes interaction with the MI and MT in relation to: establishment of motor vehicles which do not have taken up a Third Party Liability Insurance of Motorists, as well as of the carriers in the public transport vehicles without Accident Insurance of Passengers; rendering full assistance in the exercising of the rights of the persons, who seek compensation against Third Party Liability Insurance of Motorists and Accident Insurance of Passengers, as well as for the establishment of circumstances, related to occurred road traffic accidents. The Ordinance has determined the format, way and terms within which the MI, MT, the Commission and the Information Center under Art. 292 of the IC realize interaction and share the needed information. For the purpose, the Information Center sets up the necessary organization for notification of the motor vehicles' owners on the expiration of the term of the obligatory Third Party Liability Insurance of Motorists, giving them a 14-day period after the day of notification to produce evidence about the availability of concluded and effective contract for such insurance. The Ordinance comes into force within a three-day term of its promulgation in SG, with the exception of Art. 8 of the Ordinance, which under § 2 of the Transitional and Final Provisions of the Ordinance is envisaged to come into force within a one-year period after the promulgation of the act in SG. The Ordinance was adopted jointly by the Minister of Interior, Minister of Transport and the Commission.

**Ordinance № 31 of 2 August, 2006 on the conditions and procedure for conducting an examination and recognition of legal capacity of a responsible actuary, on the recognition of legal capacity acquired outside the Republic of Bulgaria, as well as on the form of the actuarial certification, the form and content of the actuarial report and the check-ups under the IC and the HIA, which the responsible actuary certifies**<sup>28</sup>. Grounds for the adoption of the act have been Art. 95, para 2, item 5 and para 3 and Art. 97, para 6 of the IC; Art. 97a, para 2, item 5, para 3 and Art. 97c, para 6 of the HIA and Art. 122i, para item 5 and para of the Social Insurance Code. The Ordinance regulates the conditions and procedure for the carrying out of an examination for the acknowledgement of a responsible actuary by the Commission. Requirements were introduced for covered horarium in high mathematics. The documents have been concretely stated, which a person wishing his capacity of a responsible actuary, acquired outside the Republic of Bulgaria or in an EU Member State to be recognized, must submit at the Commission. The Ordinance, on the other hand, provides for the possibility a legal capacity to be recognized of a responsible actuary for each separate field – non-life insurance, life insurance, health insurance and supplementary pension insurance individually, or for all together, after a successfully passed examination before an examination committee consisting of at least three members. The procedure of work and the membership of the examination committee shall be determined by a decision of the

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<sup>27</sup> Ordinance № IB-991 prom. SG, iss. 57 of 14 July, 2006)

<sup>28</sup> Ordinance № 31 (prom. SG, iss. 71 of 1 Sept., 2006)

Commission. The exam is written and anonymous.

The form of the actuarial certification and the form and content of the actuarial report and the check-ups under the IC and the HIA are also set forth in the Ordinance. This Ordinance superseded the acting at the time Ordinance № 14 in year 2004 on the procedure and way of licensing actuaries of pension insurance companies and of the managed by them supplementary pension insurance funds (SG, iss. 46 in 2004).

Rules on the Structure and Operation of the Guarantee Fund<sup>29</sup>. A ground for the Rules acceptance has been Art. 287, para 7 of the IC. The purpose of the normative act is to ensure the functioning of the system of obligatory insurances, including the Information Center to the Guarantee Fund. The Rules settle the structure and operation of the Fund. The Rules envisage that in the financing and management of the fund will participate insurers with a seat: in the Republic of Bulgaria; in a third country, which carry out activity in the Republic of Bulgaria also through a branch according the Commercial Law; in a Member State, which carry out activity in the Republic of Bulgaria under right of establishment or the freedom to provide services. The above indicated insurers must have obtained a license for provision of insurances under item 1 or item 10.1 of Section II, letter A of Appendix № 1 to the IC.

The Rules concretely set forth the requirements which the Executive Director of the Fund must satisfy, as well as his powers. The minimum amount of the available resources of the Fund was fixed - BGN 3 000 000. It has been envisaged the Fund to pay indemnification against the obligatory Third Party Liability Insurance of Motorists, in the specifically indicated in the Rules cases, as well as indemnifications against the obligatory Accident Insurance of Passengers, in case the carrier did not have an insurance. In this sense it has been indicated that the term of pronouncing on the claim is within 15 days of the date of submission of all evidence, but may not be more than three months after the date of filing the claim. The injured person may raise his/her claim for payment to the court only in the expressly stated in the Rules cases, i.e.: if the Fund does not pronounce on the filed application within the above indicated term; if it denies to pay indemnification or if the injured person does not agree with the amount of indemnification.

The Fund must adopt detailed Rules for the procedure of settlement of property claims, which it must publish on its web page. The Fund, on the other side, must prepare and adopt also internal rules of its organization and operation, which have to regulate its managerial and organizational structure, clearly setting forth the managerial positions and the allocation of the functions and its powers among the members of the management board and the other managerial positions.

The activity of the Fund is subject to supervision on the Commission's side, and for the purpose, the rules of insurers' supervision apply accordingly. The Management Board of the Fund is obligated to file with the Commission an annual report on its activities and a report on the condition of the Fund's resources by March 31 of the next year. The acting at the time Rules on the Structure and Operation of the Guarantee Fund (SG, iss. 20 in 2005) was superseded with the coming into effect of these Rules.

**Ordinance № 30 of 19 July, 2006** on the requirements to the accounting, form and content of the financial statements, check-ups, reports and appendixes of insurers and health insurance companies<sup>30</sup>. Presently the Ordinance is a part of the legislative framework regulating the activities of the insurers and health insurance companies. A ground for the act's adoption has been Art. 99, para 3 and Art. 101, para 1, item 3 of the IC. With the adoption of the Ordinance, the provisions have been implemented of Directive 2003/51/EC amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and

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<sup>29</sup> Rules for the Structure and Activity of the Guarantee Fund (Prom. SG, iss. 74 of 8 Sept., 2006)

<sup>30</sup> Ordinance № 30 (prom. SG, iss. 78 in 26 Sept., 2006)

consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.

The Ordinance further develops the existing regulations in Ordinance № 20 on the form and content of the annual financial statement of insurers and health insurance companies and simultaneously brings them in compliance with the requirements of the IC. Rules have been introduced for valuation of the assets of insurers and health insurance companies and the requirements to provision of statistical information have been rendered precise, which at the time of the Ordinance coming into effect were settled in various orders of the Deputy Chairman in charge of the Insurance Supervision Division. The aim is to achieve the necessary comparability between the financial statements of the separate insurers and of the health insurance companies, as well as to ensure the information required to exercise supervision over the activity of insurers and the activity of voluntary health insurance. This Ordinance is also applicable to the reports of the insurance and health insurance companies pursuing business in or outside the country, as well as to insurers from third countries acting on the territory of the country. The insurers and health insurance companies must have brought their activities in compliance with the requirements of Chapter Five of the Ordinance till 30 September, 2006. With the coming into force of this Ordinance, the acting at the time Ordinance № 20 from year 2005 on the form and content of the annual financial statement of insurers and health insurance companies<sup>31</sup> was superseded.

**Ordinance № 32 on the requirements to the organization and operation of the internal control department of an insurer and the persons included in an insurance group**<sup>32</sup>. The Ordinance has been issued on the grounds of Art. 62, para 9 of the IC. The Ordinance sets forth the requirements to the organization and operation of an insurer's internal control department and of the persons included in an insurance group, and of the subsidiary of an insurer from a third country. The internal control department performs the functions of internal audit. The officials of the internal control department (the internal auditors) may not have powers and responsibilities with regard to the activities and sites which they inspect, and their office may not be held with other offices in the insurer, including as members of an insurer's management or supervisory body. In exercising their activities the internal auditors are entitled to unrestricted access to the insurer's official premises and assets; decisions of the managerial bodies and other officials; the accounting and information systems; they may require and collect information, check-ups and other documents in connection with the fulfillment of their commitments; to attract outside experts with appropriate qualification and experience in the performance of specific control actions. The requirements which the internal auditors and the person in charge of the internal control department must satisfy have been indicated concretely in the Ordinance. The insurer's management board prepares the internal rules for the organization and operation of the internal control department, which are approved by the general meeting of shareholders, or the members of a co-operative society. The internal rules have to settle the powers of the internal auditors, the procedure of carrying out audit actions, their documenting and reporting of the results. An audit report is prepared on every executed audit commitment, the report containing a summary, objectives and scope of the commitment, findings, conclusions and recommendations. The Ordinance creates an obligation for insurers and insurers which are part of an insurance group, to present to the Deputy Chairman the annual reports on the activities of the internal control department, and upon request – also the audit reports drawn up in the fulfillment of the audit commitments. The Transitional and Final Provisions of the Ordinance envisage the insurers to bring their activities in compliance with the requirements of the Ordinance within a term by 31 December., 2006.

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<sup>31</sup> Ordinance № 20 (prom. SG, iss. 15 in 2005).

<sup>32</sup> Ordinance № 32 (prom. SH, iss. 81 from 6 Oct., 2006)

### 1.2.3. Amendments to the Sub-statutory Legislative Framework, Regulating the Supplementary Pension Insurance

The Commission adopted the following sub-statutory acts regulating the supplementary pension insurance activities:

**Ordinance № 3 of September 24, 2003 on the terms and procedures for switching participation and transferring of 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**<sup>33</sup>. The amendments to the Ordinance result mainly of the effectuation since 1 Jan., 2006 of the Tax and Social Insurance Procedure Code, by virtue of which the functions of collection and allocation of the social insurance contributions for the supplementary obligatory pension insurance passes from the National Social Security Institute to the National Revenue Agency.

**Ordinance on Amendment and Supplement to Ordinance № 9 in 2003** on the terms and procedures for valuation of assets and liabilities of supplementary pension funds and pension insurance companies, the value of the fund's net assets, on calculation and announcement of the value of a unit, as well as on the requirements for maintaining individual accounts (the Ordinance). The amendments to the Ordinance arise mainly from the effectuated Law on Amendment and Supplement of the Social Insurance Code<sup>34</sup>, and are in relation to the regulation of the valuation of new types of instruments in which the moneys of the pension funds may be invested.

Amendments were also prepared and adopted to **Ordinance № 36 of 22 Jan., 2004 on the custodian banks under the Social Insurance Code**.<sup>35</sup> With the amendments and supplements to the Ordinance the content has been changed of the kept by the custodian bank registers and of the information which it sends on a daily basis at the end of each business day to the Commission's Deputy Chairman in charge of Social Insurance Supervision Division.

**Ordinance № 29 of 12 July, 2006 on the minimum level of banks' credit ratings and on specifying the states, regulated markets and the indexes of the regulated securities markets according Art. 17b, para 2 of the SIC**<sup>36</sup>. The Ordinance sets forth: the minimum level of the credit ratings of banks in which the pension insurance companies may invest moneys of a pension fund opening bank deposits, as well as the rating agencies by which these ratings have to be awarded; the states in which resources of a pension fund may be invested; the indexes of regulated securities markets in EU Member States or in other states – parties to the Agreement on European Economic Area which include shares admissible to invest in; the states, regulated markets therein, on which securities are traded, as well as the indexes of these markets, which include shares in which a pension fund's moneys may be invested.

**Ordinance № 33 of 19 Sept., 2006 on the individual applications for participation in a supplementary obligatory pension insurance fund**<sup>37</sup>. The Ordinance regulates the procedure of filing an application for participation in a supplementary obligatory pension insurance fund and the requirements to its form and content. A prohibition has been

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<sup>33</sup> Ordinance on Amendment and Supplement to Ordinance № 3 (prom. SG, iss. 7 of 24 Jan., 2006)

<sup>34</sup> SIC (prom. SG, iss. 17 of 24 Feb., 2006)

<sup>35</sup> Ordinance № 36 (prom. SG, iss. 58 of 18 July, 2006)

<sup>36</sup> Ordinance № 29 (prom. SG, iss. 62 of 1 August, 2006)

<sup>37</sup> Ordinance № 33 (prom. SG, iss. 83 of 13 Oct., 2006)

introduced in or on the occasion of choosing a supplementary obligatory pension insurance fund, the pension insurance companies, their shareholders or the pension insurance intermediaries to be able to provide, offer or promise in any whatever form special privileges, gifts, services or other benefits to the subject to pension insurance persons. The Ordinance lays down that the application for participation has to be filed personally with the pension insurance company, in which the person wishes to participate, or through a pension insurance intermediary, or as an electronic document. Where the application for participation is filed through a pension insurance intermediary, such intermediary obligatorily presents to the person a document, which legitimizes him in the exercising of the activity for acceptance of applications for participation and conclusion of pension contracts on behalf of and for the account of the relevant company. The pension insurance company does not accept and returns back an application for participation which is with non-completed data or in which amendments were made in a manner such that the person who filed the application may not be identified, or the data which the pension insurance company is obligated to maintain in its head office for any managed by it supplementary obligatory pension insurance fund may not be entered in the electronic register. The persons are obligated to notify a pension insurance company, managing the fund in which they secure themselves of any change in the personal data, which they wrote down in the filed by them application. With the Transitional and Final Provisions of the Ordinance a period was set – by 20 Dec., 2006, within which the pension insurance companies would bring their operation in compliance with the requirements of the Ordinance and submit for approval at the Commission the rules of the organization and operation of the managed by them supplementary obligatory pension insurance funds.

**Ordinance № 34 of 4 Oct., 2006 on the conditions for execution of transaction for reduction of the investment risk, related to the assets of a supplementary pension insurance fund and on the requirements and limitations with regard to these transactions**<sup>38</sup>. The Ordinance lays down the conditions for conclusion of transactions for reduction of the investment risk, associated with the assets of the supplementary pension insurance fund, the requirements and limitations with regard to these transactions, as well as the states and the requirements to the regulated markets therein where transactions with futures and options may be executed.

**Ordinance № 36 of 15 Nov., 2006 on the technical reserves to the supplementary voluntary pension insurance fund with occupational schemes**<sup>39</sup>. The Ordinance sets forth the types of technical reserves, which are formed to the supplementary voluntary pension insurance fund with occupational schemes, the procedure, methodology and the used actuarial methods for their formation and calculation, as well as the procedure, way and the limitations for investment of the funds for cover of the technical reserves and the rules of their valuation. The pension insurance company sets up technical reserves in the cases when it manages an occupational scheme, which covers biometric risks, guarantees a minimum level of rate of return or amount of the pensions.

**Ordinance on Amendment and Supplement to Ordinance № 10 in 2003 on the requirements to the composition and structure of the own funds (capital base) of the pension insurance company and to the minimum liquid funds of the company and of the supplementary pension insurance funds managed by it**<sup>40</sup>. The amendments to the Ordinance result of the coming into effect of the Law on Amendment and Supplement of the SIC<sup>41</sup> (prom. SG, iss. 56 of 11 July, 2006) and are in relation to the requirements a pension insurance company which manages a supplementary voluntary pension insurance fund with

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<sup>38</sup> Ordinance № 34 (prom. SG, iss. 86 of 24 Oct., 2006)

<sup>39</sup> Ordinance № 36 (prom. SG, iss. 96 of 28 Nov., 2006)

<sup>40</sup> Ordinance in Amendment and Supplement to Ordinance № 10 (prom. SG, iss. 106 of 27 Dec., 2006)

<sup>41</sup> Law on Amendment and Supplement to the SIC (prom. SG, iss. 56 of 11 July, 2006)

occupational schemes, to maintain continuously own funds, which are to serve as a collateral for fulfillment of the commitments undertaken by the fund. With the amendments the rules have been determined for calculation of the minimal amount of these funds.

## 2. Licensing Activity and Authorization Regimes

### 2.1. Licensing Activity and Authorization Regimes in the Field of Investment Activity

#### 2.1.1. Investment Intermediaries, Securities Brokers and Investment Advisers

- **New Elements in the Licensing Procedure**

In connection with the change in the subject of activities of investment intermediaries in consistence with the amendments made to Art. 54 of the LPOS with the Law on Amendment and Supplement to the Law on Public Offering of Securities (LASLPOS)<sup>42</sup> and the requirement of §138 of the Transitional and Final Provision (TFP) of the same, the existing investment intermediaries were obligated by 31 January, 2006 to file an application for the issue of a **new license to pursue the business of investment intermediary**, in conformity with the services and activities under Art. 54, para 2 and 3, which they intend to carry out. With the filing of the application the beginning was been set of a licensing procedure with the FSC.

On 31 Dec., 2005 the number of investment intermediaries was 88, including 29 banks, i.e. by 31 Jan., 2006 totally 59 IIs were obligated to file an application on the grounds of §138 of the TFP of the LASLPOS. During the year 58 investment intermediaries were relicensed from 59 that filed an application.

- **Licensing and Authorization Activity**

- **Licenses Issued by the Commission**

During the reporting period work was carried out on **59 files on amendment and supplement to the issued license**, as a result of which the Commission pronounced with a decision **for the issue of a new license** to the applicants. Detailed information on the Investment Intermediaries and the decisions taken with regard to them may be found in *Appendix 2.1.1.*

The licenses of two companies were supplemented also with an authorization to pursue business as investment intermediaries also abroad, namely:

- ***KD Securities EAD***, city of Sofia, Decision № 471-II/12 July, 2006 supplements a license for abroad;
- ***Standard Investment AD***, city of Sofia, Decision № 570-II/2 August, 2006 supplements a license for abroad.

With regard to received in the FSC applications with a request **for the issue of a license to execute transactions under Art. 54 of the LPOS**, files were processed as a result of which the Commission pronounced with decisions for **denial** of the issue of a license to carry out activities as an II to ***AI Finance OOD***, city of Sofia – Decision № 42 – II/18 Jan., 2006 and to ***Balkan Securities JSC***, city of Sofia – Decision № 1192-II/13 Dec., 2006.

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<sup>42</sup> prom. in SG, iss. 39 from 10 May, 2005.

**Procedure for the issue of a license** to pursue the business of an investment intermediary was also opened for company *KM Invest EAD*. It was expected the procedure to conclude in the first quarter of 2007.

In 2006 **examinations for brokers and investment advisers** were conducted by FSC respectively on May 27<sup>th</sup> and May 28<sup>th</sup>. The exams were passed and respectively certificates obtained by 26 brokers and 56 investment advisers.

During the reviewed period work was carried out on files of received applications for recognition of acquired qualification as an investment adviser, meeting the requirements, included in the thematic scope of the examination for investment advisers. With its decision the FSC acknowledged the acquired qualification, **satisfying the requirements included in the thematic scope of the exam** for investment advisers, **certified with issued by a competent foreign authority document**, to the following persons:

- |                                   |                                     |
|-----------------------------------|-------------------------------------|
| • Svetoslava Lyubenova Atanassova | Decision № 7 – IA/5 Jan., 2006;     |
| • Svetoslav Spasov Velinov        | Decision № 152 – IA/22 Feb., 2006;  |
| • Stanislav Ivanov Voynovski      | Decision № 161 – IA/1 March, 2006;  |
| • Ioana Valerieva Dimitrova       | Decision № 292 – IA/19 April, 2006; |
| • Victor Georgiev Sergiev         | Decision № 302 – IA/27 April, 2006; |
| • Irina Vladimirova Dimitrova     | Decision № 471 – IA/12 July, 2006;  |
| • Vassil Yaroslavov Vassilev      | Decision № 1027 – IA/17 Oct., 2006; |
| • Kamen Dimitrov Dimitrov         | Decision № 1088 - IA/8 Nov., 2006;  |
| • Sibila Lyubomirova Grozdanova   | Decision № 1089 - IA/8 Nov., 2006.  |

The FSC took a decision for refusal of recognition of acquired qualification as an investment adviser to the person Martin Nestorov Hristozov, Decision № 107-B/8 Feb., 2006. With Decision under a Protocol, the FSC terminated the procedure for recognition of acquired qualification as an investment intermediary of Dinko Radkov Todorov.

#### **Licenses Withdrawn by the Commission**

During the reviewed period 5 files were processed for **withdrawal of the issued license to carry out activity as an II**, as a result of which the license of the following companies was withdrawn:

- |  |                                      |
|--|--------------------------------------|
| • <i>Accept Invest AD</i> , city of Sofia  | Decision № 101 – II/8 Feb., 2006;    |
| • <i>Fininvest AD</i> , town of Kjustendil | Decision № 265 – II/5 April, 2006;   |
| • <i>Brokers Group AD</i> , city of Sofia  | Decision № 747 – II/30 August, 2006; |
| • <i>Bulinvestment AD</i> , city of Sofia  | Decision № 1003-II/11 Oct., 2006;    |
| • <i>Euroforum OOD</i> , city of Sofia     | Decision № 1067-II/1 Nov., 2006      |

**A review of the register of brokers and investment advisers** was made in the FSC about availability of circumstances under Art. 16 of Ordinance № 7. A memorandum was drawn up with a proposal for the posting of an announcement on the FSC's web site to all brokers and investment advisers with a request for updating of the data in the register kept by FSC under Art. 30, item 6 of the FSCA. A list was published of all brokers and investment advisers, entered in the public register on the FSC's site. Letters have been drawn up and sent to brokers and investment advisers, to whom the FSC by Decision under Protocol № 43 from 23 August, 2006 initiated a procedure for withdrawal of the right to carry out activities as a broker, respectively investment adviser, due to failure to pursue activity for more than two consecutive years after the issue of the certificate or termination of their contract for performance of activities.

On the grounds of Art. 16, para 1, item 4 of Ordinance № 7 in relation to Art. 61 of the LPOS and Art. 59, para 1 and Art. 60 of the APC, the FSC took a decision for **withdrawal of the right to pursue business as securities broker, or as an investment adviser** to the persons:

- |                                       |                                   |
|---------------------------------------|-----------------------------------|
| • Alexander Dimitrov Dimitrov,        | Decision № 1048-B/25 Oct., 2006;  |
| • Anitsa Nikolova Valkova-Panichkova, | Decision № 1049-B/25 Oct., 2006;  |
| • Vladimir Borissov Djumaliev,        | Decision № 1050-B/25 Oct., 2006;  |
| • Krassimir Stefanov Slaveykov,       | Decision № 1051-B/25 Oct., 2006;  |
| • Mario Bogdanov Markov,              | Decision № 1052-B/25 Oct., 2006;  |
| • Mriyan Iliev Nikolov,               | Decision № 1053-B/25 Oct., 2006;  |
| • Nedyalko Ivanov Nedyalkov,          | Decision № 1054-B/25 Oct., 2006;  |
| • Teodora Sergeeva Tomova,            | Decision № 1055-B/25.10.2006;     |
| • Yuliyana Boikov Vishnevski,         | Decision № 1056-B/25 Oct., 2006;  |
| • Gergana Dimitrova Petrova –         | Decision № 453-B/5 July, 2006;    |
| • Katerina Dobрева Draganova,         | Decision № 801-B/13 Sept., 2006;  |
| • Maria Ivanova Sharlandjieva,        | Decision № 802-B/13 Sept., 2006;  |
| • Nikolai Ivanov Nikolaev,            | Decision № 803-IA/13 Sept., 2006; |
| • Svetlozar Ventsislavov Ivanov,      | Decision № 804-B/13 Sept., 2006;  |
| • Filip Yordanov Dakov,               | Decision № 805-B/13 Sept., 2006;  |
| • Hrabrin Ivanov Ivanchev,            | Decision № 806-B/13 Sept., 2006;  |
| • Alexander St. Panev,                | Decision № 807-B/13 Sept., 2006;  |
| • Radoslav Todorov Panev,             | Decision № 809-B/13 Sept., 2006;  |
| • Hristo Nikolov Tanchev,             | Decision № 826-B/19 Sept., 2006;  |
| • Alexander Georgiev Draganov,        | Decision № 825-B/19 Sept., 2006.  |

The FSC on the grounds of Art. 16 of Ordinance № 7 in relation to Art. 61 of the LPOS and Art. 56, para 1 and Art. 59, para 1 and 2 of the APC, due to submission of the relevant evidence, decided to **terminate the procedure of withdrawal of the right to pursue business as a securities broker** of:

- |                               |                                  |
|-------------------------------|----------------------------------|
| • Nedelcho Vassilev Nedelchev | Decision № 808-B/13 Sept., 2006; |
| • Radoslav Todorov Milenkov   | Decision № 809-B/13 Sept., 2006. |
| • Stanimir B. Mihaylov        | Decision № 824-B/19 Sept., 2006. |

#### **Individual Administrative Acts Issued by the Deputy Chairman in Charge of Investment Activity Supervision Division**

In 2006, in relation to the applying of licensing regimes over the activities of investment intermediaries and the regulated securities market, the Deputy Chairman in charge of Investment Activity Supervision Division issued:

➤ **Approvals for acquisition of 10 and more than 10 per cent of the votes in the General Meeting of an investment intermediary**, on the grounds of Art. 74a, para 1, item 2 of the LPOS – to the following applicants:

- *Edward Sarkiz Manukyan*, city of Varna, to acquire directly 32,81% of the votes in the general meeting of **Frontier Finance AD**, city of Sofia – Decision № 183-II/14 March, 2006;
- *Maya Petkova Georgieva*, city of Sofia, to acquire subsequently directly 0,53% of **Frontier Finance AD**, city of Sofia – Decision № 184-II/14 March, 2006;
- *Krassimir Georgiev Georgiev*, city of Sofia, to acquire subsequently directly 0,53% of **Frontier Finance AD**, city of Sofia – Decision № 185-II/14 March, 2006;

- *Forum Plus EOOD*, city of Sofia to acquire 51 per cent of the votes in the General Meeting of **Euroforum Ltd.**, city of Sofia - Decision № 235-II/28 March, 2006;
- **Wiener Städtische Allgemeine Versicherung Akciengesellschaft**, to acquire subsequent directly 50 per cent of the votes in the General Meeting of **TBI Invest EAD**, city of Sofia - Decision № 254-II/31 March, 2006;
- *Borislav Georgiev Dimitrov*, to acquire directly more than 10 per cent of the votes in the General Meeting of **Fiko Invest Ltd.**, city of Shumen – Decision № 39-II/17 Jan., 2006;
- *Rumyana Dokova Yozova*, city of Pleven, to acquire directly over 10 per cent of the votes in the General Meeting of Kapital Injener Proekt Ltd., city of Pleven – Decision № 332-II/15 May, 2006;
- *Standard Property Ltd.*, city of Sofia, to acquire over 10 per cent of the votes in the General Meeting of **Standard Investment AD**, city of Sofia - Decision № 414-II/21 June, 2006;
- *Starcom Holding AD*, city of Sofia, to acquire directly 91.10 %, and through related persons 100% of the capital of **Evro Finance AD**, city of Sofia - Decision 872-II/29 Sept., 2006;
- *Lev Ins AD*, to acquire directly 83,75 per cent of the votes in the general meeting of investment intermediary **Factori AD**, city of Sofia – Decision № 1115-II/15 Nov., 2006;

Several applicants were informed **that there were no obstacles to realization of the acquisition applied for**, and for the same the issue of approval by the Deputy Chairman in charge of Investment Activity Supervision Division would not be necessary:

- *Wiener Stadtitsche Versicherung AG Vienna Insurance Group, Austria* for the increase of its indirect shareholding in the capital of investment intermediary **TBI Invest EAD**, city of Sofia, by acquisition of 60 % of the capital of *TBI H Financial Services Group N.V., the Netherlands*;
- *TBI H Financial Services Group N.V., the Netherlands*, for the issue of approval for increase of its indirect shareholding in the capital of investment **TBI Invest EAD** by increasing to 87,73% of its direct shareholding in the capital of *TBI Bulgaria AD*;
- *Kardan Financial Services B.V., the Netherlands*, for the issue of approval for increase of its indirect shareholding in the capital of investment intermediary **TBI Invest EAD** by increasing to 100 % of its direct shareholding in *TBI H Financial Services Group N.B., The Netherlands*;
- *Kardan N.V., the Netherlands*, for the issue of approval for increase of its indirect shareholding in the capital of investment intermediary **TBI Invest EAD**, by increase of its direct shareholding in the capital of *Kardan Financial Services B. V., the Netherlands*.

➤ **Approvals of changes in the general conditions** under Art. 62, para 2, item 5 of the LPOS:

- |                                    |                                     |
|------------------------------------|-------------------------------------|
| • CCB AD, city of Sofia            | Decision № 201 – II/15 March, 2006; |
| • Tokuda AD, city of Sofia         | Decision № 203 – II/15 March, 2006; |
| • Municipal Bank AD, city of Sofia | Decision № 234 – II/28 March, 2006; |
| • DSK Bank AD, city of Sofia       | Decision № 144 – II/21 Feb., 2006;  |
| • Unionbank AD, city of Sofia      | Decision № 27 – II/12 Jan., 2006;   |
| • DSK Bank EAD                     | Decision № 1060-II/25 Oct., 2006;   |
| • Kapman AD, city of Sofia         | Decision № 1095-II/10 Nov., 2006;   |

- United Bulgarian Bank AD Decision № 1141-II/29 Nov., 2006;
- CB DZI Bank AD Decision № 759-II/31 August, 2006.

➤ **Approvals of amendments to the Rules and Regulations of BSE – Sofia AD:**

- Decision № 164 – SE/1 March, 2006;
- Decision № 321 – SE/4 May, 2006;
- Decision № 349 – SE/26 May, 2006;
- Decision № 383 – SE/12 June, 2006;
- Decision № 1073 - SE/2 Nov., 2006;
- Decision № 1134 - SE/23 Nov., 2006;
- Decision № 1202 - SE/18 Dec., 2006;
- Decision № 718 - SE/21 August, 2006.

In 2006 drafts of **entry orders** have been prepared of the Deputy Chairman in charge of Investment Activity Supervision Division concerning changes in the circumstances under the files of the regulated persons, respectively in the registers of IIs - 1 151 in number, of the regulated securities markets - 91 in number and of natural persons who directly conduct transactions in securities and give investment advise under a contract - 249 in number

- **Number of investment intermediaries, securities brokers and investment advisers as of 30 Dec., 2006.**

The total number of the investment intermediaries on 31 Dec., 2006 was 85, including **29 banks and 56 non-banking financial institutions**. The non-banking investment intermediaries have been divided into the following groups according the amount of their capital, namely:

- with capital BGN 1 500 000 and a license to execute transactions for own account – 24 investment intermediaries
- with capital BGN 250 000 and respectively a license to execute transactions for another person's account and portfolio management – 32 investment intermediaries

As of 31 Dec., 2006 in the register of the natural persons who directly conduct transactions in securities and give investment advise on securities under a contract, kept by the Commission, there were entered in total 434 persons, including 258 **brokers** and 176 **investment advisers**.

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

- **New Elements in the Licensing Procedure**

Pursuant to the provision of § 140, para 2 of the TFP of the LASLPOS, the existing management companies (MC) were obligated by 31 January, 2006 to file an application for the issue of new licenses, in conformity with the services and activities under Art. 202, para 1 and 2 of the LPOS, which they wished to carry out. The extension of the MC's scope of activities allowed them to realize discretionary management of individual portfolio of securities, contractual funds' organization and management, etc.

In relation to the amendments and supplements to the LPOS as of May, 2005, during the period, the FSC approved the prepared new as well as updated model forms of applications, filed by the special purpose vehicles and the management companies, including such on behalf of the organized by them contractual funds, for the issue of licenses, authorization and approvals to perform certain activities

- **Licensing and Authorization Activity**

**Licenses Issued by the Commission**

The licensing activity of the Commission in the segment of collective investment schemes (CIS) and the special purpose vehicles (SPV) was particularly intensive during the reporting period. The interest of the investment community, both on the demand, and on the supply side of this type of investment forms has increased to an exceptional extent.

A license to pursue the business of an **investment company (IC) of open-end type** was obtained by **1** company - *BenchMark Fund-2 AD*, and 13 management companies (MC) were granted an authorization for organization and management of **19 contractual funds (CF)**. The tendency which is noticed is one MC to organize and manage minimum 2 CF (1 conservative and 1 aggressive or risk), but the objective in most cases is 3 CFs to be established (conservative, balanced and aggressive), which are to offer the complete range of investment products.

The observation till now show that the interest in organization of contractual funds will continue, which in its turn, results in enhancement of the interest in the establishment of new **management companies** and their licensing by the FSC. According the requirements of the law, the FSC **relicensed** all 10 existing MC. At the same time a **license** to carry out activities as a management company was issued to **13** new companies during the reporting period:

- Status Capital AD;
- Balkan Capital Management AD;
- Alpha Asset Management EAD;
- South Market Fund Management AD;
- Avrora Capital AD;
- Titan Asset Management EAD;
- Sinergon Asset Management AD;
- Varchev Managing Company EAD;
- Somony Asset Management AD;
- Real Finance Asset Management AD;
- Invest Fund Management AD;
- CCB Asset Management AD;
- Unika Finance AD.

During the period 3 more applications were filed for carrying out the activities of a MC, for which procedures were opened and which were expected to conclude in the first quarter of 2007.

In 2006 the FSC issued **27** licenses for pursuance business as SPV, approving simultaneously their prospectuses for public offering of shares in connection with the initial obligatory increase of the capital. During the year **4 more applications** were filed for the issue of a license to pursue the business of SPV, the procedures of which did not finish during the reviewed period. The FSC also issued **2 refusals** to grant a license, which were not appealed against and became effective.

During the period **2** applications were received in the FSC from a foreign management company for the establishment of **foreign mutual funds** and for public offering in Bulgaria of the issued by them shares or units. The prospectus for public offering of units was approved, along with a Summary for distribution in Bulgaria, of contractual fund OTP International Fund in Equities – U B S Fund of the funds, Hungary through OTP Fund Management Limited, management company, Hungary.

### **Licenses Withdrawn by the Commission**

During the reporting period an application was received in the FSC from **Pioneer Investments Austria GmbH with a request for deletion of six funds**, offered in Bulgaria, from the register of the public companies and other securities issuers, kept by the Financial Supervision Commission (FSC), namely: Capital Invest Money Market Instruments in Euro, Capital Invest Corporate Eurobonds, Capital Invest USD Bonds, Capital Invest American Equities, Capital Invest Government Eurobonds and Capital Invest Master Fund II (dynamische) – **the procedure was expected to conclude in the first quarter of year 2007**

### **Individual Administrative Acts Issued by the FSC and the Deputy Chairman in Charge of Investment Activity Supervision Division**

Aiming at investor interests protection, maintenance of their confidence in the CIS and establishment of compliance with the statutory requirements, the law has regulated the issue of a preliminary authorization, confirmation or approval by the FSC, respectively by the Deputy Chairman in charge of Investment Activity Supervision Division, for the performance of certain activities by the regulated persons. In this relation during the reviewed period, the Deputy Chairman in charge of Investment Activity Supervision Division issued:

- **Approval of program with measures for bringing the assets of IC Zlaten Lev AD in compliance with the legal requirements** – Decision № 449-IC/4 July, 2006.
- **Approval of program with measures for bringing the assets of CF UBB Premium Equities in compliance with the requirements of the law** – Decision № 851-CF/26 Sept., 2006.
- **Approval of amendments to the Articles of Association of 8 investment companies.**
- **Approval of amendment to the Rules of a contractual fund, as well as in the Rules of portfolio assessment and determining the net asset value of 19 contractual funds**, one more request for approval of Rules being received during the period, which was to be concluded in the first quarter of 2007.
- **Approval of amendments to the Rules of portfolio assessment and determining the net asset value of 12 CF.**
- **Approval of amendments to the Rules of portfolio assessment and determining the net asset value of 11 CF.** During the period the documents of 1 more IC were received, and the procedure on it was expected to conclude during the first quarter of year 2007.
- **Approval for change in the general conditions of 11 MC.**
- **Authorization to 7 IC to invest up to 20% of the assets in securities of a single issuer.**
- **Authorization to 13 CF to invest up to 20% of their assets in shares of a single issuer.**

Detailed information on the individual administrative acts, listed above, may be found in **Appendix 2.1.2.**

On the ground of Art. 195, para 6 of the LPOS, the Deputy Chairman in charge of Investment Activity Supervision Division extended and **supplemented the list of the foreign regulated securities market** under Art. 195, para 1, item 1 of the LPOS, on which the investment companies and contractual funds may invest.

In the fourth quarter of 2006 the Deputy Chairman in charge of Investment Activity Supervision Division issued one authorization for the acquisition by one person of more than 10 % of the votes in the general meeting of 1 MC. 4 applications were received for the issue of approval to perform activities under Art. 210, para 5 in relation to Art. 74a, para 1, item 2 of the LPOS, where the applicant was informed that there were no obstacles to the realization

of the acquisition applied for, and for the same the issue of approval by the Deputy Chairman in charge Investment Activity Supervision Division with the FSC would not be required.

During the period **filed in the FSC advertising materials for 4 IC** were reviewed. The Deputy Chairman 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 some other way their advertising materials.

From the reviewed **advertising materials for CF**, filed in the FSC by the MC managing them, the Deputy Chairman in charge of Investment Activity Supervision Division issued a **temporary prohibition** only to MC Raiffeisen Asset Management (Bulgaria) AD, as a result of which the company was notified that it may not publish or disseminate the specific advertising materials.

The Deputy Chairman in charge of Investment Activity Supervision Division on the grounds of Art. 15 para 1 item 15 of the LPOS and Art. 77 para. 2 of Ordinance № 25, issued an approval **for the publishing and dissemination of the advertising materials also of 8 MC**.

**During the reporting period the FSC took decisions for:**

- **Entry in the public register of a subsequent issue of securities** as a result of the increase in the capital of 11 SPVs (*Appendix 2.1.3B*);
- **Entry in the FSC's register as a public company and entry of the issues of securities** of 17 SPVs (*Appendix 2.1.3B and Appendix 2.1.3C*);
- **Issue of approval for amendments to the Articles of Association of 8 SPVs** (*Appendix 2.1.2*);
- **Issue of approval for replacement of the servicing company of Elana Agricultural Land Fund REIT**;
- **Issue of approval to Transinvestment SPV to replace the depository bank servicing it** – Decision № 1080-SPV/8 Nov., 2006;
- **Issue of approval to Prime Property BG, SPV, for replacement of the company servicing it** – Decision № 1124-SPV/22 Nov., 2006;
- **Approval of prospectus for the issue of an issue of bonds by Fairplay Properties, SPV** – Decision № 959 - E/4 Oct., 2006;
- **Issue of approval to Active Properties, SPV for election of a servicing company** - Decision № 1195-SPV/13 Dec., 2006;
- **Issue of approval for replacement of the servicing company of Bulgarian Investment Group SPV** – the procedure was expected to conclude in the first quarter of year 2007;
- **Approval of prospectus for the issue of an issue of secured bonds by Transinvestment SPV** – the procedure was expected to conclude in the first quarter of year 2007;
- **Approval of prospectus for the issue of an issue of unsecured bonds by Transinvestment SPV** – the procedure is expected to conclude in the first quarter of 2007;
- **Approval of prospectus for the issue of an issue of bonds by FEEI SPV** – the procedure was expected to conclude in the first quarter of year 2007.

During the year, **drafts of 8 announcements for public offering under Art. 112a, para 2 of the LPOS**, received in FSC, were reviewed, in relation to which the Deputy Chairman did not open a procedure of imposition of coercive administrative measure under Art. 212 para 1, item 1 of the LPOS in regard to the companies.

In the same period orders were prepared for the **entry of 16 800 circumstances**, related to the activities of the regulated persons, subject to entry. Largest was the volume of

the entries of the issue value and the redemption price of the contractual funds and open-end investment companies.

- **Number of Collective Investment Schemes, Management Companies and Special Purpose Vehicles as of 31 Dec., 2006.**

At the end of 2006 the number of the licensed **investment companies** was **11**. From them **2** were of **closed-end type** (former privatization funds, that have reorganized their activities as IIs) and **9** were of **open-end type**.

With the new 19 contractual funds, the total number of the **contractual funds** as of 31 Dec., 2006 increased to **34**.

With the thirteen newly established companies during the reviewed period, the total number of the licensed **MC** on 31 Dec., 2006 became **23**. The number of the offered in Bulgaria **foreign CIS** grew to **39**.

At 31 Dec., 2006 the total number of the licensed SPVs was already 40, from which 6 – for securitization of receivables, and 34 – for real estate securitization, 6 of them being oriented predominantly to agricultural lands.

### **2.1.3. Public Companies and Other Securities Issuers**

- **Licensing and Authorization Activities**

#### **Prospectus for Public Offering of Securities**

During the reporting period, the FSC approved prospectus for **initial public offering of shares** of 6 companies, and approved the prospectuses for **secondary public offering of shares** of another 6 companies. Approved by the Commission were also 27 prospectuses for **secondary public offering of issues of bonds** (27 corporate and 5 mortgage-backed). **Denials of approval** were issued to the filed prospectus for public offering of securities of 3 companies. On 31 Dec., 2006 **in process of review** were **17 applications for approval of prospectus for public offering**, the procedures of which were not concluded and the FSC did not pronounce a decision. Detailed information on the approved prospectus may be found in *Appendix 2.1.3A*.

On the grounds of Art. 62, para 2 of the Administrative Procedure Code in relation to Art. 13 para 1 item 8 of the FSCA **an apparent factual mistake made was corrected** in Decision № 1125 – E of 22 November, 2006 of the FSC, whereby a prospectus for secondary public offering of issue of bonds was approved, issued by Enemona AD, and as result of the correction the inscribed in the operative part of the cited decision interest percent “floating interest at the rate of the 6-month Euribor plus 400 basic points (4 %), calculated on the principal of the bond loan, six-month interest payments” was to be read „ floating interest at the rate of the 6-month Euribor plus 475 basic points (4.75 %), calculated on the principal of the bond loan, six-month interest rates”, and the indicated date of issue “26 June, 2006” and date of the issue’s maturity “26 June, 2011” were to be read respectively “29 June, 2006” and “29 June, 2011”.

The administrative procedure concerning the application for approval of prospectus for secondary public offering of corporate bonds of Darik Properties Bulgaria AD and Pobeda AD **were terminated due to withdrawal of the application** on the applicant’s side, respectively on the applicant’s request.

On the basis of a filed application, company Societe Generale SA, France was **exempted from the obligation to publish a prospectus** for making an initial public offering of an issue of shares from the 2006 increase in the capital on the territory of Bulgaria.

### **Tender offers for the purchase of shares**

**During** the reporting period, **in total 10 tender offers** for the purchase of shares to shareholders with voting right were registered in the FSC.

After review of the received documents, the Commission initially issued **9 temporary prohibitions** on the publishing of the offers and sent notifications to the offerors of the established incompleteness and discrepancies. Temporary prohibitions were issued for publishing of a tender offer to the shareholders of the following companies:

- Napredak Holding AD Decision № 04-TO/5 Jan., 2006;
- Energoremont – Varna AD Decision № 25-TO/11 Jan., 2006;
- Vincom AD Decision № 194-TO/15 March, 2005;
- Bravo AD Decision № 450-TO/5 July, 2006;
- ZMM – Bulgaria Holding AD, city of Sofia for purchase of shares of ZMM Nova Zagora AD, town of Nova Zagora Decision № 773-TO/7 Sept., 2006;
- Intertrust EAD, city of Sofia for the purchase of shares of Lead and Zink Complex Plc, town of Kardjali Decision № 823-TO/19 Sept., 2006;
- Rodina Tourist 97 JSC, city of Sofia for the purchase of shares of Rodina Tourist AD Decision № 1019-TO/17 Oct., 2006;
- Litex Commerce JSC, city of Sofia, for the purchase of shares of Lovechtours AD, town of Lovetch Decision № 1066-TO/1 Nov., 2006;
- Genimex Oil AD, town of Lovetch, for the purchase of shares of Grand Hotel Veliko Tarnovo AD, town of Veliko Tarnovo, Decision № 1084-TO/8 Nov., 2006.

After consideration of the received documents and the registered tender offers, respectively the corrected tender offers, the Commission did not take a decision for imposition of a temporary or final ban on publishing and in practice, it was allowed **the tender offers** to be published to the other shareholders **of 8 companies**, namely:

- Napredak Holding AD – corrected tender offer (temporary prohibition – Decision № 04-TO/5 Jan., 2006;
- Energoremont – Varna AD – corrected tender offer (Temporary prohibition – Decision № 25-TO/11 Jan., 2006;
- Vincom AD – corrected tender offer (Temporary prohibition - Decision № 194-TO/15 March, 2005;
- Mak AD;
- Bravo AD – corrected tender offer (Temporary prohibition – Decision № 450-TO/5 July, 2006);
- ZMM – Bulgaria Holding AD, city of Sofia for the purchase of shares of ZMM Nova Zagora AD, town of Nova Zagora, Decision under Protocol № 49 of FSC's meeting on 4 Oct., 2006;
- Intertrust EAD, city of Sofia for the purchase of shares of Lead and Zink Complex Plc, town of Kardjali, Decision under Protocol № 49 of FSC's meeting on 4 Oct., 2006;
- Rodina Tourist 97 AD, city of Sofia, for the purchase of shares of Rodina Tourist AD, Decision under Protocol № 53 of FSC's meeting on 1 Nov., 2006.

As of 31 Dec., 2006 **in process of review was 1 tender offer** registered in the FSC – of Eurobank EFG Holding (Luxembourg) AD for the purchase of shares of DZI Bank AD, city of Sofia from the other shareholders of the company – **the procedure completed during the first quarter of year 2007.**

### **Filed in and Deleted Securities Issues from the Register, Kept by the FSC**

In 2006 in the register, kept by the FSC, on the initiative of the Commission, simultaneously with the approval of a relevant prospectus for public offering, **43 securities issues** were filed in - **32 issues of bonds** (27 issues corporate and 5 issues mortgage bonds) and **11 issues of shares**, from which 6 were initially registered as issues of shares in process of issuing (simultaneously with the approval of their prospectuses for initial public offering).

Beside them, during the reviewed period were entered **22 subsequent issues of shares, issued as a result** of increase in the capital. For the same period, **4 securities issues were deleted** from the Commission's public register:

Detailed information on the filed in and deleted securities issues is contained in *Appendix 2.1.3B*.

### **Filed in and Deleted Public Companies and Other Securities Issuers**

In the course of the reporting period, in the register of the public companies and other securities issuers, kept by FSC, were **filed in 18 companies in their capacity of an issuer** on the Commission's initiative, simultaneously with the approval of prospectus for *secondary public offering of bonds*. Also **5 companies in their capacity of an issuer** were entered in the public register on the Commission's initiative, simultaneously with the approval of prospectus for *initial public offering of shares*, **4** of them after the conclusion of the offering were entered as **public companies**. Beside them, filed in the register were also **6 public companies** with approved prospectus for *secondary public offering of shares*.

At the same time **11 public companies were deleted** from the register, 3 of which after deletion from the Commercial Register, 1 after an application filed by the company under Art. 119 para 1 item 1 of the LPOS, 4 after realized Tender Offer according the procedure of Art. 119 para 1 item 3 of the LPOS and 1 public company in view of the circumstance that the issue of shares of the company was not admitted to trading on a regulated securities market within a 6-month period of its entry in the register under Art. 30, para 1 item 3 of the FSCA. Detailed information on the filed in and deleted companies may be found in *Appendix 2.1.3C*.

### **Drafts of Increase in the Capital of Public Companies**

During the period **6 drafts of announcements of public offering for increase in the capital of a public company** under Art. 112a of the LPOS were reviewed, in relation to which the FSC's Deputy Chairman did not take a decision for the initiation of a procedure for the issue of an individual administrative act, with a view to which the announcement may be promulgated, of which the companies were notified by a letter.

### **Transformation of Public Companies**

In the reviewed period the FSC's Deputy Chairman in charge of Investment Activity Supervision Division issued **four approvals of contracts for transformation**, reports of the management bodies of the transforming companies and reports of the auditors about:

- Acquisition of **Sofia Airport Center EOOD** by *T L Property Company EAD* – Decision № 512-PC/25 July, 2006;
- Merger of **Evrohold AD**, city of Sofia and **Starcom Holding AD**, city of Sofia into **EVROHOLD BULGARIA AD**, city of Sofia – Decision 1063-PC/27 Oct., 2006;
- Acquisition of **Himimport Bimas EOOD** by *Bulgarian River Shipping AD*, town of Russe - Decision № 1121-PC/20 Nov., 2006;
- Approval of a Plan of transformation by spin-off (incoming Ref. № RG-05-652/6 of 2 Oct., 2006) of **INO AD** from **ZINO AD**, Report of the Board of Directors of ZINO AD under Art. 262i of the CL and Report of the auditor Vassil Kalaidjiev under Art. 262m of the CL.

### **Entry of Professional Investors in the Register, Kept by the FSC**

In 2006 overall 29 applications were filed for entry of persons as professional investors, as a result of which **19 decisions for entry** of natural persons in the register of the professional investors were issued and **10 refusals** of entry. The decisions for the entries and the issued denials of entry of natural persons in the register of the professional investors may be found in *Appendix 2.1.3D*.

### **Entry of Circumstances and of the Changes Therein in the Register of the Public Companies and Other Securities Issuers, Kept by the FSC**

For the reporting period 2286 **entries of circumstances** and changes therein were made, as follows:

- entry of changes in the circumstances under Art. 98, para 1 of the LPOS – after a check-up of the filed documents 749 entries were made, including 407 notifications of sensitive information, having an impact on the securities price.
- entry of notifications for changes in the shareholding under Art. 145 of the LPOS - 322 notifications were entered for the period.
- entry of notifications of dividends under Art. 115b, para 2 of the LPOS – for the period 62 notifications of dividend were entered.
- entry of notices for GM of shareholders under Art. 115, para 3 of the LPOS – for the period 380 notices were entered for the conducting of GM of shareholders, filed by the companies.
- Other entries – 367

#### **• Number of Public Companies and Other Securities Issuers as of 31 Dec., 2006.**

At the end of 2006 in the Register of the public companies and other securities issuers under Art. 30 para 1 item 3 of the LPOS there were filed in 379 regulated persons, from which **326 public companies** and **53 issuers**. Five of the entered public companies were also issuers of issues of bonds, filed in the register under Art. 30 para ал. 1 item 3 of the FSCA with the purpose of trade on a regulated securities market.

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

### **• New Elements in the Licensing Procedure**

The effectuated on 1 January, 2006 Insurance Code (IC) has envisaged a requirement (§6, para 2 of the TFP of the IC) the insurance companies, which have been licensed to carry out activity of Third Party Liability Insurance related to possession and use of motor vehicles (including obligatory Third Party Liability Insurance of the Motorist), within a period by 1 Sept., 2006 to file with the FSC the required documents for the issue of a new license for that insurance. In connection with this provision 16 insurers, offering Third Party Liability Insurance related to possession and use of motor vehicle, filed an application for relicensing and have obtained from the FSC a new additional license on that type of insurance, and 1 insurer did not file an application for relicensing and voluntarily gave up the offering of this obligatory insurance.

In the procedures of issue of an insurance license, or for a new type of insurance, the IC attaches a special significance to the insurer's activity plan. In the concluded licensing procedures a lasting practice has established itself of demanding and thorough review of a

detailed activity plan, which is to reflect realistically the specifics of the market and their influence over the insurer's operation. The activity plan is of binding nature for the insurer's management body, which presents a report on its fulfilment to the general meeting of shareholders and to the FSC, having the commitment in case of objective premises, to update it. The violation of the activity plan is a ground for applying a coercive administrative measure towards an insurer.

The IC has settled in detail the status of the insurance undertaking, including major principles for realization of corporate governance and internal control. In this relation the obligation has been statutorily laid down for the setting up by the insurer of a specialized internal control department, whose head has to meet envisaged in the IC requirements and is subject to approval by the FSC's Deputy Chairman in charge of Insurance Supervision Division. In fulfillment of this procedure for preliminary approval of the nominated persons, 18 decisions of the Deputy Chairman for approval and 1 decision for denial of approval of insurers' heads of the specialized internal control department were issued in 2006.

Another elements of the introduced new regulation are related to the establishment of practice of oversight by the supervisory body concerning the application and compliance with the corporate principles of organization and governance, as well as for an insurer's internal control. Object of inspection is the applying and compliance with the envisaged requirements for adoption and implementation of rules of the operative control organization; a requirement to setting up and maintenance of information system with a scope as specified by the IC; requirement to building up of internal organization of the insurer's operation in a way, allowing disclosure of conflict of interests and ensuring confidentiality. Insurers were given an one-year period after the coming into force of the Insurance Code, within which to bring their activity in compliance with the IC provisions, including to adopt and present at the FSC the acts and documents concerning the good corporate management.

In relation to the introduced in the IC requirement all insurers in their activity to adopt Internal Rules for settlement of claims with a view to guaranteeing the rights to the consumers of insurance services, the FSC's Deputy Chairman in charge of Insurance Supervision Division issued obligatory prescriptions to all insurance companies for removal of admitted discrepancies in the adopted by them Internal Rules with the requirements of the Code's provisions.

In the procedures of approval of members of an insurer's management and supervisory bodies, including also with regard to the persons with representative powers a lasting practice has been established concerning the demanding and submission of evidence, which are to attest the envisaged by the IC heightened requirements to good reputation and professional suitability. Similar requirements were introduced and applied also to the persons, participating in the management of an insurance holding. In the sphere of the suitability of an insurer's management bodies, in practice the conception of the discretionary principle has been applied in the procedure of approval by the FSC, the assessment if suitability being made not only by formal criteria.

A novelty in the procedure of acquisition of a qualifying holding (10 and more percent from the shares) of an insurer's capital is the established practice of indisputable specifying not only of the direct shareholder, but also of all other persons, who directly or through related persons acquire such holding in the insurer, or the applying of the principle of identification of the so called «ultimate beneficiary». With respect to all those persons the submission of the required under the IC documents has been demanded, which documents have been specified in detail in comparison with the previous regulations of the Law on Insurance in relation to the suitability of the members of the management body of the shareholder and its financial situation.

The IC has introduced the figure of the responsible actuary, who organizes, runs and is in charge of the actuarial servicing of the insurer. The responsible actuary is appointed by the insurer's general meeting and must satisfy the envisaged in the IC requirements, one of which is to possess recognized by FSC legal capacity of a responsible actuary. In the adopted in 2006 Ordinance № 31 of 2 August, 2006 of FSC the conditions and procedure for conducting by FSC of an examination for recognition of a legal capacity of a responsible actuary have been regulated, as well as for recognition of legal capacity acquired outside the Republic of Bulgaria. In the end of 2006, the FSC adopted the way and procedure for the carrying out of the first examination for recognition of legal capacity of a responsible actuary, set for the beginning of 2007, thus concluding the process of establishment of a practice of the supervisory treating of all matters, related to the requirements to the responsible actuary and the activity carried out by him.

Upon inclusion of registered auditors on the list of auditors, who may certify financial statements of an insurer, the implemented with the IC new, heightened requirements are applied to the professional qualification and experience of the registered auditors, who will be given the right to inspect and certify the insurers' annual financial statements. An express requirement has been envisaged, both to the responsible actuary, and to the registered auditor, to notify the FSC of certain, inexhaustively listed circumstances, that have become known to them during the performance of their activity for the respective insurer. The inexhaustive listing of the circumstances, of which the supervisory institution must be informed has been introduced with the purpose of ensuring a possibility for the registered auditor and the responsible actuary to fulfill their function of an element of the prudential supervision in the insurance supervisory process.

A new moment in the legal regulation of the insurance intermediaries' operation, introduced by the IC, is the passing from licensing to registration regime for the insurance brokers. With regard to the existing brokers, licensed for this activity during the action of the revoked Law on Insurance, a requirement was envisaged (§ 8 of the TFP of the IC) to bring their activity in compliance with the requirements of the IC and to file an application for entry in the register, kept by the FSC. In connection with the cited provision 166 decisions of the FSC's Deputy Chairman in charge of Insurance Supervision Division were issued for entry in the register of insurance brokers which have brought their activity in compliance with the requirements of the IC.

Another new moment in the regulation of the insurance brokers is the enhanced requirement to possession of professional experience by all persons, who manage and represent the insurance broker – legal entity. In this relation, an additional possibility has been envisaged in the IC of proving the possession of professional experience by the broker – natural person, respectively – of members of its management body and the persons, who represent him, through the successful passing of an examination for professional qualification, organized by the FSC. The conditions and procedure of conducting such an examination have been settled in the adopted Ordinance № 28 of 10 May, 2006 of the FSC, and in 2006 the FSC organized and conducted two such examinations. In the procedures of registration of the new insurance brokers, including in the procedures of bringing the activity in consistence with the IC requirements by the existing brokers, the submission of guarantees was demanded (client account or own fund) concerning fulfillment of the brokers' obligations towards the consumers of insurance services.

The IC has introduced detailed regulation with respect to insurance agents, as well as the requirement to their registration in a register kept by the FSC. Safeguard mechanisms have been provided, guaranteeing the rights of users of insurance services. The principle has been introduced that the money paid to an insurance agent by a consumer of insurance services, is considered as paid to the insurer. The obligation has been laid down insurers to

watch for compliance with the IC requirements with respect to the insurance agents, as well as to conducting training and examination of the agents with whom they have a concluded contract, with a view to extension of their professional qualification, related to their knowledge of the insurances which they offer.

- **Licensing and Authorization Activity**

- **Licenses Issued by the Commission**

- In 2006 the FSC issued 7 licenses to pursue insurance and voluntary health insurance, including 3 licenses to insurers from a third country to carry out activity in the Republic of Bulgaria through a branch, as follows:

- UBB – AIG Life Insurance Company AD;
    - UBB – AIG Insurance and Reinsurance Company AD;
    - ZAD ING AD, Republic of Hungary through a branch with the name of ZAD ING – Sofia Branch;
    - Cardiff – Non-life Insurance AD, Republic of France through a branch with the name of Cardiff – Non-life Insurance, Bulgaria Branch;
    - Cardiff – Life Insurance AD, Republic of France through a branch under the name of Cardiff – Life Insurance, Bulgaria Branch;
    - Insurance Company KD Life AD;
    - Health Insurance Company Vseotdainost AD, to pursue voluntary health insurance.

- **Additional Licenses Issued by the FSC**

- Two insurers – ZPK Lev Ins AD and Q B E Insurance (Europe) Limited – Sofia Branch were granted in 2006 an additional license for extension of their scope of activities with reinsurance activity.

- The FSC issued new additional licenses for Third Party Liability Insurance related to possession and use of motor vehicles to 16 insurers, offering this insurance within the procedure of relicensing of this type of insurance according § 6 para 2 of TFP of the IC.

- One insurer (ZD Evro Ins) was granted an additional license for extension of the scope of its insurance license with new 3 types of insurances.

- **Refusals to Issue License**

- In the beginning of 2006 the FSC pronounced a decision for refusal to issue an insurance license to an insurer (KD Life AD). Subsequently, after expiration of the statutorily set 6-month period and in connection with filed new application for the issue of a license, such license was issued to the above stated company.

- **Individual Administrative Acts Issued by the FSC's Deputy Chairman in Charge of Insurance Supervision Division**

- In 2006 the following decisions of the FSC's Deputy Chairman in charge of Insurance Supervision Division were issued in the application of licensing and authorization regimes under the Insurance Code and its implementing instruments:

- 18 decisions for approval and 1 decision for denial of approval of heads of insurers' specialized department of internal control;
    - 59 decisions for approval and 2 decisions for denial of approval of members of management and supervisory bodies of insurers, health insurance companies and Guarantee Fund;
    - 4 decisions for the issue of authorizations to offer a new health insurance package

- to health insurance companies;
- 2 decisions for approval of changes in the general conditions of 2 health insurance packages of one health insurance company;
- 3 decisions, by which the investment of assets covering technical reserves abroad were allowed;
- 1 decision by which investment of a health insurance company's own funds in shares of another trade company was allowed;
- 4 decisions, by which the acquisition by new shareholders of qualifying holding in insurers' capital was approved;
- 205 decisions for entry in the register of insurance brokers and insurance agents under Art. 30 para 1 item 9 of the IC, including 166 decisions for entry of existing insurance brokers, that have brought their activity in compliance with the IC's requirements and 39 decisions for entry of new insurance brokers;
- 6 orders, by which 33 auditors were included in the list of the registered auditors under Art. 102 para 1 of the IC;
- 6 decisions for admission of 29 persons to examination for professional qualification of insurance broker.

#### **FSC's Decisions Related to Authorization Regimes**

In 2006 the FSC issued:

- three decisions for inclusion of persons on the list of the persons who may be trustees of insurers under Art. 132 para 1 item 6 of the IC;
- three decisions for recognition of legal capacity of a responsible actuary, acquired outside of the Republic of Bulgaria.

In 2006 the FSC took a decision and filed claims with the Sofia City Court (SCC) for the initiation of bankruptcy proceedings for two insurance companies: ZK Hildan AD and MZK Evropa AD. The licenses to carry out insurance activity of those two insurers were withdrawn by FSC's decisions in 2005. With regard to one of the instituted by the SCC lawsuits in connection with the FSC's claims thus filed, the legal proceedings concluded with the pronouncement of court judgment in 2006 for declaring the insurer (MZK Evropa AD) in bankruptcy, initiation of bankruptcy proceedings and appointment of a trustee of the company.

#### **• Number of Insurers and Health Insurance Companies**

As of 31 Dec., 2006 regulated entities of the FSC through its specialized Insurance Supervision Division were:

- Non-life Insurers – 21 companies;
- Life Insurers – 16 insurers;
- Health insurance companies – 13 companies;

At the end of 2006 activity of insurance intermediation was carried out by 215 insurance brokers.

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

#### **• Licensing and Authorization Activity**

In 2006 the FSC issued one license for carrying out activity of supplementary pension insurance to PIC TOPLINA AD.

Within his competence the Deputy Chairman in charge of Social Insurance Supervision Division, issued during the reporting period the following 47 decisions:

- Authorization to Non-profit Organization Private Pension Fund Lukoil Garant to increase its shareholding in PIC Lukoil Garant – Bulgaria AD, as a result of which to own 90,6% of the pension insurance company's capital.
- Authorization to Finance Consulting EAD to increase its shareholding in PIC Saglasie AD.
- Twenty four decisions for approval of amendments and supplements to the Rules of the organization and operation of supplementary pension insurance funds.
- Three decisions for approval of amendments and supplemented to the Rules of valuation of the assets and liabilities of three separate pension insurance companies and of the managed by them supplementary pension insurance funds.
- Decision for approval of model forms of written statements under Art. 121g para 3 item 2 of the Social Insurance Code, which are filed by a natural person or legal entity when asking an authorization for acquisition or increase of shareholding in a pension insurance company.
- Two decision for approval of amendments and supplements to Rules of organization and operation of supplementary pension insurance funds.
- Decision for approval of model forms of written statements under Art.121g para 3, item 2 of the Social Insurance Code, which are filed by a natural person or legal entity when asking an authorization for acquisition or increase of shareholding in a pension insurance company.
- Decision for approval of model forms of applications for obtaining an authorization for acquisition or increase of shareholding in a pension insurance company – for a natural person and legal entity.
- Decision for approval of a list of the regulated securities markets, satisfying the requirements under Art.5 para 2 of Ordinance № 34 of the FSC from 4 Oct., 2006 on the conditions for conclusion of transactions for reduction of the investment risk related to the assets of supplementary pension insurance fund and on the requirements and limitations to these transactions.
- Decision for approval of model forms of annual statements of account of individual accounts for persons insured in a supplementary obligatory pension insurance fund and in a supplementary voluntary pension insurance fund.
- Decisions for approval of the requirements to the form and the obligatory contents of the annual actuarial report under Art.123 para 1 item 5 of the Social Insurance Code.
- Decision for approval of technical interest rate at the size of 3 (three) per cent, which is to be applied by pension insurance companies, which manage a universal pension fund and/or supplementary voluntary pension insurance fund, in calculation of the pension reserves as of 31 Dec., 2006.
- Decision for approval of biometric mortality tables, which are to be applied in the calculation of the pension reserves as of 31 Dec., 2006 by pension insurance companies, which manage a universal pension fund and/or supplementary voluntary pension insurance fund.
- Eight decisions for determination of the minimal rate of return from investment of the moneys of universal and occupational supplementary pension insurance funds
- Two decisions for approval of new model forms of reports and check-ups and of changes in the acting ones.

- **Number of Pension Insurance Companies and Supplementary Pension Insurance Funds**

In the end of 2006 activity of supplementary pension insurance was carried out by 8 PICs, each of them managing three funds – two obligatory pension insurance funds, respectively universal and occupational, as well as one for voluntary pension insurance, and the newly licensed company is in procedure of establishment and applying for an authorization for management of supplementary pension insurance funds.

### **3. Supervisory Activity**

In its function of a supervisory authority the Financial Supervision Commission carries out off-site control and on-site inspections of the regulated persons within the non-banking financial sector.

**The off site control** is expressed in examination of the filed by the regulated persons annual and regular reports with the Commission, as well as other statutorily required documents. If the FSC establishes any deficiencies or irregularities in the submitted documents, it requires from the regulated persons to eliminate or correct them. The FSC exercises control also by **on-site inspections**, which may be planned or ad hoc, as well as related to signals and complaints, received with regard to the regulated persons' activities.

#### **3.1. Supervisory Activity in the Field of Investment Activity**

The supervision over the investment activity in the FSC is exercised by the Supervisory Activity Directorate to the Investment Activity Supervision Division. In 2006 a restructuring was realized within the directorate, whereby the three departments dealing with the supervision over most generally the three groups of regulated entities – investment intermediaries, collective investment schemes, public companies and other issuers were transformed in two directorates Investment Intermediaries and Securities Markets Directorate and Securities Issuers Directorate.

The supervision exercised is expressed in carrying out specialized supervision regarding application and compliance with the requirements of the Law on Public Offering of Securities /LPOS/ and its implementing instruments by the regulated securities markets, the Central Depository, investment intermediaries, collective investment schemes and management companies, brokers and investment advisers, public companies and other securities issuers and by the special purpose vehicles /SPVs/.

##### **3.1.1. Investment Intermediaries, Central Depository, Securities Markets and Investor Compensation Fund**

The supervision over the investment intermediaries (II) during the reporting period was carried out by examination and analysis of the reports on capital adequacy and liquidity, the balance sheets and the income statements of the IIs, filed on a monthly basis with the FSC. This allowed the financial situation of the investment intermediaries to be monitored on an ongoing basis. Upon establishment of any deficiencies or discrepancies between the records according the balance sheet, the income statement and the report on capital adequacy and liquidity, from the respective IIs was demanded by letters to eliminate the errors and to file corrected documents. In the cases where violations of the statutory requirements to capital adequacy and liquidity were found, additional on-site inspections were conducted of the relevant investment intermediaries' activities, and upon the violations' confirmation, acts of

establishment of administrative violation were drawn up /AEAV/ or the undertaking of concrete actions was recommended.

Within the exercised in 2006 **off-site control** over the investment intermediaries' activities, the FSC conducted **1 236 inspections** of the received in the Commission documents concerning their operation, from which **672** examinations of the received in the FSC monthly financial statements of IIs, **450** check-ups of the received Notifications under Art. 56 para 1 of Ordinance № 1 on the requirements to the investment intermediaries' activities, by II, as well as by brokers and investment advisers about changes in the circumstances, entered in the respective registers, maintained by the Commission and **10** examinations of the received in the FSC check-ups under Art. 77m, para 11 of the LPOS, with regard to the way of valuation of client assets, in connection with received request by the Fund for Compensation of Investors in Securities an examination of the check-ups for October, November and December 2005 to be made

During the reviewed period the FSC conducted **1 ad hoc** and **18 planned inspections on site** in investment intermediaries.

As a result of the supervisory activity carried out by the Commission, **77 acts of establishment of administrative violation** were drawn up to investment intermediaries and **one coercive administrative measure** was imposed. Furthermore, the FSC imposed also one coercive administrative measure to Central Depository AD.

The most frequently encountered offences in the field of the investment intermediaries' activities during the year were:

**1) Offences of the LPOS:**

- For breach of the requirements according Art. 161 para 1, preposition two of the LPOS – the ban was violated on conclusion of transactions with securities, as well as carrying out other actions on the investment intermediary's side, aiming at creating wrongful idea about the price, its change or the volume of trade with these securities – **2 acts**.
- For breach of the requirements of Art. 75 para 5, item 2 of the LPOS – use of cash or securities of other clients for a client's account– **8 acts**.

**2) Offences of Ordinance № 6** on the capital adequacy and liquidity of investment intermediaries (Ordinance № 6):

- For breach of the requirements under Art. 22 of Ordinance № 6 - failure by the investment intermediary to fulfill the obligation to monitor on a daily basis its exposures to one person or to a group of related persons, as well as to account for the amount of its large exposures in the report under Art. 27, with the purpose of limiting the risk of their excessive concentration – **10 acts**.

**3) Offences of Ordinance № 1:**

- Breach of the requirements under Art. 12 – lack of concluded contract between the investment intermediary and the client, lack of written statement for verification of the client's identity, lack of certification by a person from the internal control department whether the contract and the written statement comply with the statutory requirements – **7 acts**.
- Violation of the requirements of Art. 12 para 3 – the requirement was violated a person from the internal control department to check whether the contract under para 1 and the written statement under para 2 of the same article comply with the requirements of the LPOS, its implementing instruments and the II's internal acts and to draw up a document whereby to certify the inspection's conducting - **5 acts**.
- Violation of the requirements according Art. 17 para 1 - a contract was concluded between an investment intermediary and a client, while not all required under the Ordinance documents were signed, availability of documents with apparent irregularities or incomplete data, inaccuracies or discrepancies in the submitted documents or the existence of

some other circumstances, arousing suspicions of undue legitimization or representation - **9 acts**.

- Breach of the requirements of Art. 18 para 8 – upon order acceptance, default on obligation by the persons who accepted the same, to draw up a written statement that he/she checked the identity of the client, or the client's proxy – **3 acts**.

- For violation of the requirements of Art. 18 para 10 of Ordinance – the investment intermediary refused to accept an order, given by a proxy, if the requirements of para 3 of Art. 18 from Ordinance № 1 were not complied with – there is no notarial attestation of the power of attorney as of the time of the order's placing – **6 acts**.

- For breach of the requirements under Art. 40 para 1 and 4 of Ordinance № 1 - failure on the investment intermediary's side to fulfill the obligation to keep on a daily basis the records under Section I of Chapter V of Ordinance № 1 on paper or magnetic /electronic/ media, as well as failure by the investment intermediary to fulfill the obligation at the end of every working day to make a printout of the entered during the day data under Art. 42, 43, 45 and 46 of Ordinance № 1 with indication of the date and time of the printout, which is certified by the person, who entered the data and by a person from the internal control department, by affixing date and signatures of the persons – **7 acts**.

- For violation of the requirements according Art. 54a of Ordinance № 1 – violation of the requirement that the person in charge of the internal control department may not be a member of the management or supervisory bodies, a broker, investment adviser or another person who has been entrusted with the operative management of the investment intermediary or who participates in the performance of activities or separate actions, over which such person exercises control – **2 acts**.

- For violation of the requirements according Art. 54b para 1 of Ordinance № 1 – violation of the requirement that at the end of the business week the internal control department must check up the accepted orders, the documents submitted and drawn up in relation to them, the approvals given to clients under Art. 30 of Ordinance № 1 and the payments effected – **7 acts**.

**4) Violations of Ordinance № 7** of 5 November, 2003 to the requirements which must be met by the natural persons who under a contract directly execute transactions in securities and provide investment advice with regard to securities – under Art. 14 para 4 or para 5 of Ordinance № 7 – default on the obligation to notify the FSC upon conclusion/termination of a contract with an investment intermediary - **3 acts**.

As a result of conducted on-site inspections, the FSC imposed **two coercive administrative measures**. The first was applied in relation to the activity of Bulinvestment PLC, by which the company was obligated to suspend for a period of 6 months the execution of transactions with shares and compensatory instruments, as well as activity as a registration agent – Decision 385-II/14 June, 2006.

The second coercive administrative measure was imposed in relation to the operation of Central Depository AD. Upon inspection of the activities of Real Finance AD, FSC established realization of activity by the Central Depository AD, jeopardizing investor interests, namely making a replacement of a party to transaction with completed settlement, without a possibility to have been envisaged in the regulations for replacement of a party to a transaction with completed settlement, which completed its action due to execution. As a result, the FSC imposed a coercive administrative measure to inform the public by announcement of the found violation on the Commission's web site, as well as through the Bulgarian Telegraph Agency.

During the reviewed period 73 administrative penal procedures were initiated, 50 of them having concluded with penal warrants, and 23 with resolutions for termination.

In 2006 in the FSC were received 38 **complaints against the decisions of the Deputy Chairman** of the FSC in charge of Investment Activity Supervision Division concerning the operation of investment intermediaries. After their completion with the required documents, they were sent to the respective regional courts.

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

The **documentary inspections** within the supervision exercised over the operation of the collective investment schemes and the special purpose vehicles were regular. As a result of them with reference to submitted by the regulated entities documents, the FSC drew up **8 acts for establishment of administrative violations** –

- **2 acts** for violation of the requirements under Art. 115, para 3 of the LPOS concerning the sending of a notice for a general meeting to the FSC, in the Central Depository and to the regulated market on which the shares of the company have been admitted to trading, at least 45 days before the holding of the meeting;

- **2 acts** for violation of the requirements for sending minutes of the general meeting to the Commission and the regulated market, where the shares of the company have been admitted to trading, within 3 business days after the meeting's holding, Art. 117 para 1, preposition one, in relation to Art. 116d, para 3 item 4 of the LPOS.

- **1 act** for violation of Art. 192, para 3, in relation to para. 4 of the LPOS concerning entered amendments to the Articles of Association of 1 investment company /IC/ without the preliminary approval of the Deputy Chairman in charge of Investment Activity Supervision Division,

- **2 acts** to 2 natural persons – for violation of Art. 145 para 1, in relation to para 4 of the LPOS, i.e. to notify the Commission within a 7-day period after the entry of the relevant company in the commercial register or after the date of acquisition or transfer of the shares to a person, whose voting right reaches, exceeds or falls below 5 per cent or a figure multiple of 5 per cent of the number of votes at the general meeting of the company whose shares have been admitted to trading on a regulated market.

- **1 act** of an established violation by the investor relations director of a SPV, of the requirements under Art. 115 para. 3 in relation to Art. 116d para 3 item 4 of the LPOS, namely the timely sending of all necessary reports and notification of the company to the Commission, the regulated market on which the company's securities are traded, and the Central Depository.

During the period, the FSC conducted **15 planned on-site inspections** - **3** of management companies, **7** of investment companies and contractual funds and **5** of special purpose vehicles.

The inspections concluded with the drawing up of ascertaining protocols, where two recommendations were made concerning the management companies' activity. **2 acts for establishment of administrative violations** were drawn up to MC. The violations were related to Art. 6 item 2 of the Ordinance on the Requirements to the Activity of Management Companies /ORAMC/, for admitted deviations from the statutorily set investment limitations. **One** act was drawn up for establishment of administrative violation to 1 SPV and 14 recommendations were given to the activity of SPVs.

In 2006 the FSC also applied three coercive administrative measures (CAM) with regard to the activities of 1 of the collective investment schemes and two special purpose vehicles. One more procedure of applying CAM in relation to the activity of a SPV was opened but was subsequently terminated.

In the course of the reviewed period, 11 administrative penal procedures were initiated, 7 of them concluding with penal warrants, and 4 with resolutions for termination.

For the period no **complaints against decisions of the Deputy Chairman**, in charge of Investment Activity Supervision Division were received, concerning the supervision of the collective investment schemes, management companies and SPVs.

### **3.1.3. Public Companies and Other Securities Issuers**

The off-site control which the FSC exercises in relation to the activities of the public companies and other securities issuers is expressed in inspection of the received in the Commission documents from the companies and in ongoing monitoring of the information disclosed to the public by the regulated entities.

In 2006 the Supervisory Activity Department conducted in total **2579 inspections** of all received in the FSC reports, and supplements thereto, from the regulated entities regarding the completeness and lack of discrepancy in the submitted information pursuant to the legal requirements. Inspections were also carried out of all received in the FSC materials in connection with the convocation and holding of the General Shareholders' Meeting /GSM/ - notice for convening a GSM, publications in State Gazette, materials, substantiated reports, minutes of GSM, taking of lawful decisions by GSM, the presentation of these materials to BSE – Sofia AD. After the carrying out of the above mentioned examinations of documents, the information from them is subject to entry in the register of the public companies and other securities issues, maintained by the FSC.

Thus during the reviewed period the following **entries of the following circumstances and changes** therein were made:

- **2553** financial statements, of which :
  - **486** annual statements and additionally filed documents for year 2005;
  - **94** annual consolidated statements for year 2005;
  - **80** consolidated quarterly statements for 2005;
  - **366** quarterly statements from 2005 and additionally filed documents;
  - **1280** quarterly statements for year 2006 and additionally filed documents;
  - **247** consolidated quarterly statements for year 2006;
- **26** notifications of the current stage of the procedure of bankruptcy and liquidation of the companies in 2006;
- **749** entries, including **407** notifications of the sensitive information, influencing the securities' price;
  - **322** notifications of changes in the shareholding under Art. 145 of the LPOS
  - **62** notification of dividend under Art. 115b, para 2 of the LPOS;
  - **380** notices concerning holding of a GSM, entry of notices for GSM under Art. 115 para 3 of the LPOS, were entered during the period filed by the companies.
- Other entries – **367**.

In compliance with the provisions of Art. 98 para 1 and Art. 99 of the LPOS and Art. 28, in relation to Art. 27 of Ordinance № 2 on the prospectuses with the public offering of securities and on disclosure of information by the public companies and the other securities issuers (Ordinance № 2), with respect to disclosure of material information, exerting influence over the price of the securities, there is an established process of **ongoing monitoring of the information disclosed to the public by the regulated entities** ("ad hoc" – information). This process includes a daily review of the published in mass media, including electronic media, information from and about the public companies and other securities issuers. Documentary inspection is carried out on the basis of the available in the FSC documents about the

disclosure of the already announced information in consistence with the requirements of the LPOS and Ordinance № 2. In case of available data for possible legal offences, letters are sent to the relevant persons, or an inspection is conducted. During the period under consideration, the FSC conducted **180** examinations of the available in the Commission and at the BSE documents, where no breaches were found out. Letters were sent to **9** companies with request to submit additional information in relation to the inspections carried out in relation to publication in the press.

Periodically – in every two weeks, the responsible department prepares a memorandum to the FSC's Chairman, through the Deputy Chairman in charge of Investment Activity Supervision Division on the activities performed in connection with the established process of ongoing monitoring of the information disclosed by the companies to the public.

In the course of the period the FSC conducted **4 on-site inspections** at the company's seats: Central Depository AD, Kauchuk AD, Bulgarian Rose – Plovdiv Ltd., and SAF Magellan AD and 7 documentary inspections of the companies: Zaharni Zavodi AD, Vinzavod AD, Baranko EOOD, Comco Tobacco Ltd., Assenova Krepost JSC, Isotservice Holding JSC and Transtroy Burgas AD.

In 2006 as a result of the established offences in the exercising of supervisory activity, the FSC drew up **85 act for establishment of an administrative violation**. Among the most often met offences were:

- Failure to comply with the deadline for sending a notice for the general shareholders' meeting – **16 acts**, as well as of minutes of the general meeting – **2 acts**.
- Non-presented or presented with a delay at the FSC and at the BSE-Sofia AD quarterly reports by the public companies and other securities issuers – **15 acts** or annual reports - **9 acts**, as well as for failure to observe the deadline for elimination of incompleteness or discrepancies in the financial statements, submitted at the FSC – **6 acts**
- Execution of transactions, in which the established by law thresholds were exceeded, without authorization by the General Meeting of shareholders – **14 acts**
- Failure to fulfill within the set term recommended by the Commission measures, necessary for prevention and removal of the offences, of the harmful consequences of unlawful actions by regulated entities or the jeopardy for the investor interests within set by the FSC term – **10 acts**
- Failure to notify of a person whose voting right according Art. 148 reaches, exceeds or falls below 5 percent or a figure, multiple of 5 per cent from the number of votes at the General Shareholders' Meeting of the company, whose shares have been admitted to trading on a regulated market – **3 acts**

Simultaneously, during the year with the purpose of prevention and termination of administrative violations, the FSC initiated 364 procedures for applying of CAM, applied 95 CAMs and terminated 341 procedures.

Most often procedures of application of coercive administrative measures (CAMs) were opened and these procedures were applied or terminated in relation to **established incompleteness and discrepancies in the filed with the FSC quarterly and annual reports by the public companies and other securities issuers**; as well as towards the companies, to which relates **failure to vote on an item from the agenda, failure to undertake actions on already voted item, exoneration from responsibility by the GSM of members of the PC's management and supervisory bodies**.

Detailed information on them is given in *Appendix 3.1.3*.

During the period under consideration 80 administrative and penal procedures were instituted, 40 of them concluded with penal warrants, and 40 with resolution for termination.

During the year 16 complaints were received against issued by the FSC's Deputy Chairman in charge of Investment Activity Supervision Division penal warrants and 1

complaint against a decision for the applying of a coercive administrative measures, which were completed with the required documents and sent to the relevant regional courts and the Supreme Administrative Court.

Beside the above stated inspections, within the reviewed period, Investment Activity Supervision Division with the FSC also conducted a number of inspections for compliance with the provisions of Chapter Twelve of the LPOS, in relation to prohibition on **unfair trade with securities, market manipulation, insider information and insiders**. As a result of the inspections, acts for establishment of violation were drawn up for the following found out offences:

- Acquisition by an II's broker, in his capacity of insider, for the intermediary's account, of securities for which he possessed inside information. Offended was the provision of **Art. 160 para. 1, item 1, in relation to Art. 158, para 1, preposition last** of the LPOS. 1 AEAV was drawn up to the person.

- Dissemination of false information relating to securities admitted to a regulated market in the forum of the web site Investor BG, with which the person violated the provision of **Art. 161 para 1, in relation to para 2 item 2** of the LPOS. 1 AEAV was drawn up to the disseminator.

- Joint conclusion of transactions by two natural persons (clients of an II) and an investment adviser in an II with shares of a public company, as a result of which a wrong picture was created for active trading with the mentioned securities. The provision of **Art. 161 para 1, preposition one** of the LPOS was violated, for which AEAV were drawn up to the third persons.

- The performance of actions by a broker of an II, by which a wrong picture was created for active offering of shares of a concrete public company. With a view to the breach of the provision of **Art. 161 para 1, proposition two** of the LPOS, 2 AEAV were drawn up to the person.

- Performance of transactions and actions by 3 natural persons and 3 legal entities, clients of investment intermediaries, by which unusual change was caused in the price of shares of separate public companies. AEAV were drawn up to the persons for breach of **Art. 161, para 1, preposition 4** of the LPOS.

### **3.2. Supervision Activities in the Field of Insurance and Voluntary Health Insurance**

The supervisory activities performed by the FSC over the activities of the insurance and health insurance companies find expression in exercising control over the activities of the insurance and health insurance companies on observance of the requirements set under the Insurance Code (IC) and the Health Insurance Act (HIA), as well as of the normative acts on their implementation.

**The remote control** was performed on the basis of documentation; on the basis of the annual, quarterly and monthly reports of the supervised entities. In 2006 *Inspections and Financial Supervision* Directorate under the *Insurance Supervision* Division at the FSC examined the annual and periodic reports, and supporting papers and reference information to these of 49 supervised entities, including 21 non-life insurers, 15 life insurers, 13 health insurance companies and the Guarantee Fund.

Throughout the year under review, in total, the FSC performed 32 **on-site inspections** at insurers:

- 9 planned inspections and 1 thematic inspection of insurers;
- 5 thematic inspections of insurance brokers;

- 17 thematic inspections of insurers, insurance brokers and agents with regard to the conclusion of the *Third Party Liability of Motorists* compulsory insurance.

Joint inspections with other institutions were not performed.

Within the frameworks of the supervision exercised over the activities of insurers, **violations were established** which may be classified into the following directions:

- non-observance of the requirements to set up insurance and health insurance reserves that are sufficient in amount, where the following were established: undervalued unearned premium reserve, outstanding claims reserve under insurances different from the *Third Party Liability of Motorists*, the O/C reserve on reported but not paid claims under the *Third Party Liability of Motorists*, as well as the O/C reserve on reported but not paid claims for years 2005 and 2006;

- non-coverage of the gross technical reserves' whole amount pursuant to the requirements set under Art. 72 of the Insurance Code with suitable assets where observing the ratios specified under Art. 74 of the IC;

- non-expression of opinion on reported claims within the three-month time period established under the law pursuant to Art. 271, para. 1, in connection with para. 2 of the Insurance Code;

- the structure of the assets held for coverage of the technical reserves at some of the supervised entities has not been conformed to the restrictions set under Art. 74 of the IC (excess of the limits established under the law for investments in unencumbered real estates, bank deposits, shares and bonds).

In 2006, the FSC drew up 71 statements for established administrative violations to supervised entities (insurance and health insurance companies). Within the period under review, 59 administrative penal proceedings were completed, out of which 38 ended with issuance of penal enactments, 21 proceedings were terminated, and 12 have not been completed by the end of the period under review. The total amount of the financial sanctions imposed throughout the year amounted to BGN 88 thousand. More substantial violations related to consumer protection were those where the insurers did not render opinion within the statutory period on claims raised before them: **12 statements for established violations**.

In connection with the supervision performed over the supervised entities' financial stability, the most significant violations established were related to insufficiency of the amount of the technical reserves formed, by which technical reserves the insurers are to guarantee coverage of the insurance risks undertaken by them: **11 statements for established violations**.

In 2006, 42 penal enactments entered into force. The total amount of the fines and financial sanctions imposed amounted to BGN 119,100, where all receivables were collected voluntarily.

In 2006, 19 proceedings on imposition of coercive measures with regard to the activities of insurers were instigated. Out of these, 14 proceedings were terminated, and 5 were completed with issuance of a ruling on the imposition of a coercive measure. All five rulings on the imposition of coercive administrative measures were appealed against before the FSC, where subsequently these were all confirmed.

In the field of consumer protection, with a view to guaranteeing the rights of the persons suffered damages (material and non-material) to obtain fast and timely insurance indemnity, the Deputy Chair of the FSC in charge of *Insurance Supervision* Division issued an order, the addressee of which is obligated to submit to the FSC a complete excerpt from the Register on the claims reported before it in the course of three months in order to ensure maximum promptness within the process of considering, specifying and paying insurance indemnities.

For the purpose of exercising **on-going preventive supervision** over the activities of insurers, the Commission undertook the following actions:

- A Resolution issued by the Financial Supervision Commission, under which the amount of the insurers' installments with the Guarantee Fund in 2007 was specified: under the compulsory *Third Party Liability of Motorists* insurance, the installment is to the amount of BGN 10 per each insured motor vehicle, and under the compulsory *Accident* insurance of passengers the installment is to the amount of BGN 0.15 per each seat, without driver's seat. The installment under the *Third Party Liability of Motorists* insurance was specified in such amount with a view to securing financing of the Information Centre under the Guarantee Fund, under its reinsurance programme for year 2007 and in order to accumulate funds to enhance its financial capacity so that the fulfillment of its liabilities is guaranteed in the case of the enlarged territorial cover – for the territory of the European Economic Area.

- An order, amended later by another order, under which the information submitted by insurers in connection with the compulsory *Third Party Liability of Motorists* and *Accident* of passengers riding on the public transport vehicles insurances concluded by them was specified. The purpose of this order is to ensure that the regular information required for exercising supervision on these two compulsory insurances and to create the necessary prerequisites to set up an information system which is to guarantee the functioning of the Information Centre under the Guarantee Fund.

- An order under which it was required from the insurers to submit their tariffs under the *Third Party Liability of Motorists* insurance, as well as the amendments to these, accompanied by insurance and technical plans and actuarial rationale.

- An order under which an obligation was introduced stating that insurers are to submit weekly information on the *Third Party Liability of Motorists* insurance policies concluded by them and the premiums accumulated on these. The order ensured the provision of the required data to perform on-going and preventive supervision on the adequacy of the premiums under the said insurance with a view to ensuring insurers' financial stability, respectively guaranteeing their ability to pay insurance amounts and indemnities in following periods.

Issuance of the above administrative measures by the FSC and its Deputy Chair in charge of *Insurance Supervision* Division, along with setting up the information database under the compulsory *Third Party Liability of Motorists* and *Accident* of passengers insurances constituted a part of the measures undertaken for the purpose of implementing the FSC's mission to be an institution, exercising efficient regulation and preventive supervision over the insurance activities in order to protect the interests of the insured persons and guaranteeing the stability of the insurance market in the long term as a characteristic feature of the Bulgarian insurance market, which is to a great degree dominated by the compulsory insurances.

### **3.3. Supervisory Activities in the Field of Supplementary Pension Insurance**

The supervisory activities over the activity performed by the pension insurance companies finds expression in control over the observance of the Social Insurance Code (SIC) and the valid normative acts of the subdelegated legislation on its implementation.

The supervisory activities over the lawful exercise of the activities of the pension insurance companies and the supplementary pension insurance funds managed by these for the purpose of protecting the interests of the persons insured and guaranteeing the stability of the market is performed by *Control Activities* Directorate under the *Social Insurance Supervision* Division through performance of off-site control and on-site inspections. For the

lawful exercise of the activities, inspections are also carried out in the trustee banks of the supplementary pension insurance funds.

**The off-site control** is exercised by the officers of *Control Activities* Directorate on the basis of the financial accounts and reference information on the activities of nine pension insurance companies, twenty-four supplementary pension insurance funds and seven trustee banks, having the following periodicity of submission: daily – for the activities of the supplementary pension insurance funds and the trustee banks; monthly, quarterly and annually – for the activities of the pension insurance companies and the supplementary pension insurance funds.

Under the examination of the reports on the activities of the pension insurance companies and the supplementary pension insurance funds carried out, 54 violations of the normative provisions were established, with regard to which 25 written statements ascertaining administrative violations of SIC and Ordinance No. 9 of the FSC were drawn up.

The off-site control is realized in three main directions – daily control, regular control and monitoring of the pension insurance companies' information and advertising activities.

**The daily control** finds expression in a daily inspection and analysis of the information received on the activities of the supplementary pension insurance funds and the trustee banks where the lawfulness of the transactions concluded with the assets of the pension funds, the ratio of investments in separate types of financial instruments in relation to the pension funds' assets, the manner of performing asset valuation and their proper registering with the pension insurance companies and into the registers of the trustee banks is monitored. The observance of the normatively set deadline for investing the funds received, the variance in the value of the net assets, the correct deduction of the investment fee and the proper specification of the number of units, corresponding to the sums received and withdrawn and of the value of one unit, as well as the notification of information on the value of one unit under the procedure and within the time periods provided for pursuant to Ordinance No. 9 issued by the FSC is also monitored. The results from the inspections carried out over the activities of the supplementary pension insurance funds and the trustee banks are systematised in weekly reports in compliance with the endorsed Methodology of Off-site Control and On-site Inspections of the Activities of Pension Insurance Companies and the Supplementary Pension Insurance Funds managed by these /the Methodology/. The summarised information from the reports is submitted to the Deputy Chair of the FSC in charge of the *Social Insurance Supervision* Division.

As a result of the daily control exercised, 50 violations of the normative provisions were established throughout the year, with regard to which 23 statements for established administrative violations of the SIC and the by-laws on its implementation were drawn up. More material violations of the SIC were related to acquisition of supplementary pension insurance funds' assets by related parties, non-observance of the ban to invest the supplementary pension insurance funds' monies into shares which have not been admitted to trading on a regulated market and violation of the restriction where investing the supplementary pension insurance funds' assets. Violation of *Ordinance No. 9 of November 19, 2003 issued by the FSC with regard to evaluating the investment property and subsequent evaluation of the supplementary pension insurance funds' assets invested in securities* was established.

Within the frames of the **periodic control** performed by the FSC, in year 2006 the submitted monthly, quarterly and annual financial reports and reference information on the activities of all eight licensed pension insurance companies and the supplementary pension insurance funds managed by these were inspected and analysed. For each pension insurance company, the levels of normatively specified indices such as capital adequacy, liquidity, etc., through which the lawful performance of the pension insurance companies' activities is

monitored were established. Simultaneously, the common financial and economic indices related to capital, assets, pension insurance companies' receipts and expenditures, the assets, the participants and the profitability of the pension funds were also analysed.

The results of the inspections and analyses carried out are respectively entered into monthly, quarterly and annual analytical reports, the form and the minimum contents of which are specified under the Methodology. The summarized information of the reports is submitted to the Deputy Chair of the FSC in charge of *Social Insurance Supervision* Division. As a result of the periodic control exercised, violations of the legal restriction to invest the pension insurance companies' funds in securities held by supplementary pension insurance funds managed by the former were established. 4 violations of normative provisions were ascertained, with regard to which 2 statements for established administrative violations of the Social Insurance Code were drawn up.

The off-site control over the pension insurance companies also comprises **monitoring of the information and advertising activities of the pension insurance companies**. Throughout the period, inspections were carried out of the Internet sites of the pension insurance companies in connection with the observance of the provisions of the SIC and the Requirements Set Towards the Contents of the Advertising and Written Information Materials of the Pension Funds and of the Pension Insurance Companies Pursuant to Art. 123i, para.2 and Art. 180, para.2, item 1 and item 2 of the SIC /the Requirements/ approved under Resolution No. 236-PIC/March 28, 2006 issued by the Deputy Chair of the FSC in charge of *Social Insurance Supervision* Division. In connection with the amendments to the SIC (promulgated, SG, Issue 17 of February 24, 2006), for the first time the pension insurance companies published on their websites information on the volume and the structure of the investments by types of assets and securities issuers for each supplementary compulsory pension insurance fund managed. The discrepancies established during the inspections between the information published and the approved requirements towards it were rectified within the deadlines set.

When exercising operating control with regard to observance of the Social Insurance Code's provisions and the subdelegated legislation in force, during year 2006 **14 on-site inspections** were carried out in total; out of which 7 full inspections at licensed pension insurance companies and the supplementary pension insurance funds managed by these, 2 inspections carried out parallelly with the Financial Intelligence Agency, 1 following a warning received at the FSC, and 4 – at trustee banks jointly with *Banking Supervision* Department at the Bulgarian National Bank on the lawful performance of trustee activities by the supplementary pension insurance funds.

During the full inspections carried out of the activities of the pension insurance companies and the supplementary pension insurance funds managed by the former, 41 violations of the Social Insurance Code and of Ordinance No. 9 of November 19, 2003 issued by the FSC were established, with regard to which 14 statements were drawn up. 45 recommendations in order to improve the activities of the companies were also submitted to these.

During the joint inspections of trustee banks of the supplementary pension insurance funds carried out along with *Banking Supervision* Department at the Bulgarian National Bank, 17 recommendations for the purpose of improving their activities were given.

In 2006, while performing off-site control and carrying out on-site inspections with regard to the observance of the provisions of the Social Insurance Code and the subdelegated legislation in force, the officers of the Directorate established **95 violations of normative provisions** with regard to which **39 statements for established administrative violation** were drawn up. Throughout the year, **35 penal orders** were issued, under which penal orders penalty payments were levied to individuals to the amount of BGN 20,300. In 2006 **1**

**coercive administrative measure** was imposed with regard to 1 pension insurance company. The measure was not appealed, all proceedings were undertaken within the timeframes provided for.

During the period under review, 48 warnings and queries were submitted by pension insurance companies, via which the FSC was informed about violations of the provisions of Ordinance No. 3 issued by the Commission. In connection with the warnings received, document inspections and 1 on-site inspection were performed. The pension insurance companies were duly notified of the results and the FSC's standpoint.

## **4. Consumer Protection in the Field of Non-banking Financial Services**

The main purpose of the FSC in its capacity of a supervisory institution is ensuring consumer protection of the clients of non-banking financial services. The information and education policy pursued by the Commission is of considerable importance to achieve this purpose. Provision of **access to up-to-date information** regarding the market of non-banking financial services and the participants on it facilitates attaining transparency and equal standing. Simultaneously, **enhancement of public knowledge** in the sphere of non-banking financial sector has preventive nature with regard to protection of the interests of non-banking financial services consumers.

### **4.1. Information Awareness Provided by the FSC**

#### **4.1.1. Access to Financial Information**

In pursuing its information policy, the FSC is guided by the principles of publicity, transparency and equal standing. A priority in this respect is submission of timely and precise information not only on the non-banking financial services markets and the participants on these, but also on the activities of the FSC in its capacity of a supervisory and regulatory authority.

The Commission's **website** provides detailed and up-to-date information on the regulatory and supervisory decisions adopted by the Commission, the actions undertaken, as well as the forthcoming events in the sphere of the FSC's activities. In 2006 the site was maintained and updated towards the needs of the consumers. A Section on ***Capital Market Statistics*** was added, comprising information not only on the current quarterly periods, but also summarised data on year 2005. The thus created database on the supervised entities – participants on the capital market attracted the interest of the investment community due to the vital significance of the financial information in this sphere. The statistical information includes not only individual, but also aggregated data on the public companies and other issuers of securities, the management companies, the collective investment schemes, the investment intermediaries and the trade on the stock exchange. Section's update is made on a quarterly basis.

Throughout the year, the website was renewed by adding ***Events*** Section, under which detailed information is provided on the trainings, discussions and other public events undertaken by the FSC. The Section records every event held and access is also provided via a hyperlink to the available additional information – presentations, programmes, photographs. Likewise, in 2006 ***Questions and Answers*** Section was reorganised and renewed. Under the said Section, the most commonly asked questions and issues posed in the sphere of insurance,

investments and supplementary pension insurance on the part of the consumers of these services is commented upon.

In 2006 an **electronic gateway was set up for submission of information on the compulsory *Third Party Liability of Motorists* insurance** in order to form an up-to-date and reliable database, to identify the insured motor vehicles, their owners and drivers. A possibility is also provided to carry out an inspection with regard to the availability or non-availability of *Third Party Liability of Motorists* insurance by entering the registration plate number of a randomly selected motor vehicle into a gateway, having secured public access, through the FSC's website. By introducing the aforesaid system, the necessary prerequisites to exercise control with regard to maintaining high totality of insured motor vehicles and to undertake administrative actions against the owners and drivers who have not concluded the insurance are created. Another important function of the database is to create the necessary prerequisites for the functioning of the Information Centre under the Guarantee Fund, which after January 1, 2007 is to interact with the information centres of the rest of the Member States by submitting the requisite information in order to settle claims filed after road and traffic accidents caused by motor vehicles having Bulgarian registration within the territory of the European Economic Area.

The Financial Supervision Commission submits detailed information on the supervised entities – status, contact information, periodic reports, etc., via **public register** which is accessible not only on the spot at the Commission's premises, but also via the website – Electronic Register & Card-index (ER&C). Throughout year 2006, **ER&C** was successfully maintained and upgraded. The main directions, into which the public register was developed further were: addition of new registers and their initial loading with information, addition of information in the public section and creation of new sections containing reference information. In 2006 the ***Insurance Agents Register*** was worked out and added to the Public Register. It contains information on about 100,000 agents. Data is maintained about these with regard to what types of insurances they conclude and under which insurer respectively.

In 2006 the **telephone information centre (0900 32 300)** continued to function. Through it, the consumers of non-banking financial services may receive answers to issues and specific questions within the sphere of the capital and the insurance markets, the voluntary health insurance and the supplementary pension insurance.

The resolutions adopted by the Commission throughout the year, the sublegislative and legislative normative acts adopted, as well as comments on more significant events in the sphere of the non-banking financial services are published in a **bulletin** of the FSC issued on a monthly basis.

On the occasion of considerable and significant amendments or events in the non-banking financial sector, the FSC organises **discussions and conferences** for the purpose of maintaining a dialogue with the persons and institutions interested. In connection with the entry into force as of January 1, 2007 of the *Ordinance on the Capital Adequacy and the Liquidity of the Investment Intermediaries*, under which the valid so far ordinance was revoked, in the month of December 2006 the Financial Supervision Commission organized a discussion where the new normative requirements were discussed. FSC experts and representatives of most investment intermediaries participated in the aforesaid discussion. In the month of October 2006 the Financial Supervision Commission (FSC) hosted a forum where the possibilities of developing the supplementary pension insurance in the EU and the challenges, facing the accession member states were discussed: *“Development of the Supplementary Pension Insurance in the European Union and the Challenges Facing the Accession Member States”*. Topics of special interest with regard to the accession member states, such as privately managed pension insurance in the EU, implementation of Directive 2003/41/EC and the transborder activities of the professional pension insurance institutions

were presented at the conference. Internationally recognised experts discussed the opportunities for investment choice on the part of the participants in pension schemes and the regulations of the pension payment phase.

#### 4.1.2. Educational Policy of the FSC

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

In 2006 the Financial Supervision Commission continued to develop its initiative in the direction of enhancing the financial culture of specific public groups whose activities are related to the non-banking financial sphere.

In the month of April the FSC held for the fourth time the **Non-banking Financial Sector Educational Programme for the students** at the professional high schools of economics in the country. Having already become a traditional event, the Programme enjoys success and popularity not only amongst the students and the tutors, but also amongst the representatives of the business and the media. The Programme is financed by *Atanas Burov* Foundation and is realised with the support of the Ministry of Education. The training was held at the Qualification Centre of the National Revenue Agency in the town of Bankya. 30 students and teachers from 21 professional high schools having economics profile from all over the country participated in it.

During the lectures, the participants got acquainted with the principles and mechanisms of the capital, insurance and pension insurance markets, and the practical part included visits and studies at the Financial Supervision Commission, the Bulgarian Stock Exchange-Sofia, *Elana* Investment Intermediary, *Lukoil Garant Bulgaria* Pension Insurance Company, *Alianz Bulgaria* Insurance and Reinsurance JSC and *Bulgarian Health Insurance Fund* JSC.

In the month of January, the FSC held a **one-day training on capital markets** for 11 and 12 grade students at *Atanas Burov* Professional High School of Light Industry and Economics, town of Gorna Oryahovitsa. The students were acquainted in detail with the activities of the supervisory institution and its structure; thereafter, they visited the Bulgarian Stock Exchange and *Elana* Investment Intermediary. The visit is continuation of the educational programme ‘Development of the Non-banking Financial Sector in Bulgaria’, which has been organised by the Commission for 3 years now for high school students at the schools of economics in the country. The objective of the said programme is to provide professional training, be informative and to foster building the financial culture amongst students, as well as to further their knowledge with regard to the financial markets and the regulatory institution’s role. The idea behind the initiative is to enrich the youth knowledge and to arouse their interest in the financial sphere.

- **Seminars directed toward the authorities rendering support to the FSC in the implementation of protection of financial services consumers and groups, having considerable public influence and access to the wide audience**

Two seminars on the following topic: ‘**Topical Issues Related to the Implementation of the FSC’s Supervisory Functions**’ were held within the period September 28 - 29 in Borovets and October 5 – 6 in Albena. 60 representatives of the Prosecutor’s Office of the Republic of Bulgaria, officers of *Economic Police* Department, National Police Service Directorate and members of the Court of Arbitration with the *Bulgarian Stock Exchange - Sofia* AD participated in the seminars. The main purpose of the seminars was to acquaint the audience with the FSC’s practice in the field of supervising the

transactions in securities, where stress was put on market manipulation and the anti-money laundering measures in the sphere of investment intermediation. The supervisory practices in the field of supplementary pension insurance were also presented.

In the month of November, the FSC held a **seminar for journalists** on the following topic: 'New Features of the Regulatory Activities and Supervisory Practice of the FSC in the Context of Bulgaria's Accession to the European Financial Markets'. Almost forty representatives of the national and regional media took part in the seminar organised by the Commission. In its capacity of a government agency which regulates and supervises the capital, insurance and social insurance markets, the objective of the FSC is to contribute in order to broaden the knowledge of journalists in this sphere and on the FSC's role as a regulatory institution. The Deputy Chairs of the FSC – Ms. Dimana Rankova, Ms. Ralitsa Agayn and Mr. Biser Petkov – acquainted the media representatives with the novelties in the regulatory activities on the capital, insurance and social insurance markets and replied to a number of journalist queries related to specific cases. The subject of insider trading and market manipulation, as well as the subject of Third Party Liability of Motorists following Bulgaria's accession to the EU gave rise to a discussion. The journalists attending were acquainted with the development of the supplementary pension insurance in Bulgaria following the country's EU accession.

## **4.2. Complaints Against Supervised Legal Entities and Acts Undertaken by the FSC**

In 2006, 282 complaints and warnings in connection with problems in the sphere of investment activities were lodged with the FSC. Most of them were related to illegal disposition by third parties with investment bonds owned by natural persons, as well as illegal disposition by IP (by officials thereof in particular) with investment bonds, compensatory instruments and securities of natural persons, including: **94** referring to 233 234 shares, **125** referring to 100,600 investment bonds, **61** referring to 652 834 compensatory instruments.

During the same period, a considerable number of the documentary inspections were carried out following complaints lodged before FSC: **114 documentary inspections of investment brokers related to these complaints**. These inspections resulted in the following:

- **29** complaints were related to missing investment bonds: 11 750 nos.
- **36** complaints were related to missing compensatory instruments to the nominal value of BGN324;
- **49** complaints were related to missing shares: 228 176 nos..

Following the inspections carried out in connection with each one of the complaints describing cases of illegal disposition of public-company shares, investment bonds and compensatory instruments, the Ministry of the Interior, the Courts of Justice and the Prosecutor's Office were approached in order to take action within their respective fields of competence

Within the framework of the accounting period, the total number of complaints forwarded to the authorities for the purpose of taking action within their respective fields of competence is 254, of which 116 were addressed to the Courts of Justice /Prosecutor's Office, 62 to the Ministry of the Interior, and 76 to the Privatization Agency.

In 2006, the total number of complaints lodged against supervised entities active in the sphere of **insurance and health insurance** is 565; and 556 inspections were closed, and 9 were not completed until the end of the accounting period. The complaints against decisions of the Deputy Chairman are 5. After being considered, the claims were rejected and the decisions of the Commission were confirmed.

The total number of inspections in connection with complaints lodged by consumers of insurance services which were brought to an end was 893 including complaints submitted in 2005.

Most frequently, the complaints lodged in connection with violation of rights are related to the sphere of general insurance: 90%, and only 10% of the complaints concern the activities of life insurance companies. In the sphere of general insurance, more than 55% of the cases are complaints referring to the compulsory insurance Third Party Liability of Motorists. The share of complaints related to property insurance, including CASCO is 33%.

In connection with general insurance, most frequent are the complaints related to the refusal of the insurer to reimburse the claimed indemnity of 35%. Equal is the percentage of complaints related to delayed payments of insurance, or disagreement with the amount of the calculated insurance, 27 % and 28 % respectively.

In 2006, 8 judicial decisions were given in administrative-penal proceedings instituted upon appeals against penal rulings; 6 decisions confirmed the legitimacy of the penal rulings of the court.

During the accounting period, total of 243 complaints were lodged by insured persons and 48 warning statements and questions by pension insurance companies. Most of the reasons for them were various violations of Ordinance No. 3 of 24.09. 2003 on the Procedure and Method for Changing the Participation and Transfer of Accumulated Means of an Insured Person from one Supplementary Pension Insurance Fund into another Fund managed by a different Pension Insurance Company. Questions were raised also on various topics related to insurance rights. The respective pension insurance companies were requested to provide answers and supplementary documents, and the appellants received answers within the term provided by the law.

## 5. Human Resources Policies

During the last three years, FSC made concerted efforts to improve and apply rules and mechanisms for human resources management with the aim to advance the quality and efficiency of the administrative services

**The mission** of the management human resources is to identify, enhance and preserve the most appropriate individuals capable to work for the benefit of the society and to raise the institution's prestige.

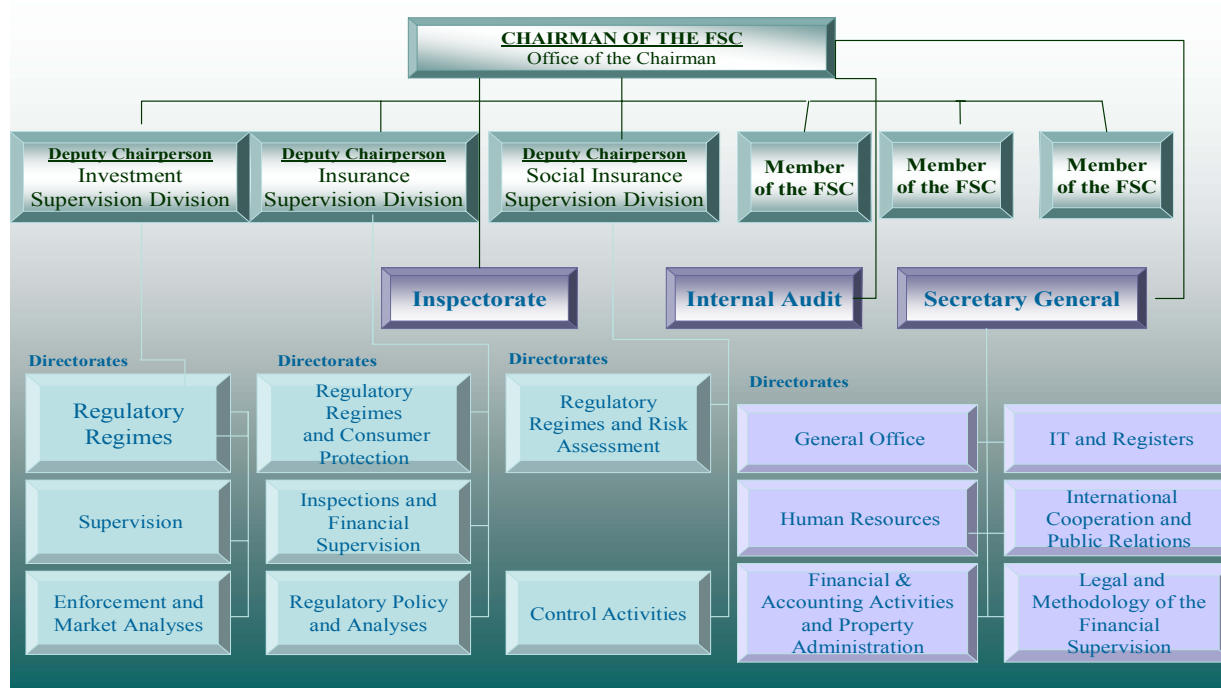
**The vision** is directed towards a modern, competent, transparent and efficient human resources management with a view to promote capable, responsible, motivated officials possessing the required qualifications and the potential for a successful implementation of the goals of FSC.

Human resources management is a permanent and determined process of selecting the right persons, their training, motivation and development making them capable to contribute to the efficient implementation of the goals of the organization. The efficient management of human resources is aimed at achieving a high level of discipline in fulfilling of tasks, operational perfection and competency, focused on providing services to the citizens and business, and good quality of public service at the possibly lowest costs and in shortest terms. Modern techniques, means and instruments of the international and Bulgarian experience in the sphere of human resources management are applied for the achievement of these goals.

***The principal policies of the FSC on human resources management are directed towards:***

- **Analysis and projection of positions.** The activities on researching and defining the specific work tasks of the staff within the organization and of the requirements towards the executives of the different types of positions are included here. Where

implementing the aforesaid activities, the Human Resources Directorate works in and maintains constant connection and co-operation with the direct managers within the respective units, as well as with external consultants. Thus the latest organization and management structure was set up. It came into existence in the month of September 2005 and reflects the understanding of the Commission for the necessity of improving the work. It was based on the recommendations submitted under the *Organization Diagnostics of the FSC* Report drawn up by Emerging Markets Group Ltd.



In 2006, the organizational and management structure was supplemented by two new units. The Internal Audit Unit was created in accordance with the requirements of the Public Sector Internal Audit Act (promulgated SG No. 27 of March 31, 2006). The head of the Internal Audit and the internal auditors are directly subordinate to the President of the Commission.

In fulfillment of the strategy for transparent management and prevention and counteracting corruption adopted by the Council of Ministers, an Inspectorate was set up at the FSC. The Inspectorate ensures the execution of internal control functions by exercising control of the legitimacy over the activities of the administrative staff of the Commission. The activities of the Inspectorate are aimed at an all-round, objective, impartial and accurate clearing-up of the inspected problems and proposing measures for solution.

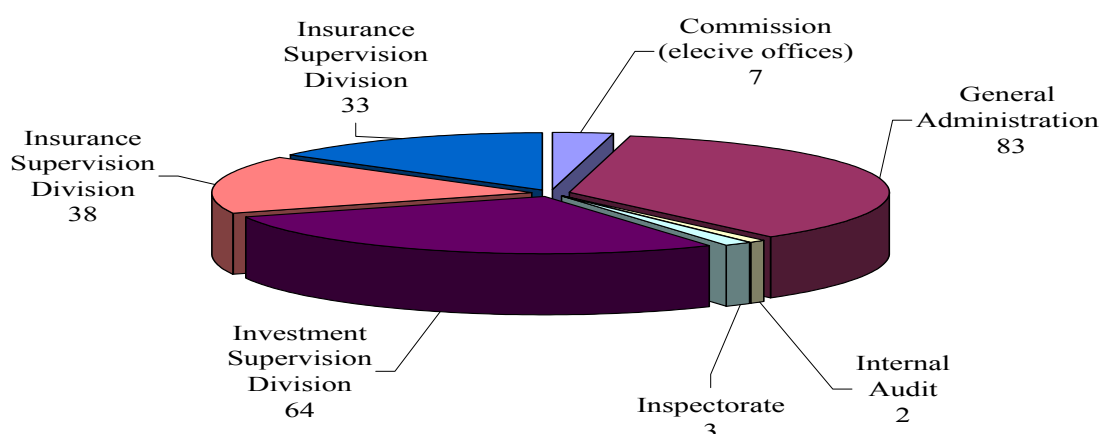
- **Planning of the human resources.** With the help of the said function, the organizational needs of human resources are defined and activities are formulated in order to satisfy these through the elaboration of the respective plans for staff selection, for training and development, for payment, for evaluation of the work performance, for improving work conditions, and for perfecting work relations.

In 2006, the development of the non-banking financial section outlined a trend towards a stable increase of the activities of non-banking financial brokers. A growth of the indices for the depth of financial brokerage was also observed in all segments of the non-banking sector of the financial industry. After nearly 3 years of existence, the Financial Supervision Commission established itself as a modern and efficient supervisory institution.

The strengthening of its internal integration and the changes in the approaches of realization of its supervisory functions promoted the more efficient utilization of the organization's resources. FSC is successfully making progress as a market regulator with the aim to stimulate and promote the development of the financial market following the modern trends on a regional and international scale, ensuring at the same time a maximum protection for investors in compliance with the specific situation in the national economy. This makes it necessary to increase stabilize the personnel on the payroll. In January 2006, the number of full-time jobs is 230 (15 more as compared to 2005).

The respective percentages of the level and type of education of our experts meet the requirements of the task and targets of the Commission. 89 % of the personnel are with university and 11 % with high-school education. Some 10 % of the experts with university education have a higher qualification as well: academic degree/title, second higher education, etc. Of them, 92.78 % have masters' degree.

Staff Structure By Units



•**Personnel selection.** The selection includes the activities related to the recruiting, selection and appointment of the personnel. The Human Resources Division makes a choice of the sources for the selection of applicants, it works out and proposes the variants for personnel selection, assists the management in taking of final decisions for the acceptance or rejection of candidates applying for a job in their respective unit. The applicants documents are processed and the information about the campaigns and competitions is stored.

The realization of the personnel selection policies enables FSC to use qualified experts capable to meet adequately the high requirements for professional know-how, team work and personal and organizational advancement.

In 2006, a considerable part of the labour relations were effected on the basis of a procedure of selection (mainly by interviewing or case solution in writing). Clear-cut and transparent rules were applied for the appointment of applicants.

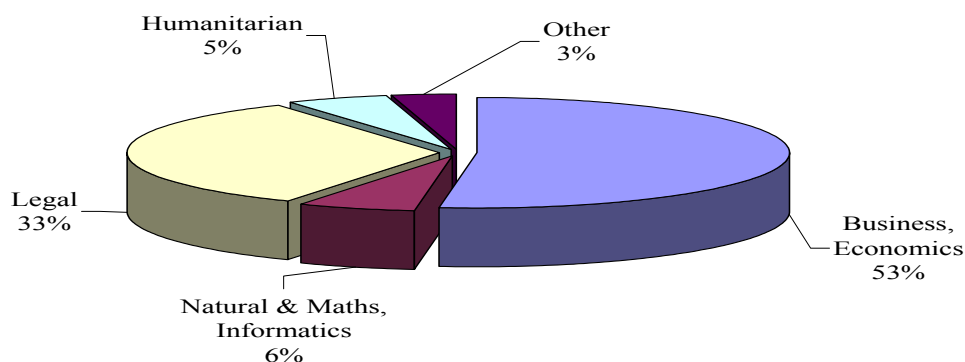
The percentage of experts according to level and kind of their education is in accordance with the objectives and tasks of the Commission: 89% of the personnel is with university education and have high qualifications: academic degree title) second higher education etc. 92, or 78% of the total number of the employed with higher education have a n Master's degree.

The trend of reduction of employees with Bachelor' degree continues: (7,22%) and with high school education (11%). A significant proportion of the employees have improved

their educational degree and qualification. The achieved high potential is used to the maximum for the achievement of the Commission's priorities. From all experts with university education, 53% are economists, 6% are with natural and mathematical specialization, and 8 % have other higher education.

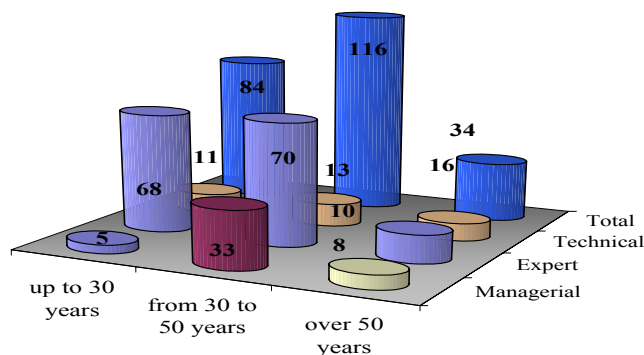
The distribution of the experts by the level and kind of education corresponds to the character and tasks of the Commission.

### Structure of the Personnel By Education



The age balance of the staff is satisfactory. The average age in FSC is about 32. The highest percentage is that of the group between 31 and 50. (49%), followed by the employees under 30 (36%) and the group over 50 who are only 15% of the total number of employees.

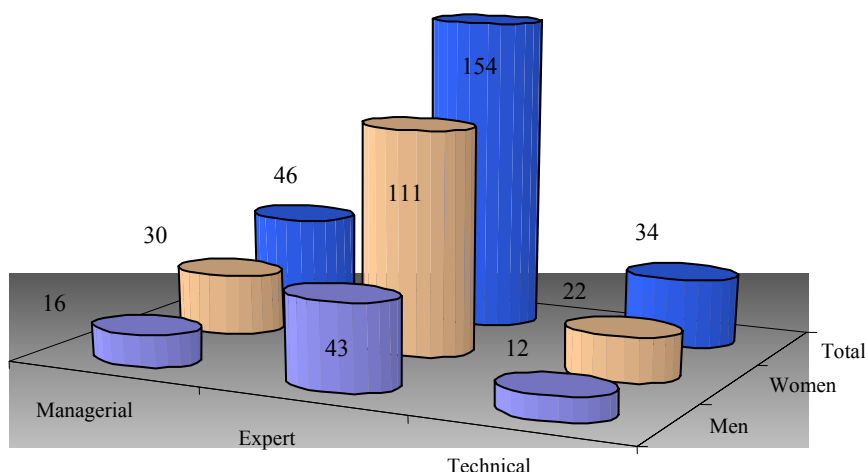
### Structure of the Staff by Age and Position



The total number of staff in leading positions in FSC is 46. Two thirds of them are within age group from 31 to 50 (72%), followed by managers at the age over 50 (17%), and smallest is the group of young managers up to (11%).

The age structure and the relative stability of the staff is a prerequisite for succession and reproduction of organizational know-how and skills.

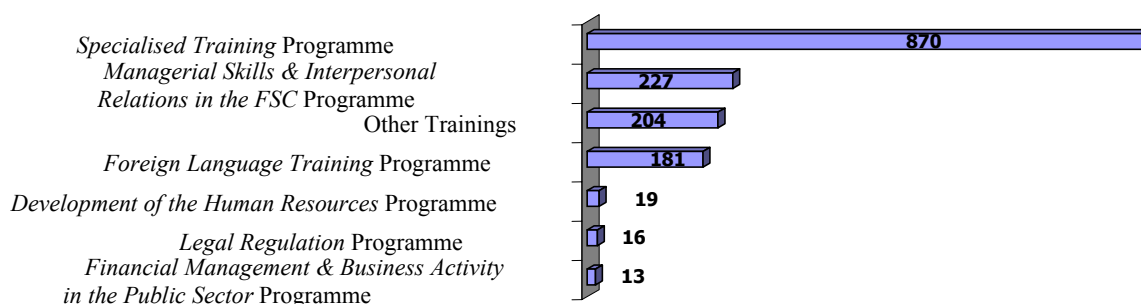
The office and sex structure of the personnel is shown in the following diagram.



•**Staff training and advancement.** Included are the activities of identifying the need for training, the organization and conducting of the respective training programmes, evaluation of the training results, development and discussion of staff advancement programmes. For its realization, the Human Resources Division maintains close cooperation with the immediate responsible management of the organization. The data concerning any conducted training activities and personnel advancement in the organization is stored.

In 2006, 100% of the financial means for specific training of the staff were used. **Appendix 5** shows the information about the realized initiatives aimed at raising the professional qualification of the FSC staff. The Commission develops fruitful partnerships with a number of institutions, namely: the Institute of Internal Auditors in Bulgaria, the Bulgarian Economic Chamber, the National Union of Legal Advisers, the Bulgarian Association of Human Resources Management and Development, the Bulgarian Actuary Society, IK Labour and Law, the British Council, etc. It makes use of the services of prominent experts and of the opportunities offered by various International Projects and Donation Programmes. In 2006, almost all FSC employees took part in one or another kind of training and qualification course.

### Number of Persons Undergone Training in 2006



- **Appraisal of the personnel.** The Human Resources Division works out variants for the assessment of personnel performance and supports the immediately responsible managers to implement it, and the information obtained from the evaluation is processed and stored.

Two systems for evaluation of the performance of the staff members are used in the FSC. One is a system for annual certification, conducted in accordance with the Ordinance on certification of the staff in the government administration. The second is a regular three-month assessment of the working capacity, and is intended predominantly for the stimulation of the short-term performance. A major task of the Human Resources Directorate for the next year will be the development of a system for evaluation focused on the long-term individual working performance, and it will promote to guarantee the appreciation of the staffers activities, to put them on appropriate positions and receive wages matching their contribution and abilities. The system should encourage less successful executives to improve their skills and build up the basis for a gradual transition to management of the activities on the basis of merits and thus help to improve the activity of the human resources. The aim is to use the results of the evaluation for the development of a structure of remuneration and planning of professional advancement in order to identify, recompense and place the best performers in positions where they will contribute to a maximum benefit for the FSC.

The strategy for advancement of the human resources is particularly important for turning FSC in a modern and efficient supervision institution,. The quality of supervision is integrally related to the abilities, skills and experience of the FSC employees. The role of the human resources is inextricably bound to every aspect of the organization, from the progress of the employees to the optimal distribution of executive skills. In order to attract and keep employees FSC will continue to make efforts to create a favourable atmosphere and culture, allowing them to face new challenges, to gain recognition and be stimulated for exclusive achievements and performance.

- **Safe and healthy working conditions.** One of the priorities of the activities related to human resources management of FSC is to reduce the factor hazardous for the health and safety, as well as the professional and health risks. This makes it possible for the employer to realize some higher requirements to the working environment and thus achieve a higher level of prevention for the employees. In 2006, the medical services for the FSC personnel were assigned to **ASMP Saint Thoma Ltd Medical Centre** on the basis of a 1-year contract. The implementation of this contract included regular medical check-ups and maintaining individual files for all employees. An annual analysis report about the health state of the personnel was prepared on the basis of the results from the regular prophylactic examinations, the indicators for temporary or lasting incapacity for work and their dependence on the labour conditions; the data on occupational diseases and traumatism. A physiological system and mode of work and rest was prepared and implemented.

- **Assistance and consultations for the employees.** During the last few years, the Human Resources Division made the commitment to ensure legal and financial assistance for the FSC employees in connection with specific questions or arising personal problems. Legal advice is provided in the case of labour conflicts.

The Human Resources Development Strategy is of exceptional importance in order to transform the FSC into a modern and efficient supervisory authority. The quality of the supervision is intrinsically related to the qualities, skills and experience of the FSC staff. The impact of the human resources reaches to every aspect in the organization, from the development of staff to the optimum distribution of leadership skills.

In order to attract and retain those officers having the necessary qualities in the long-term, the FSC shall continue to direct its efforts towards creation of a climate and culture that are to provide stimulating work environment, including focused training, possibility for the

staff constantly to pose new challenges before themselves, acknowledgement of and incentives for exceptional work results attained.

## **6. International and Local Co-operation**

### **6.1. European Matters**

The primary priority of the Financial Supervision Commission in 2006 was the preparatory work in connection with the accession of the Republic of Bulgaria to the European Union, and respectively the association of the Bulgarian non-banking sector to the unified European financial market. In this connection, the efforts of the Commission were directed to a maximum extent towards the achievement of an active and efficient cooperation with the Committees of the European Commission dealing with the development of the normative acts of the Community and the standards for their implementation, as well as towards the exchange of practical information with the bodies of the member-countries analogous to the FSC.

After signing the Accession Agreement on April 25, 2005, Bulgaria acquired the statute of an active observer in the so called “intermediate period” (the time between the signing of the Agreement and the accession), including the right to participate in the structures and work groups of the European Administration. This provided for a smooth accession and familiarizing with the processes running within the framework of the Common Market.

The major prerequisite which to an increased number of tasks before FSC in connection with the EU-related problems, is the role of observer and later on the membership of FSC in the 2<sup>nd</sup> and 3<sup>rd</sup> level Commission of the Lamfalussy Process, which is a 4-stage procedure of creating, introducing and implementing the Community Law in the Member States.

The FSC, being a regulatory and supervisory body, joined the activities also on the 2<sup>nd</sup> (regulatory function) and 3<sup>rd</sup> (advisory function) levels, the so called “Regulatory Commissions”.

The 2<sup>nd</sup> level Committees, where FSC already has representatives are: European Securities Committee (ESC) and European Insurance and Occupational Pensions Committee (EIOPC).

For the purposes of the smooth accession to the EU structures, and the adoption of the currently worked new measures on financial services in the Union, on that stage it was particularly important for FSC to begin to participate in the decision-making process and development of the common practice and standards on the implementation of the European Legislation in the national normative framework. Most important in this respect was the work on level 3 of the Lamfalussy approach, which involves taking part in the meetings of the Committee of European Securities Regulators (CESR) And the Committee of European Insurance and Occupational Pensions Supervisors – (CEIOPS).

In 2006, FSC was only an observer, however it succeeded to take its honorable seat in the EU administration structure among the partner institutions of the other Member States.

At the end of 2006, just a few days before the accession of Bulgaria to the European Union, on a ceremonial meeting in Budapest, FSC signed the Protocol for Joining the Multilateral Memorandum on Exchange of Information between the supervisory members of the Committee of the European Securities Regulators (CESR). FSC also signed the document for full membership in the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), and the Memorandum on Understanding between the members of that Committee and the Insurance Supervision Service of Switzerland.

## **6.2. Membership in International Organizations**

Studying and applying of international practice in the sphere of financial supervision is particularly important for the functioning of the Commission with a view to the changing conditions and needs in the financial sphere and also of the globalization of the financial market. Therefore, FSC strives to take part in all international initiatives and projects aimed at the development of optimal and in the first place equivalent conditions for the business and normative treatment of the non-banking services on a global scale.

As an inseparable part of the international network of financial supervision bodies, FSC is a member of many international organizations. FSC is an active member of the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS). It is also a founder and member of the International Organization of Pension Supervisors (IOPS). Representatives of the Commission take part in the forums of these organizations and the work groups producing the principles of best practice of supervision in the sphere of investment and insurance markets.

In 2005, after a 2-year period of evaluation of our application for membership, FSC was admitted in Annex B of the Multilateral Memorandum on Cooperation and exchange of information of the International Organization of Securities Commissions (IOSCO). The goal of the Agreement is to establish easy terms for exchange of confidential information in order to achieve a more efficient supervision over companies offering financial services on a global scale, blocking of trans-border misappropriation through the capital market and preserving the stability of the world financial system. The basic principles of the Agreement include the requirement cooperation to be effected only for the purpose to implement the functions of supervision and the powers of its members, to provide mutuality of entering into commitments, and to guarantee the confidentiality of any exchanged information.

Despite the lack of authority for becoming a full member of the Agreement, FSC has stated its readiness to work for overcoming the existing obstacles by improving the legislation. Therefore, some texts of the legislation were amended in 2006, the FSCA and the Insurance Code in order to permit our full membership, and we expect to be filed under Annex A in 2007.

## **6.3. Relations with International Financial Institutions**

As an institution responsible for the technical aspects of the government policies in the sphere of non-banking financial sector, FSC is the partner of the Bulgarian side in a number of international financial institutions. FSC takes an active part in the formulation of the Bulgarian stand in the negotiations with the International Monetary Fund, the World Bank, the Agreements with the World Trade Organization. FSC realizes or monitors the implementation of those commitments of Bulgaria for which the Commission is competent.

The co-operation with these organizations is focused to a great extent on the exchange of information and the functioning of capital and insurance markets and the markets of supplementary pensions insurance. The information is exchanged by providing answers to a great number of concrete questions, filing of standard forms, and various thematic questionnaires with or without content established in advance or fixed periods.

Such information is required or respectively provided to organizations like EUROSTAT, the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), the World Bank (WB), the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), the International Organization of Pension Supervisors (IOPS), the

Committee of European Securities Regulators (CESR), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), etc.

- **The International Monetary Fund:** During the visit of the Mission of the IMF at the end of 2006 a final review was made of the Stand-By Agreement, approved by the Board of Directors of IMF in 2004 and expiring in March 2007. It was noted that the implementation of the Programme, with a few exceptions, was good and some of the original delays have been eliminated or are being eliminated. At this meeting, as was done at the preceding meetings, FSC presented the stable trends of growth of the non-banking sector in Bulgaria, and thus defended the implementation of the Agreement in its part concerning the development of the segment and contributed to the overall implementation of the Agreement. The undertaken commitments in the Agreement regarding the updating and improvement of the legal system and supervision practice in the sphere of insurance and supplementary pension insurance, were fully implemented by FSC.

- **The World Bank:** Information with varied content was provided, part of which had the character of statistical data and indices. More specific data were given in connection with a realized Comparative Study of the Pension Systems of Bulgaria, Croatia and Romania, managed by the World Bank.

- **The Organization for Economic Cooperation and Development:** A Global Pension Statistics Project, managed by OECD, was launched in 2002 and provided practical information for evaluation and observation over the international pension industry. The International Pension Statistics makes it possible to compare the individual countries by means of the presented summarized statistical data and indicators for key aspects of the pension systems of the OECD member countries and the partner countries of the Organization. For the achievement of the above mentioned objectives, FSC regularly offers an electronic questionnaire (matrix) containing detailed statistical information about the financial and non-financial indicators of the Supplementary Pension Insurance Fund (SPIF).

With a view to the preparation and collecting of the necessary information for the periodical numbers of the Pension Markets in Focus Bulletin, published by OECD, statistical information is compiled and presented accompanied by a detailed comment on the market for supplementary pension insurance in Bulgaria. The prepared materials are included in the OECD bulletins as part of an overall synopsis of the world pension markets. The data are collected in a similar way by all participants in the study which makes it possible to identify and analyze any trends easily. The statistical data cover a wide range of indicators, and is combined in an overall formulation of all private pension plans, classified in detail into categories by means of clear cut statistical definitions and methodologies.

- **The World Trade Organization:** In 2006, FSC continued its efforts in connection with its participation in the negotiation process on the trade of services with the World Trade Organization (WTO) FSC took part in the updating of offers in the sphere of financial services of countries like Chile, Mexico, Belarus and Azerbaijan to join the WTO. The efforts of FSC in the elaboration of the position of Bulgaria were aimed at the achievement of a liberal to the maximum mode for provision of financial services on the part of Bulgarian operators on the territory of these countries.

## 6.4. Bilateral Co-operation

During the years of its existence as a unified regulatory and supervisory body of the non-banking financial sector, the Financial Supervision Commission concluded a number of bilateral memorandums for cooperation and exchange of information with foreign bodies controlling the non-banking financial sector in the member-countries, and with institutions similar to the FSC in third countries, with which we have an intensive trans-border exchange

of financial services. In 2006, the Commission on Securities and Stock Exchange of Cyprus joined this group. The aim of the Agreement signed with them was to establish a framework for mutual assistance and to ease the exchange of information between the Institutions so that they might apply and ensure observance of the laws and provisions of the respective jurisdiction.

The already existing agreements were repeatedly used in 2006 in cases of joint actions for raising the integrity, efficiency and financial stability of the supervised legal persons, for increased supervision of trans-border transactions and investigation related to the prevention of fraudulent and illegal practice.

## 6.5. Development Projects Realized by Means of Funds Granted

A number of training courses were held aimed at the improvement of the qualification of the FSC staff, and increasing the administrative capacity of supervision. Most of them were realized with the support and sponsorship by grant funds for the projects. More detailed information is given under *Appendix 5*.

- **FIRST**

In 2006, the Project „Strengthening of the Supervision Capacity of the Financial Supervision Commission” of the Programme FIRST, where principal sponsors are the World Bank and the Governments of some of the leading countries on an international scale, was expanded. The Project continues to contribute to the improvement of the skills of the staff of the FSC in the sphere of the supervision capacity of the institution. Several consultants also contributed to the training in the spheres of accounting, auditing, human resources, insurance, pensions and capital market.

- **Financial Sector Integrity**

The Project ‘Integrity of the Financial Sector’ of the US Agency for International Development was launched in 2005 with FSC, BNB and the Banking Deposits Guarantee Fund as beneficiaries, and was prolonged by 9 months and will come to an end on June 19, 2007. The Project’s activities covered the following spheres: :

- **Improvement of the regulation of the financial sector.** In this connection, a training course on financial derivatives was organized. A total of 80 FSC employees took part in the training, which was appreciated as a very useful and interesting event by all participants.

- **Transition from supervision based on the control of the observance of the legal basis to risk-based supervision.** With regard to one of the major priorities of FSC, namely making most effective use of the regulatory resources and identifying of the problematic spheres at a possibly earliest stage, the Project was given expert assistance for working out an approach specific for the institution and based on risk-based supervision.

- **Providing information to the public and educating the consumers.** A very useful forum for exchange of experience between the Bulgarian judiciary and the supervisory bodies of the financial sector was organized in Hissar in June 2006 jointly with the Educational Programme of AAMP for Europe and Eurasia (World Learning), the initiative for strengthening of the judicial sector and the National Institute of Justice, with the participation of FSC, BNB, FBDG. 24 judges from different courts in Bulgaria and 16 representatives of the above mentioned institutions took part in the forum. A second meeting of this forum took place during the period end November –beginning of December, again organized jointly with the AAMP Educational Programme for Europe and Eurasia ‘World Learning’.

The Project provided assistance for the development of a communication strategy of the partners including training in presentation skills.

- Along the same lines, the Project provided assistance to the FSC, the BNB and the BDIF for the identification of lapses in their internal and external communication strategies, and an expert undertook a wide-range study and made evaluations and recommendations, in connection with the organizing of training and providing assistance in specific fields; it was found that of all three institutions, FSC had achieved the most serious progress.
- In November 2006, a Seminar was organized for journalists dealing with the news in the non-banking sector. The subject of this even was: 'New aspects of the regulatory activity and supervision practice of FSC in the context of Bulgaria's joining the European financial markets'.

**. PHARE Programme Project: 'Strengthening of the Administration Capacity of the Financial Supervision Commission for Implementation of European Law in the Sphere of Securities, Pension Insurance and Insurance'**

This two-year Project was launched on November 9, 2005 and will end on November 8, 2007. Its objective is to build up a stable legal framework and contribute for a more efficient supervision in the non-banking financial sector, in line with level of the EU standards. In the work plan of the Project, emphasis is put primarily on the realization of joint activities with the partner's supervision activities of FSC in the EU member-countries, for the purpose of harmonization of Bulgarian Law with the supervision practices of the other member-countries.

In 2006, the activities accomplished on the Project were mainly directed towards:

- Development of strategies for integrated supervision and management of the human resources of FSC.
- Providing of the necessary instruments of FSC for working out, introducing and applying of policies for the growth of the financial non-banking sector in conformity with the EU standards.
- Preparation of legal texts, aimed at the harmonization of the Bulgarian legislation with EU law in the sphere of financial markets.
- Strengthening of the administration capacity of FSC with a view to an active participation in the work of the international organizations of supervision institutions.
- Development of appropriate mechanisms for exchange of information and promoting of supervision institutions in the EU member-countries.
- Increasing the knowledge about the necessity for changes in the market, resulting from the process of EU accession through holding seminars and conferences.

Particular interest was aroused by the International Conference organized by FSC with the assistance of this Project, on the subject of 'The development of supplementary pension insurance in EU and the challenges for the new member-countries', which was held on 12-13 October 2006. The themes presented at the Conference were of specific interest for the countries joining the EU: the private pension insurance in the EU, the implementation of EU Directive 2003/43, and the trans-border activities of the institutions of occupational pension insurance. Within the framework of the Project, the participation of internationally acknowledged experts was financed: they presented the opportunities for an investment choice of the participants in pension schemes and the regulations for the payment of pensions phase.

Later on, representatives of all pension funds in Bulgaria were invited to attend a Seminar on December 18-19, 2006, dedicated to the subject of 'Investment strategies of the pension funds'.

Within the framework of the Project and in order to raise the awareness of the representatives of the insurance sphere, a Seminar was organized on June 28, 2006 on the subject of: 'Development and implementation of policies for protection of the consumers of the insurance market'.

## **6.6. Co-operation with Local Institutions**

In order to improve the efficiency of the monitoring and regulatory activities in the sphere of the financial sector in Bulgaria, FSC maintains and expands its cooperation and active communication with many government organizations from the moment of its founding until the present day. The cooperation finds expression in exchange of information, building-up of interdepartmental work groups, discussions and coordination of proposals for amendments in the legal framework regulating the activities of the financial market participants, etc.

In 2006, discussions on the amendments in the law concerning the regulation of entities supervised by the Commission, were held with the Bulgarian Association of Investment Brokers, the Bulgarian Association of Managing Companies, the Bulgarian Stock Exchange, the Bulgarian Association for Contacts with Investors, the Association of Directors for Contacts with Investors, the Association of Bulgarian Insurers, the Bulgarian Association of the Supplementary Pension Insurance Companies, etc.

Exchange of information with the above mentioned institutions and organizations took place on the basis of the need to improve the content and accuracy of the information regularly disclosed by supervised entities and to increase confidence in the market as a whole. FSC had also intensive communication and consultation with the Bulgarian Association for Contacts with Investors and the Association of the Directors for Contacts with Investors in connection with the testing of the electronic system for Information Disclosure EXTRI.

An exchange of information with the Central Depository, the Privatization Agency, the Bulgarian National Bank, the Financial Intelligence Agency, the Ministry of the Interior and the Judiciary also took place. Information was provided for approaching the Prosecutor's Office in connection with complaints submitted to FSC as well as data about carried out inspections

With a view to the mutual interest and common objectives in ensuring of the development, stability and security of the financial markets, the Financial Supervision Commission and the Bulgarian National Bank signed as early as in 2003 a Memorandum for Cooperation and Interaction. The efforts of the two institutions were focused on the coordination of specific activities in connection with the exercising of their control functions, improvement of the practice for a strict implementation of the law, assistance and improvement of the legislation regulating the activities of the supervised entities, etc. In 2006, inspections of investment broker and financial companies were carried out by FSC together with the Bulgarian National Bank.

The Memorandum signed in the same year by FSC and the Financial Intelligence Agency (FIA) to the Ministry of Finance, and the Instruction to it envisages the parties in the agreement to cooperate in the process of collecting, storage, studying, analyzing and revealing of the available information concerning financial transactions arousing suspicion of money laundering or financing criminal activities.

In this connection, and within the framework of the Strategy for Transparent Management, Prevention and Counteracting Corruption, the FSC, FIA, BNB and MF actively cooperated in the sphere of improving the mechanisms of the Regulations for implementation of the Measures Against Money Laundering Act. FSC improved its cooperation with the above mentioned institutions by taking part in joint training activities, joint inspections of

financial institutions, in developing methodologies and instructions for such inspections and exchange of information about risk groups of customers, operations and transactions.

Within the framework of the above mentioned Strategy created in 2006, a Coordination and Consultation Group was built by the financial regulatory and control authorities (BNB, FSC, FIA) with functions to discuss and propose measures against dirty money penetration, including money from criminal sources. Moreover, for the purpose of improvement in the sustainability of the financial system and adequate planning of the development of financial markets, FSC continued its participation in the Consultative Council on Financial Stability, which was created in 2003, and is represented in it by the management of the Financial supervision Commission, the Bulgarian National Bank and the Ministry of Finance.

The need for coordination of the activities of FSC and the Ministry of the Interior in matters of mutual interest and relevant to the financial supervision and combating organized crime, the two institutions signed an Agreement for Cooperation and Interaction. It facilitates the exchange of information and the processes requiring joint efforts.

A very important aspect in the agreements signed by FSC is the opportunity for joint inspections of work groups and experts representing the different organizations.

For the purposes of EUROSTAT, FSC supplies the NSI with a set of statistical data on the development of the non-banking sector in Bulgaria. Upon specific requests by interested institutions, the Commission provides various statistical and analytical information.

Cooperation and exchange of information take place with the Ministry of Labour and Social Policies in connection with amendments in the law, participation in work groups dealing with the social security systems in the EU member-countries, and with preparation of national statistical reports. Statistical data on the assets and of the insured persons by the Funds for supplementary pension insurance are regularly supplied to the Ministry.

## **7. Development of Information Technologies for the Purposes of Supervision**

Following the 'Strategy for Development of Information Technologies', the FSC continued to develop and integrate its programme systems in 2006.

The information technologies are developed in accordance with the requirements of the FSC related to its mission of a supervisory body in the sphere of non-banking financial services. Thus the changes and innovations follow the needs of supervision and the changing regulations in the non-banking sector. In 2006, in connection with the requirements of the Insurance Code concerning the obligatory Civil Liability Insurance, FSC worked out a methodology and system for accounting of policies and publishing the topical information about them.

In the building up of its databases and information flows, FSC accentuates very much on the security of the information and the systems for access to it. With a view to the aforesaid, access to the FSC systems is only by means of smart cards.

An internal portal was developed for the purpose of improving the linkage between the individual units within the FSC. This portal facilitates the use of shared information between the members of individual work groups.

A priority in the strategy for development of information technologies in FSC is the building up of an unified information system for automation and classification of the processing and filing of data found about entities supervised by FSC. To this end, and in cooperation with Central Depositary PLC and BFB Sofia PLC, the EXTRI system was developed.

EXTRI is an integrated system for disclosure of information intended to be used by public companies, issuers of securities, investment and management companies, public limited companies with specific investment targets, investment brokers, contract funds, regulated securities markets, and other indentured entities that should disclose information in accordance with the Regulation on prospectuses for public offering of securities and disclosure of information by public companies and other issuers of securities (Ordinance No. 2) or of circumstances subject to filing in the register under Art. 30, Par. 1 of the Financial Supervision Commission Act.

The system EXTRI was developed to meet the requirement of Art. 42 of Ordinance No. 2, and the requirement under Art. 42 of Ordinance No. 2 in the disclosure of information by means of electronic systems. With the putting of EXTRI into operation, the need to submit documents on paper carrier will be eliminated. According to the Electronic Document and Electronic Signature Act, the forms of EXTRI with electronic signature have the power of personally signed documents which are submitted at present.

The EXTRI system has entered its last phase of development. The primary forms for registration in the system were approved and developed. The forms for submitting accounting reports and information concerning General Meetings were also developed. A database and a supplement by means of which the data entering FSC via the EXTRI system are visualized and processed.

During the period 23.11. - 18.12.2006, the specialized information system (EXTRI) for disclosure of the information of external consumers (public companies and other issuers) was tested. 47 external consumers were registered during the test period. The test were successfully completed.

The EXTRI system was started officially in 2007.

## 8. Report on the Implementation of the FSC Budget 2006

### 8.1. Financial Report

The budget of the Financial Supervision Commission is formed from its own earnings and subsidy from the central budget. According to the Financial Supervision Commission Act, the Commission is a legal entity paid by the budget<sup>43</sup>, having an autonomous budget, which is part of the budget of the Republic of Bulgaria.<sup>44</sup>

#### FSC Income and Expenditures in 2006

Expenditures (BGN)		Receipts (BGN)	
Wages, other fees of the staff and social insurance	4,603,653	<b>Own earnings</b>	<b>4,132,610</b>
		Charges, collected from supervised entities	3,751,496
Current expenditures	1,797,969	Fines, sanctions and interest	369,560
Acquiring fixed and intangible assets	493,889	Other receipts	11,554
		<b>Subsidy</b>	<b>2,762,901</b>
<b>EXPENDITURES, TOTAL</b>	<b>6,895,511</b>	<b>INCOME, TOTAL</b>	<b>6,895,511</b>

In 2006, the income of FSC amounting to more than BGN 4,000,000 exceed the planned annual income by 79.68%. The biggest relative share in the structure of own receipts (90.78%) is from charges collected by FSC in accordance with the Tax Tariff. Another source of income are the receipts from fines, overdue interest and punitive damages. During the accounting period, the means received in the account of the Commission form 8.94 % of

<sup>43</sup> Under Art. 2, Par 3 Financial Supervision Commission Act

<sup>44</sup> Under Art. 28 Financial Supervision Commission Act

the income. The other receipts (0.28%) in 2006 came from the sale of the periodical FSC Bulletin, sales of competition and tender documents in connection with procedures under the Public Procurement Act, and letting a department-owned apartment.

The expenditure part of the budget is covered by 60% of the own receipts of the Commission, and 40% subsidy from the central budget. The Commission had made expenditures to the total amount of BGN 6,895,511. The biggest share thereof (67%) is the cost of salaries, additional material stimuli, other remunerations and payments to the staff, as well as social insurances.

In 2006, BGN 1,797,969 were spent for current expenditures (26 % of the total costs). Of them, BGN 1,713,482 are the administration costs related to the normal functioning of the Commission, and BGN 84,487 for membership fees paid to international organizations for the membership of the financial supervisory bodies. The expenditures for acquiring tangible and intangible assets took 7% of the total costs. They were made for the purpose of supporting the administration capacity and improvement of the technical equipment of the Commission. Of them, BGN 298,719 were paid for computers, hardware and other equipment, and BGN 98,400 were for the purchasing of two new motor cars for the needs of the realization of the supervision functions. For the activities of the FSC in the sphere of information, program products for BGN 96,770 were purchased; namely the HeRMes software product, a system for human resources management, information system software: data base for the Civil Liability Insurance, software product for processing and storage of incoming data of the integrated information system EXTRI, etc.

## **8.2. Internal Audit**

On July 19, 2006, an Internal Audit Unit (IAU) was instituted (Record No. 36, Session of FSC on the amendment of the Regulations on the FSC structure and activities). The Unit is directly subordinate to the FSC President, and according to the Public Sector Internal Audit Act it includes a minimum number of two internal auditors including the head of the Internal Audit Unit. By 31.12.2006, the Unit comprises 2 members on the payroll and both positions were filled.

The activities in the sphere of internal auditing in 2006 were realized in compliance with the requirements of the Public Sector Internal Audit Act (promulgated SG, No. 27 of 31.03.2006), the Standards of Public Sector Internal Audit (approved: Decree of the Council of Ministers No. 165/31.12.2006, promulgated SG, No. 56/11.07.2006), the Moral Code of Internal Auditors; the Internal Audit Handbook, and the Statutes of IAU, FSC.

The Internal Audit Unit is a new formation and has not carried out any auditing during the accounting period. The activities of the staff during the mentioned accounting period were directed towards working out of the Unit's Statute, the Strategic Plan of Activities of the Unit during the 2006-2008 period, and the Annual Plan on Auditing Tasks in 2007. The Strategic Plan on the activities of the Internal Audit Unit was approved on 22.12.2006 by the Chairman of FSC. The Statute of the Internal Audit Unit of FSC was signed on 11.12.2006, and the job descriptions for all positions were confirmed.

The instituting of an Internal Audit Unit is a serious move towards improving the quality and efficiency of the FSC functions.

The Annual Plan of the IAU for 2007 established the audit commitments of the Unit during the next accounting period. The objectives to be achieved will be specified for each particular auditing task.

With a view to the efficient implementation of internal audit activities, and in accordance with the normative requirements, a Programme for ensuring a better quality of the audit activities of IAU within FSC will be developed.

## II. Development Strategy

In its development strategy, the Financial Supervision Commission formulated the major goals to be followed in the process of realization of its authority during the next years, and defined the approaches it will use to achieve them. Its objective is to name the priorities and principles in the three major direction of FSC activities, and to identify the respective tasks within the framework of a harmonious and consistent policy,. to establish the priorities and principles of the three main directions of FSC activities and find the appropriate tasks and the instruments for their achievement. The Strategy deals also with the issues of the resources and organization necessary for the achievement of its strategic goals.

The Development Strategy is focused to a great extent on the permanent improvement of the legislative framework, namely by working out bylaw normative acts, rules and procedures regulating various aspects of the activity of the specialized Divisions. In the process of development of the Strategy, the achieved results accumulated experience during the functioning of the supervision in the spheres of securities, regulated markets, insurance, the voluntary health insurance and supplementary pension insurance, and the existing international regulatory standards on the regulation and supervision over them were taken into account.

### 9. FSC Development Strategy

#### Principles

- To follow a balanced approach for regulating and supervision, taking into account the benefits and inherent costs arising from the implementation of regulations;
- Impartiality of the supervision;
- To apply a preventive approach in supervision;
- To equalize the supervision procedures for monitoring and evaluation of similar risks in the regulated sectors.

#### Strategic goals

- To exercise competent supervision, open to constructive communication with all stakeholders;
- To maintain an atmosphere that is stimulating for the activities of competitive participants on the financial market and promotion of the development and self-regulating of these participants;
- Risk-based regulating and supervision;
- Further development of FSC as a modern institution in the sphere of regulating modes;
- To maintain active international positions providing for a rapid and efficient introduction and implementation of the European and International standards; to participate in developing European standards and increasing the international prestige of FSC;
- To raise the public confidence in the use of financial instruments by achieving better transparency and awareness;
- Following an efficient and determined policy of utilization and development of the human resources;
- Permanent optimization of the structure, processes, procedures and development of the information technologies.

#### Strategic goal priorities

➤ **Exercising of competent supervision open to a constructive communication with all stakeholders**

- Transfer to supervision activities aimed at observance of the provisions of the law and supervision measures for the realization of regulating and supervision based on best international practice and management rules;
- Maintaining constructive relations with the supervised entities;
- Development of procedures for the solution of problems and issues concerning more than one Division by creating specific intra-sector departments, expert teams, solving issues and problems in close cooperation between the Directorates of the three Divisions;
- Applying a balanced approach of regulating which takes into account the benefits and costs related to regulating;
- Realization of consolidated supervision of financial groups and conglomerates;
- Watching the market behaviour of supervised entities including the compliance with their own internal act, rules and procedures;
- Ensuring fair treatment for the consumers of products and services offered by the participants in the non-banking financial market;
- Establishing and implementation of transparent rules and standards to be observed by all participants in the market.

➤ **Maintaining of atmosphere stimulating the activities of competitive participants in the financial market and assistance for the development and self-regulating of these participants**

- Regulating the activities of the supervised entities by a constructive cooperation with the associations of the participants in the financial market;
- Ensuring the competitiveness of the local business at the common European market by introducing requirements to the supervised entities comparable with the local requirements in the other European states;
- Ensuring of fair treatment of all participants in the financial services market belonging to the non-banking sector.

➤ **Risk-based regulating and supervision**

- Acquiring better awareness about the different risks related to the common strategic goals within the framework of FSC and the supervised entities, and transferring the load of the supervision intensity to the higher risks;
- Development of an integrated regulating framework for realization of risk-based supervision by FSC;
- Development of a system for evaluation of the risk for each one of the supervised entities, evaluation of the entities and watching them depending on the risk they present for the market with a view to update the evaluation;
- Applying of a risk-oriented supervision approach over the activities of the supervised entities.

➤ **The future development of FSC as a modern institutions in the sphere of regulating modes**

- Maintaining a regulatory environment aimed at stimulating and support of the growth of the non-banking sector in accordance with the current trends in the EU;
- Ensuring maximum protection for all participants in the market of products and services offered by the non-banking financing sector;
- Optimization of the legal framework on the basis of analysis and forecasting of the processes and trends in the development of the economy and markets;

- Timely amendment of the national legislation aimed at implementing of the European Directives which are in a dynamic process of further development and change;

- Active interaction with the local administration authorities with relation to the supervisory activity of the financial markets, by improving the exchanger of information and coordination with BNB, the Financial Intelligence Agency. Coordination of the activities of data collection, joint planning and carrying out of inspections. Preparation of risk analyses of the activities undertaken by non-banking financial institutions subject to supervision by FSC.

➤ **Maintaining of active international positions providing for a rapid and efficient introduction and implementation of the European and International standards; participation in developing European standards and increasing the international prestige of FSC;**

- Active interaction with the institutions of the European Union by maintaining close connections with the EC and with the experts at the General Directorate “Internal Market” in particular and coordination of the projects for legislation amendment before the official notification;

- Participation in the sessions of ESC, EIOPS, CESR and CEIOPS on the level of Chairmen;

- Participation in the work groups of the Committees in accordance with the expert capacity and priorities of FSC;

- Maintaining close contacts with the local regulatory authorities of the other member-countries.;

- Participation in the forums of IOSCO, IAIS and IOPS on a highest level or in training programmes;

- Gaining a leading position in the Capital Market Supervision and Regulation Group with the aim for a future participation FSC as consultant in projects realized to the benefit of other members of the Group;

- Maintaining close cooperation with the local regulatory authorities of neighbouring countries and the third countries with which Bulgaria has an intensive exchange of financial services and achieving of agreements for cooperation and exchange of information with them.

➤ **Raising the confidence of the public in the use of financial instruments by achieving better transparency and awareness;**

- Providing clear and accessible information to the consumers of products and services offered by the non-banking financial sector;

- Facilitating the access to information about the market and market participants by :

- Optimizing and making popular the activity of the FSC information centre and including on-site information centre, call centre and electronic “hot” line;

- Providing a new consumer-oriented Internet website. Working out a specific section in the website oriented to the consumers of no-banking financial services and providing specialized information;

- Issuing and circulation of information materials and brochures;

- Increasing the interest and awareness of the consumers of non-banking financial services by:

- Coverage of themes and problems interesting and significant for the consumers of non-banking financial services;

- Educational and information events and initiatives oriented towards particular groups: journalists, students, participants in the market, etc.

- Joint initiatives with branch organizations including training.

➤ **Efficient and determined policies for employment and development of the human resources**

- The management of human resources should become a permanent and steady process for selection of the most appropriate people, their training, motivation and advancement with a view to the efficient implementation of the organization's goals and the rational utilization of the public means;

- The efficient management of human resources should be based on the awareness that people are the key factor imparting competitive advantages to any organization ;

- Efficient management of human resources by improving the quality of performance, operational perfection and competence with a focus on services for the public and the business;

- Efficient management of human resources by advancement of managers of high moral, system of values and models of behaviour, understanding the significant effect of good management and contributing to the improvement of the human resources management system and for the achievement of better results. Advancement of leaders capable to combine the strategic goals with human resources management.

- Improvement of the capacity of the Human Resources Section and turning it into a strategic partner of the FSC management.

➤ **Permanent optimization of the structure, processes, procedures and improvement of the applied information technologies.**

- Updating of the hardware of FSC in compliance with the trend in the information technologies, and linking to the other information systems ensuring the legal requirements of FSC to a maximum;

- Creating and maintenance of the database for incoming financial information raising the efficiency of supervision and analysis of the monitoring of the markets;

- Orientation of the information system to the processing of electronic signing of documents;

- Unification, standardization and centralizing of the registers;

- Improvement of the process of automation of the remote supervision;

- Development of an application for generating summarized statistical data about various sectors, with the aim to provide for a wider scope and thorough analyses of the activities in the information system.

The strategic control, oriented on the one hand to achievement of strategic goals, and to support the permanent process of reviewing the priorities with a view to make the necessary corrections is significant for the management of FSC and its activities.

The realization of the FSC Development Strategy is a basis for proving itself and strengthening its position as a competent, modern and reliable institution, capable to guarantee the stability and development of the non-banking sector and raising the confidence in the use of financial instruments.

## **10. Regulatory Framework Development Strategy**

### **10.1. The Sphere of Investment Activities**

During the accounting period two more bills were prepared by the Commission; they will be adopted in 2007:

**Bill on the Financial Instruments Markets (FIMA).** FIMA will definitively transfer the provisions of Directive 2004/39/EC on financial instruments market, amending Directives 85/611/EEC, 93/6/EC and 2000/12/EC, and repeal Directive 93/22/EEC (FIMD). Presently, the Directive on the Financial Instruments Market is partially implemented through the respective provisions of the Public Offering of Securities Act and Ordinance No. 1 of

15.09.2003 on the requirements to investment brokers activities. The Act will be adopted in 2007.

**§1 of Transitional and Concluding Provisions of the Financial Instruments Markets Bill envisages also amendments in the Public Offering of Securities Act.** The amendments are aimed at a full transfer of the following Directives: Directive 2004/109/EC on harmonization of the requirements for transparency in connection on information related to the issuers of securities, adopted about trade on regulated markets and amending Directive 2001/34/EC; and Directive 2004/25/EC on tender bids.

It should be known that in the process of working out legislative acts the modern trends in the legislation of the European countries were taken into account. The amendment of the legal system will continue after the coming into force of the Agreement for the Accession of the Republic of Bulgaria into the EU.

The Programme for legislative activity of the Commission during the January 1 – June 30 period includes the elaboration of Draft Bill on amendment and supplement of the companies with specific investment goal. This Bill envisages the introduction of sanctions for the failure to comply with the legal obligation, which presently not the case. On the other hand, the aim is to eliminate the discrepancy between the Special Investment Companies Act. And the latest amendments in the Public Offering of Securities Act (SG, No. 86 of 24.10.2006) in connection with the requirements to investment brokers competent to undertake issuing of securities depending on the kind of emission, and the relevant rights of special investment companies acquired with the primary obligatory increase of the capital, as well as other emissions.

In connection with the adoption of the Financial Instruments Markets Act (FIMA), and with regard to the close relation between the existing legal delegations in it with those in the Act Against Market Misappropriations with Financial Instruments, the Programme on the Legislative Activity of FSC for the first half of 2007 should be amended and supplemented after the adoption of FIMA by the National Assembly on the basis of the above mentioned legal delegations in the respective Ordinances for their implementation.

## **10.2. The Sphere of Insurance and Voluntary Health Insurance**

A consequence of the adoption of the Insurance Code is the amendment and respectively repealing of a number of secondary legislation acts. The long-term activities of the Commission include preparation and adoption of new legislation, as well as proposals for amendment and supplement of existing secondary legislation. In 2006, the priority activity of the Commission in this respect was directed to the implementation of the commitments in which our country entered during the negotiations on the accession of the Republic of Bulgaria to the EU. The Programme about the legislative activity of the Commission was worked out along this line.

After the entering into force of the Agreement on the Accession of the Republic of Bulgaria into the EU on 01.01.2007, the activity of the Commission continues in the direction of achievement of absolute harmonization of our legislation in the sphere of insurance with the European legislation. It is planned to work out a **Bill on amendment and supplement of the Insurance Code**. The development of this Bill is related to Art. 64 of Directive 2005/68/EC on reinsurance, amending Directives 73/239/EEC, 92/49/EEC, 98/78/EC и 2002/83/EC. The provision of Art. 64 of Directive 2005/68/EC, envisages the EU member-countries should **harmonize their legislation with the Directive until 10.12.2007**, and the should respectively inform the European Commission. In this connection, amendments and supplements in the following secondary legislation should be made:

**Ordinance No.27 of 29. 03. 2006** on the procedure and methodics of technical reserves and health insurance reserves formation. Legal delegations for the adoption of the Ordinance are Art. 80, Par. 2; Art. 81, Par.3; Art. 84, Par 1 и Art 85, Par. 1 Insurance Code.

**Ordinance on Amendment and Supplement of Ordinance No. 21 of 16.03.2005** on own means and limit of solvency of insurers and health insurance companies. The legal delegation for the adoption of the act is Art. 68, Par 4 Insurance Code.

With a view to the overcoming of some practical faults, amendments in other acts will be adopted or made within the next half-year concerning the implementation of the law, namely: **Ordinance on Documents for Acquiring Permit for Reorganization of Insurer** (new). The Ordinance should be adopted on the basis of the legal delegation of Art. 118, Par. 1, Item 4 Insurance Act.

**Ordinance of the Content of Liquidation Plan of Insurer** (new) The Ordinance should be adopted on the basis of the legal delegation of Art. 120, Par. 1, Item 2 Insurance Act.

**Ordinance on permits and Current Supervision by the Financial Supervision Commission and the Deputy Chair of the Financial Supervision Commission, heading the Insurance Supervision Division in accordance with the Health Insurance Act.** The Ordinance should be adopted on the basis of the legal delegation of Art. 99, Par. 3, 4 Health Insurance Act. **Draft on Amendment and Supplement of the Regulation on the Structure and Activity of the Guarantee Fund.** The Regulations should be adopted on the grounds of Art. 287, Par. 7 Insurance Code, and the amendments are required in order to improve the legal system after discussions with the Management Council of the Guarantee Fund.

**Ordinance on Amendment and Supplement of Ordinance No. 24 of 08.03.2006.** on obligatory insurance under Art. 249, items 1 and 2, Insurance Code, and the methods of settling indemnity claims for damages caused by motor vehicles. The amendment in the Ordinance are related to the need to regulate the border insurance of motorist under the Third Party Motor Insurance.

**Draft for amendment and supplement of the Regulation on the structure and activities of the Commission.** The reason for adoption of the Regulation is provided by Art. 13, Par. 1, item 1 FSCA, and the amendment in the Act is due to the requirement to harmonize the legal system with the provisions of the Insurance Code.

### **10.3. The sphere of Supplementary Pension Insurance**

For the purpose of complete harmonization of the secondary normative acts with the amendments and supplements made in the legal system in 2006, it is envisaged to make amendments during the first half-year of 2007 in the following acts for implementation of the Social Insurance Code:

**Ordinance on Amendment and Supplement of Ordinance No. 15 of May5, 2004 г.** on keeping and storage of registers by the Commission and the circumstances to be filed (the Ordinance) The Ordinance is adopted on the basis of the legal delegation of Art. 30, Par. 2, Financial Supervision Commission Act. and is related to the amended legal basis on responsible actuary of pension insurance companies..

**Ordinance on Amendment and Supplement of Ordinance No. 9 of 19.11.2003** on the method and procedure of evaluation of the assets and liabilities of the Funds for supplementary pension insurance and pension insurance companies, on the value of the fund's net assets, on calculating and announcement of the value of 1 share, and on the requirements for the keeping of individual accounts (the Ordinance). The Ordinance is adopted on the basis of the legal delegation of Art. 181 Social Insurance Act, and is related to the adopted Ordinance No. 34 of 04.10.2006 on the conditions for concluding transactions for reduction of

the investment risk related to the assets of the supplementary pension insurance, and the requirements and limitations in such transactions ,

**Ordinance on Amendment and Supplement of Ordinance No. 12 of 10.12.2003** on the method and procedure of establishing the minimum profitability of the management of the assets and liabilities of supplementary obligatory pension insurance for covering the difference with the minimum profitability (the Ordinance). The grounds for adopting the Ordinance is the legal delegation of Art. 193, Par.12 Social Insurance Code

## **11. New Approaches in the Financial Supervision Methodology**

A major priority of the Commission in 2006 was the implementation of efficient supervision over the products and services offered by the entities of the non-banking financial sector, in accordance with the existing legislation. In this respect, a new approach in the analysis and methodology of financial supervision in the course of the year was the applying of system approach as an instrument for the development of procedures and methods taking into account the best European experience.

In this connection, the following priority goals for the development of the financial supervision can be formulated that were pursued by the Commission during the accounting period and will pursue in the future:

- Exercising of efficient supervision over the market of non-banking financial services and products;
- Applying a system approach as an instrument for developing procedures and methods in the Commission;
- Improvement and development of the existing legal framework.

In the process of achievement of the above mentioned objectives, the following directions of the Commission's activities should be taken into consideration:

The Commission, the supervised entities, the investors and the consumers of the products and services in the sphere of the non-banking financial sector, comprise a system with a common goal: maintaining financial stability, transparency and confidence in the market.

The consumers of non-banking services, play a corrective part in the realization of the supervisory functions of the Commission. In this connection, there is a permanent exchange of documents with respect to filed complaints, as well as current and regular disclosure of incoming information about supervised entities.

The Commission itself is also a system built up from a number of elements: the specialized operational divisions and a common administration. The elements of this system are interacting for the purpose of effecting general supervision, protection of the interests of investors and consumers of insurance, health-insurance and pension-insurance services. One major goal of the Commission in this respect, as a strategy for long-term progress, is to improve the coordination between its individual elements and leading to optimal efficiency.

It is also necessary to improve and maintain the coordination between the Commission and other institutions exercising supervision over the crediting institutions for the purposes of efficient supervision over both the activities of financial conglomerates, and the entities offering services on the entire territory of the European Union. To this end, Memorandums were signed between the Commission and other supervision institutions including international supervision authorities.

Another major goal pursued in the long-term by the Commission in exercising its regulatory activity, is the protection of the interests of investors and consumers health insurance and pension insurance services. In this connection, information is regularly received by the Commission, and the requirements for its disclosure are regulated in specific acts on

the Commission's activities and both by the individual supervised entities, and the consumers of financial services. With the development of the non-banking financial sector, an ever greater part of the supervised entities will fall within the scope of supervision of various sectors of the non-banking financial market, and therefore the Commission will put identical requirements to the information disclosed by the entities and simultaneously accounting for the specifics of the activities of the individual entity and the parameters subject to monitoring and control.

The harmonization and unification of the requirements to the supervised entities is the indicator for an acting unified system and can run in parallel with several directions: first, by gradual changing of the legislation regulating the revealing of information for the supervised entities; second, by unification of the practice related to the requirements in connection with information disclosure posed by the specialized divisions through the respective deputy chairs; third, by implementing internal standards regulating the general procedures and rules concerning the supervisory functions of the Commission, regulated under Art. 1, Par.1, item 3, Financial Supervision Commission Act.

The internal standards refer to typical activities, carried out by the three Divisions of the Commission and to any supervised entities, notwithstanding the fact that the definite requirements concerning the various groups of persons are regulated by particular specific Acts. By means of the standards, points of intersection between the requirements set forth in the Acts and the subordinate legislation will be established, and at the same time some already established practices will find their role in both the specialized Sections, and in similar supervisory bodies in other countries.

The interaction and exchange of information between the three operational Sections will be improved with regard to the supervised entities subject to control by more than one Section. Another indicator of an acting unified supervision system is the optimization of the exchange of information within the framework of the Commission. The permanent exchange of information between the three specialized Sections and the Administration will result in establishing the principle for a general financial supervision, and will thus bring about a positive effect for the supervised entities and respectively, for the development of the market

The system of internal standards is open, because the activities of the supervised entities are constantly changing and expanding, and the Commission shall meanwhile also change and improve its regulation framework.

The development of internal standards will create a prerequisite for the automation of part of the activities, and thus an optimization of the functions of the Commission will take place, and the efficiency of the work of its experts will be increased.

Taking into account the fact of the Bulgaria's accession into the EU and the harmonization of the Bulgarian legislation with European Law, in the process of realization of supervision and implementation of the goal to develop a stable market of financial services, the Commission should adopt and apply risk-based supervision methods. In this connection, a methodology of risk-based supervision should be developed and applied. The first step should be to identify the indices characterizing the risk profile of the various types of supervised entities, and then start the development of a methodology for collecting and processing of the information required for the application of risk-based supervision. Risk-based supervision is a precondition for the working out of an early warning system (prevention) against a probable threat for the stability of the financial sector. The capital basis and capital adequacy as indicators of risk-based supervision should be appropriate to both market and operational risks.

In order to guarantee a stable financial market, the Commission should impose the application of conservative and reliable evaluation methods of the investments made by the supervised entities. This problem concerns the three specialized Sections because the persons

supervised by all three of them are investing their assets. An incorrect evaluation of investments will distort the financial results of the companies and will respectively affect their financial stability. These evaluation methods are also applicable for the assessment of foreign assets managed by investment brokers and they are also used for the payment of reimbursements to the investors.

During the last year, the Commission could to a great extent accomplish some of the above mentioned goals assumed as its responsibility in the course of the negotiation procedures for the accession of the Republic of Bulgaria to the EU.

### III. Bulgarian Economy

In year 2006 the economy of Bulgaria continued to achieve high and steady growth, seen over the last 5 years. The value of the gross domestic product (GDP) produced during the year amounted to BGN 49,091 mln. and reached a real growth of 6.1% compared to the preceeding year. The gross domestic product (GDP) per capita for year 2006 was BGN 6,392, which registered a growth of 18.05% on an annual basis.

Due to the outrunning growth of import compared to that of export, the current account balance remained negative yet again in year 2006, reaching a value of EUR -3,977.9 mln., or 15.85% of the GDP. The positive balance on the financial account increased up to EUR 5,395.6 mln., where the foreign direct investments in year 2006 reached EUR 4,104.5 mln. The portfolio investments in the balance of payments, assets for year 2006 was EUR -350.8 mln., out of which – 83.3 in bonds and – 267.5 in shares. The portfolio investments in the balance of payments, liabilities was positive in contrast to year 2005 and amounted to BGN 461 mln., out of which EUR 76.7 mln. in shares and EUR 385.1 mln. in bonds.

As at the end of year 2006, the internal national debt amounted to BGN 2,956 mln., 86.1% out of which constituted government securities issues, and the remaining 13.9% government securities issued in connection with the structural reform. Throughout the year, government securities were issued amounting to BGN 517.7 mln. and government securities to the amount of BGN 348.8 mln. were paid. The nominal amount of the external debt as at the year's end reached EUR 4,688.7 mln., out of which 88.18% national debt and 11.82% debt guaranteed by the state.

In year 2006 the annual inflation rate reached an average of 7.3%, i.e. by 2.3 percentage points higher than the average annual inflation rate for year 2005.

The base interest rate (BIR) increased insignificantly, and at the end of year 2006 it amounted to 2.07% compared to 2.05% for the month of December 2005.

The decrease in the level of unemployment seen throughout the last five years continued yet again in 2006. The average level of unemployment for the year was 9% or 1.1 percentage points lower than the one for year 2005. According to data provided by the National Statistical Institute (NSI), the average yearly salary for year 2006 amounted to BGN 4,255 and reported a growth of 10.81% on a yearly basis in terms of par value.

#### Macroeconomic Indices on the Bulgarian Economy in Year 2006

Index	Value	Growth on a Yearly Basis
GDP (in BGN mln.)	40,091	6.1%
Balance of Payments (in EUR mln.), incl.	1,785.6	213.54%
<i>Current Account, EUR mln.</i>	<i>-3,977.9</i>	<i>51.72%</i>
<i>Financial Account, EUR mln.</i>	<i>5,395.6</i>	<i>51.56%</i>
<i>Foreign Direct Investment, EUR mln.</i>	<i>4,104.5</i>	<i>32.26%</i>
Public & Publicly Guaranteed External Debt, EUR mln.	5,147.7	-9.79%
Internal National Debt (Average Annual Value, BGN mln.)	2,956.8	6.25%
Average Annual Inflation Rate	7.3%	2.3 percentage points
Base Interest Rate (BIR)	2.07%	0.02 percentage points
Average Unemployment Level	9%	-1.1 percentage points

## IV. Review of the Non-banking Financial Sector

The development of the non-banking financial sector in year 2006 confirmed the already delineated trend of stable increase in the activity of the non-banking intermediaries, operating on the Bulgarian financial market. The constantly increasing number of the institutional investors and of the assets managed by these is indicative of the confidence in the market environment.

**Table 1. Structure of the Financial Intermediation by Institutional Investors**

Indices	2001	2002	2003	2004	2005	2006
Assets of the Investment Intermediaries	-	-	1.70%	2.98%	3.60%	6.19%
Net Assets of the Collective Investment Undertakings	0.08%	0.08%	0.09%	0.20%	0.26%	0.64%
Assets of the Special Purpose Vehicles	-	-	0.04%	0.08%	0.35%	1.30%
Insurance & Health Insurance Premiums	5.27%	5.16%	4.22%	3.49%	3.46%	2.59%
Net Assets of the Pension Funds	1.44%	2.15%	2.56%	2.86%	3.02%	3.10%
Assets of the Banks	93.20%	92.61%	91.38%	90.38%	89.32%	86.17%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Banking activities still have a predominant share in the sphere of financial intermediation, although the aforesaid share decreases with the gradual but stable increase in the activities in the field of non-banking financial services. The most substantial growth in the non-banking sector was realized by recently- or newly-emerged segments – the special purpose vehicles and the collective investment undertakings.

The contractual funds as introduced by the amendments of the LPOS dated May 10, 2005 have contributed greatly to the development of the market segment of the collective investment undertakings. As at the year's end, the number of the collective investment undertakings increased considerably, and the assets accumulated by these reported a growth of 231.81% on a yearly basis. More than threefold growth was registered in the number of the special purpose vehicles. The serious interest shown by the investment community towards this type of companies led to an increase of 361.28% in the funds amassed in these for the last 12 months.

In year 2006 all indices characterizing the **depth of financial intermediation** recorded considerable growth. At the end of year 2006, the share of non-banking financial intermediation reached 36.87% of the GDP, where for the sake of comparison in 2005 the said share was 25.79%, and in 2001 – merely 5.96%.

As at the end of year 2006, the Stock Exchange's market capitalization amounted to BGN 15.31 billion or 31.20% of the GDP. For comparison, as at the end of year 2001, the capitalization of BSE-Sofia was merely BGN 1.11 billion or 3.72% of the GDP. In addition to the privatization deals concluded through the Stock Exchange, predetermining factors for the growth were the increased demand and the increase in the prices of the greater part of the shares actively traded in combination with the increasing confidence demonstrated by the economic agents towards the non-banking segment of the financial market.

**Table 2. Depth of the Financial Intermediation,  
Per Cent of the GDP**

	2001	2002	2003	2004	2005	2006
Market Capitalization of <i>BSE – Sofia</i>	3.72%	4.25%	7.91%	10.55%	20.11%	31.20%
Insurance & Health Insurance Premiums	1.61%	1.91%	1.94%	2.51%	3.03%	2.59%
Net Assets of the Pension Funds	0.63%	1.03%	1.48%	2.07%	2.65%	3.09%
Assets of the Banks	41.13%	45.04%	50.34%	65.51%	78.31%	85.95%

In the insurance sector, the bustle resulted from the normative amendments in the field of compulsory insurance introduced under the newly-adopted Insurance Code. The insurers reported growth not only in terms of their premium proceeds, but also in terms of number of policies taken out.

The amendments to the Social Insurance Code gave an additional impetus to the development not only of the supplementary pension insurance market, but also of the capital market. The minimum thresholds for investment in securities issued and guaranteed by the state were dropped, and the restrictions for investment in different investment instruments were raised or removed. As of December 31, 2006 the investments of the twenty four (24) supplementary pension insurance funds reached BGN 1.45 bln. Out of these, 38.91% or BGN 564.97 mln. were invested in shares and bonds traded on the Bulgarian Stock Exchange-Sofia.

Despite the emerging stable growth rate, intermediation through non-banking financial institutions is still insufficiently popular in Bulgaria, which may be noticed where comparing the data with these regarding the EU countries. However, the outlook for the sector's development is exceptionally favourable with a view to the integration of the Bulgarian market of non-banking financial services in the European one. It is expected that the said process shall contribute to the introduction of new players, increase in competition and processes of horizontal and vertical mergers that are more and more intensified, which shall inevitably lead to improving the quality and diversifying the products and services offered.

## 12. Investment Activity

### 12.1. Capital Market Development

In 2006 the tendencies of the capital market's stable growth, outlined from the previous year, were retained. The demand on the market was activated as a result of the appearance of new institutional investors, represented mainly by the contractual funds, as well as a result of liberalization of the investment limitations, with which the pension funds comply.

At 31 Dec., 2006 the market capitalization of BSE-Sofia amounted at BGN 15,314,019 thousand, climbing by 81.58% compared with that reported in the end of 2005.

#### Market capitalization on BSE-Sofia

	as of 28 Dec., 2005 (BGN thousand)	as of 22 Dec., 2006 (BGN thousand)	Annual growth (%)
Official market A	122,095	319,263	161.49%
Official market B	688,456	3,239,129	370.49%
Official market C	1,337,701	2,084,153	55.80%
<b>Official markets - TOTAL</b>	<b>2,148,252</b>	<b>5,642,545</b>	<b>162.66%</b>
Unofficial market	6,285,702	9,671,474	53.86%
<b>TOTAL</b>	<b>8,433,953</b>	<b>15,314,019</b>	<b>81.58%</b>

Beside the increase of the market capitalization of the traded companies, a big influence for the reported considerable growth of the capitalization on **segment „B” of the official equities market** exerted the listing of new companies during the year. On 31 Dec., 2006 already 12 public companies were registered on that market segment, while a year earlier the number of the listed companies was only 3. Similar to segment „B“, a major contribution for the substantial growth in the capitalization of **official market segment „A”** in 2006 was the registration of two new companies – Albena Invest Holding AD and Sinergon Holding AD. On 31 Dec., 2005 only company Industrial Holding Bulgaria AD was listed for trading on the highest market segment.

In 2006 the values of the indicators characterizing **the exchange trade on BSE - Sofia** registered a slight decline in comparison with that reported in the preceding year. Excluding, however, the influence of the substantial decrease in the trade realized on the privatization segments, the above stated indicators even registered a substantial annual growth. While in 2005 the realized through BSE-Sofia privatization of the Bulgarian Telecommunications Company contributed to a large extent for increasing of the trading activity, in 2006 the offering of state stakes for privatization through the stock exchange was strongly limited.

A considerable increase of the indicators, characterizing the trade were also noticed on **official equities market** segment „B“. As mentioned above, during the reviewed period the number of companies, listed on this segment picked up from 3 to 12. As a result, the reported volume and turnover climbed by over 800% on annual basis. As these companies transferred to segment „B“ from segment „C“, the trade on official market segment „C“ marked a decline on annual basis between -45% and -71%.

The turnover and volume of trade on the **unofficial equities market** grew on annual basis respectively by 55.98% and 181.72%, and the number of concluded transactions - by 4.11%. Similar to the previous years, the number of transactions and turnover of the exchange

trade on the unofficial equity market remained with most significant recorded values, a reason for which was the big number of companies, listed to be traded on that segment.

**Result of the trade on  
BSE – Sofia for the period 3 Jan., 2006 – 22 Dec., 2006**

Market / segment	Number of trades	Growth on annual basis (%)	Volume (thousand lots)	Growth on annual basis (%)	Turnover (BGN thousand)	Growth on annual basis (%)
Official market, segment A	15,860	50.72%	5,689	-48.70%	30,595	-41.18%
Official market, segment B	25,558	252.43%	84,882	808.08%	670,249	1,095.52%
Official market, segment C	37,180	-55.78%	13,726	-70.48%	142,633	-45.60%
Official market, corporate bonds	172	-23.89%	29	-25.66%	42,687	-3.57%
Official market, municipal bonds	1	0.00%	0	-87.50%	1	-84.08%
Unofficial equities market	112,236	4.11%	171,675	181.72%	1,449,903	55.98%
Unofficial bonds market	1,065	46.09%	166	29.28%	254,769	22.61%
Unofficial market of compensatory instruments	15,615	-64.66%	211,895	-30.69%	135,985	-49.24%
Unofficial market of other securities	4,051	203.45%	88,910	1,050.85%	46,029	659.50%
Primary equities market	433	85.84%	10,384	1,130.07%	12,298	125.59%
Primary market of other securities	575	65.23%	9,753	116.72%	10,061	477.04%
Large equities volumes	279	407.27%	144	177.09%	41,569	405.12%
Block and other negotiated trades	386	-4.46%	166,778	-54.19%	542,844	-46.34%
Tender offer	9	-83.64%	105	-96.78%	1,173	-98.66%
Buy backs	0	-100.00%	0	-100.00%	0	-100.00%
Privatization trades in BGN	0	0.00%	0	0.00%	0	0.00%
Privatization trade in compensatory instruments	0	-100.00%	0	-100.00%	0	-100.00%
Centralized public auction	164	-65.03%	242	-76.28%	2,943	-45.69%
Remote public auction	16	-38.46%	0	-38.46%	416	-85.84%
<b>Total:</b>	<b>259,189</b>	<b>-17.59%</b>	<b>764,378</b>	<b>-6.57%</b>	<b>3,384,156</b>	<b>-5.51%</b>

The trade in bonds, both on the official and on the unofficial market was yet not characterized with particularly high indicators. Simultaneously, however, the investment interest to the registered issues on the **unofficial bonds market** registered an increase during the last 12 months, unlike the issues registered on **official market of corporate bonds**, with which a decline was registered in the trade activity in comparison with the preceding year.

The number of concluded transactions on the **unofficial bonds market** edged up by nearly 50% in comparison with the same period of the last year, and the volume and turnover by nearly 25%.

Most substantial share in the overall volume of the exchange trade in 2006 belonged to the trade on the **unofficial market of compensatory instruments**. Nevertheless, the volume, turnover and concluded transactions decreased in comparison with 2005 when the BTC's privatization gave strong impetus to the trade in compensatory instruments. The high correlation of the prices and trade of compensatory instruments with the privatization process and respectively, the lack of significant privatization transactions during the period, conditioned the observed decline in trade on the considered segment.

A substantial growth was also noticed on the primary market – both of shares and of other securities. The briskness on the **primary equities market** was in whole due to the carried out initial public offerings of shares of the companies Fintexco, Advance Equity Holding, Sofia Commerce - Pawnshops, Himimport and Monbat. An impact for the active trade on the **primary market of other securities** during the period had the initial public offerings of issues of rights for the purchase of shares from the initial increase in the capital of 24 special purpose vehicles (SPVs), 19 of which pursue securitization of real estate, and the other 5 – securitization of receivables.

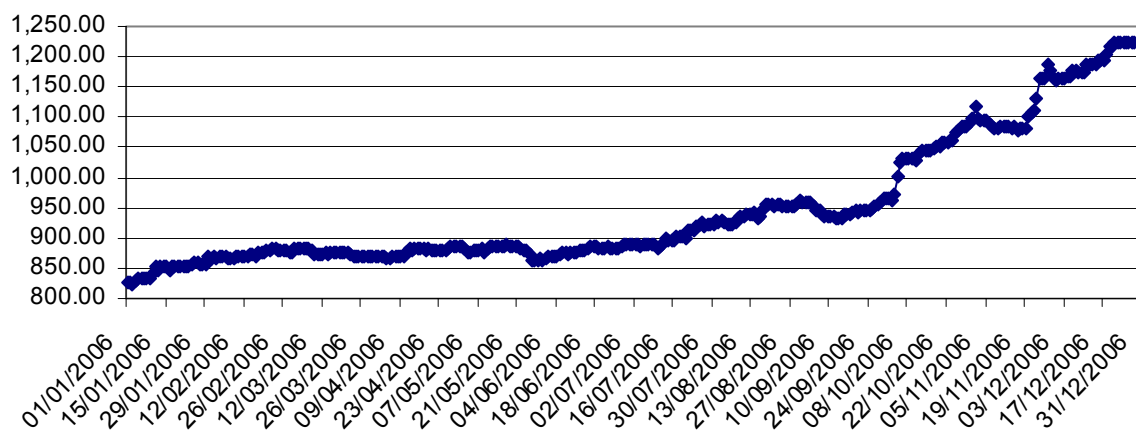
Another sector which marked a considerable growth in trade was the unofficial **market of other securities**, on which the number of concluded transactions realized over 200% growth on a year-to-year basis, and the volume and turnover increased by over 650% in comparison with that realized in year 2005. Great influence in this direction was exercised by the public offerings of issues of rights for the purchase of shares from subsequent increase in the SPVs capital.

In 2006 a substantial decline was reported, compared with the preceding year, of the realized turnover and volume in the realization of **block and other negotiated trades**. The prices at which these trades are executed are determined by non-market mechanisms, by reason of which they are not particularly indicative of the exchange trade.

The dynamics of the **indexes on the BSE – Sofia** is indicative for the state of the capital market and the trade thereon.

In 2006 the official exchange index **SOFIX** demonstrated a stable ascending trend of development. The index started from 825.53 points at the beginning of the year and reached it highest value in the end of December – 1,224.75 points, realizing a growth of 48.28% for the last 12 months.

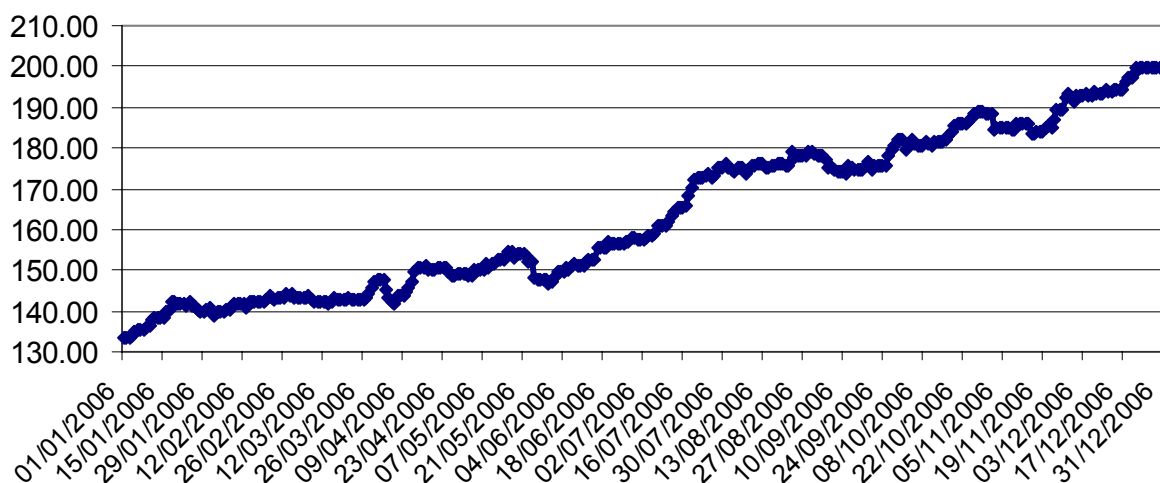
### Dynamics in the value of the official exchange index SOFIX in 2006



*Appendix 12.1A* presents the indicators, characterizing the shares of the public companies included in the computation of SOFIX, calculated on the basis of the current financial results, the capital and the net asset value of the companies. The capitalization of the companies from the index amounted at BGN 3,882,809 thousand and formed 25.35% of the market capitalization of BSE-Sofia at the end of 2006. Simultaneously, 19.86% of the capitalization of the companies covered by the index was held by foreign persons. The free float of the companies' capital amounted on the average at 17.32%, if as a free float was accepted a share below 5%, and as weight in the calculation was used the company's capitalization in the overall capitalizations of the companies from SOFIX. The financial indicators of the public companies, included in the computation of the SOFIX index as of 31 Dec., 2006 are given in *Appendix 12.1A*.

The movement of index **BG-40** in 2006 was also comparatively smooth and ascending. Substantial amplitudes in the index value were not noticed. At the same time, the movement of BG-40 was for the first time outstripping compared with that of SOFIX. During the reviewed period the wide-scope index BG-40 realized a growth of 49.81 percent points. At the beginning of the year BG-40 started from value 133.42 points and closed the period at the level of 199.88 points.

### Dynamics in the value of the exchange index BG-40 in 2006



During the year two changes were made in the composition of the companies included in the calculation of BG-40 index (according the rules of the index computation, the companies with reduced liquidity for the last 6 months are replaced with the companies with higher liquidity for the indicated period). The financial indicators of the public companies included in the computation of BG-40 index at 31 Dec., 2006 are given in *Appendix 12.1B*.

The total capitalization of the companies, included in the computation of index BG-40 amounted at BGN 7,113,033 thousand on 31 Dec., 2006 and thus formed 46.45% of the total market capitalization of BSE-Sofia. At the same time, 53.31% of the capitalization of the companies covered by the index were held by foreign persons. The free float of the companies from BG-40 came averagely at 22.49%, if as free float was accepted a share below 5%, and as weight in the computation was used the company's capitalization in the total capitalization of the companies covered by BG-40. The higher free float of the companies, covered by this index, compared with SOFIX was conditioned by the fact that the larger part of the companies, included in the computation of BG-40 were SPVs or holdings (former privatization funds), which by presumption were with larger free float.

At the end of 2006 on BSE – Sofia in total 485 **issues** were traded, from which 368 issues of shares, 76 issues of bonds, 3 issues of compensatory instruments, 2 issues of government securities and 36 issues of other securities, 2 of which on a primary market. During the period 154 new issues were registered, and 94 issues were discontinued from trading. Detailed information on the issues, listed to be traded on BSE – Sofia as of 31 Dec., 2006 is given in *Appendix 12.1C*.

## **12.2. Analysis of the Participants on the Securities Market**

### **12.2.1. Public Companies and Other Issuers of Securities**

At 31 December, 2006 on all market segments in total there were 339 public companies registered to be traded. 30 public companies were listed on the exchange floor in 2006, and the shares of 12 public companies were discontinued from trading. Slowing down of the pace of the public companies' delisting was noticed, as well as intensification of the processes of carrying out of public offerings of shares on the stock exchange.

During the year a record number of initial public offerings (IPO) of shares was registered – 5 companies raised new capital through BSE-Sofia, namely: Fintexco, Advance Equity Holding, Sofia Commerce - Pawnhouses, Chimimport and Monbat. As a comparison, the initial public offerings of shares realized in 2005 were only 2. A new investment possibility for the investors were also the shares of another 6 companies: Zlaten Lev Holding, Bulgarian-American Credit Bank, Fairplay Residential Properties, Media Systems, Slanchevi Lachi and Prime Tourist – listed on the exchange floor by a secondary public offering.

The prospectuses of public offering of 34 bond issues were also approved by the FSC (from which 29 issues of corporate and 5 issues of mortgage bonds). The amount of the publicly issued bond debt in 2006 came to BGN 519,094 thousand, which was an increase in comparison with the issued in 2005 debt by 69.50%.

The market capitalization of the public companies traded on BSE – Sofia at the end of 2006 amounted at BGN 15,314,018 thousand, increasing by 81.58% compared with that reported at the end of 2005. The companies from sub-sector Financial Intermediation were with largest share in the market capitalization of BSE – Sofia, followed by the companies in sub-sectors Transport, Storage and Communications; Trade, Repair and Technical Servicing of Automobiles and Motorcycles, of Personal Belongings and Household Commodities and Production of Chemical Substances, Products and Fibers. These four sub-sectors of the economy accounted for 70.31% of the market capitalization of all publicly traded companies on the Bulgarian stock exchange market. The distribution of the market capitalization of the public companies compared with the sub-sector of the economy to which they belong, as well as indicators of the foreign participation and distribution of the free float by sub-sectors are presented in *Appendix 12.2.1*.

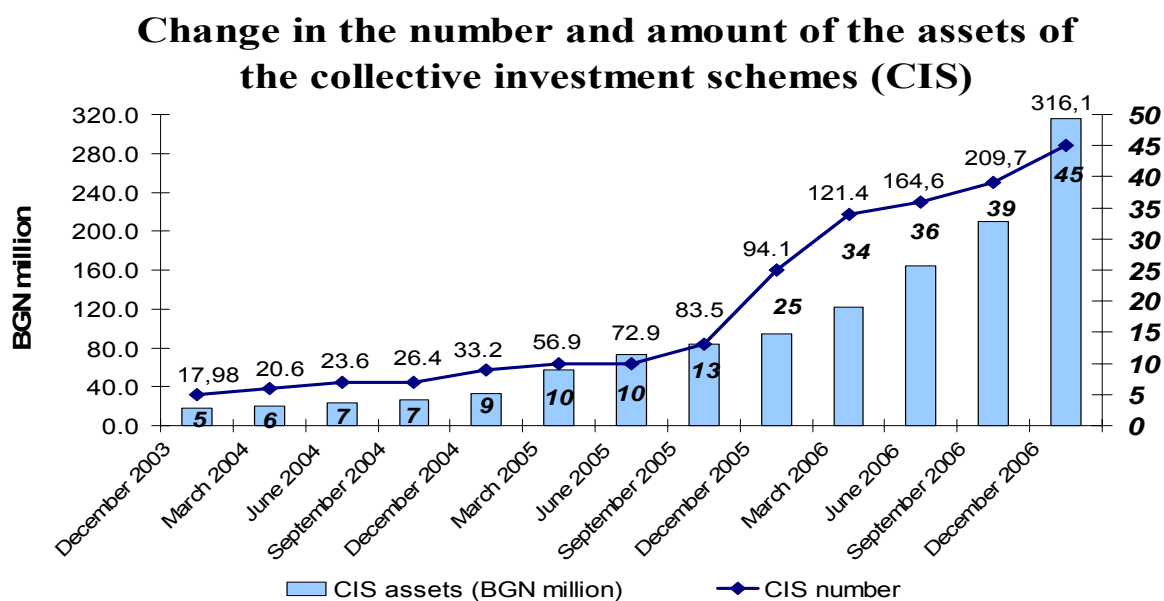
With substantial share of foreign investments in joint-stock capital in 2006 remained sub-sectors Manufacture of Products from Other Non-metal Mineral Raw Materials (98.81%); Transport, Storage and Communications (89.96%) and Manufacture of Wood Mass, Paper, Cardboard and Products from Paper and Cardboard; Publishing and Polygraphic Activity (80.69%). The reason for the particularly large share of the registered foreign participation was the belonging to the relevant sub-sectors of companies with substantial capitalization, respectively with a substantial share of foreign ownership in them. Considerable foreign interest was also recorded in investments in sub-sectors Operations with Real Estate, Rental Activity and Business Services (42.85%), Financial Intermediation (41.49%), sub-sector Construction (40.20%), as well as in Manufacture of Chemical Substances, Products and Fibers (29.02%).

The share of free float up to 5% from the companies' capital in total for the traded on the exchange companies came to 17.89%. The sectors with highest share of free float in 2006 were Production of Vehicles (37.90%), Extraction of Power Raw Materials (26.99%), Financial Intermediation (23.85%), Operations with Real Estate, Rental Activity and Business Services (22.19%) and Hotels and Restaurants (21.07%).

### 12.2.2. Collective Investment Schemes, Management Companies and Special Purpose Vehicles

In 2006 the market of services offered by the collective investment schemes developed dynamically. At the same time, the number of institutional investors as well as the accumulated by them assets increased. The elaborated legislative framework on the establishment and functioning of the contractual funds was largely conducive for the upsurge of activity in this field. Already 34 contractual funds were registered for a little more of year and a half, and together with the 11<sup>th</sup> investment companies, the total number of the collective investment schemes reached 45. The total amount of the concentrated in CIS assets jumped up to BGN 316,073 thousand or reported growth for the last 12 months of 231.81%. As a comparison, at the end of 2003 only 5 CIS (IC of open-end and closed-end type) were licensed by the FSC with accumulated resource of BGN 17,979 thousand.

The dynamics in the number and the amount of assets of the collective investment schemes may be followed on the following graph:



The attracted by the investment companies assets at the end of 2006 amounted at BGN 116,851 thousand and the resources accumulated by the contractual funds – at BGN 199,223 thousand. Thus the market share of the contractual funds already considerable exceeded that of investment companies in the total amount of collective investment schemes' assets, reaching 63.03%. *Appendix 12.2.2A* contains information on the equity, assets and concentration of the market of provision of services by the collective investment schemes.

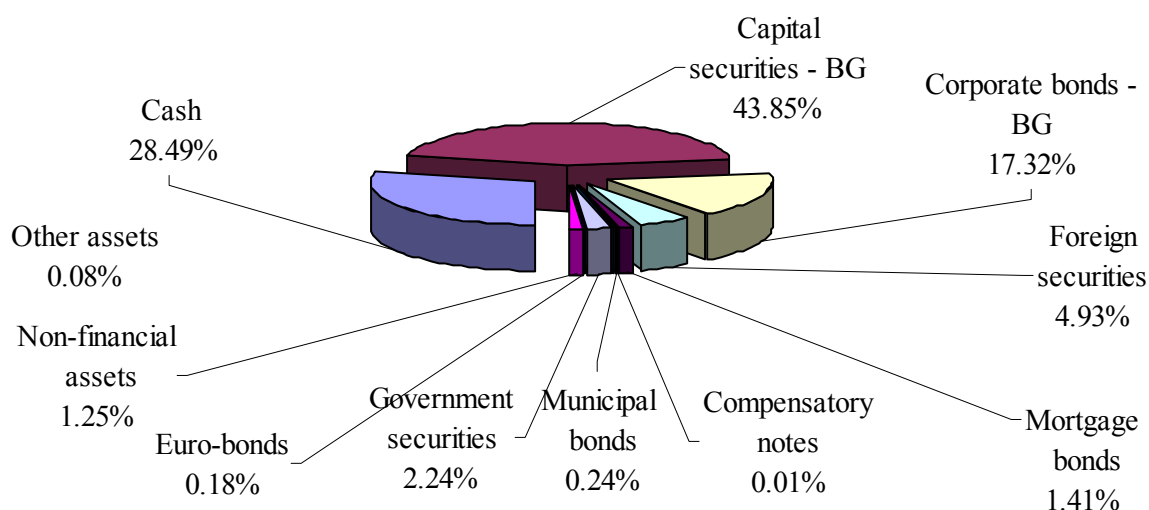
From the operating 11 *investment companies*, 9 were of open-end type and had 93.09% , i.e. BGN 108,771 thousand of the total assets of all investment companies concentrated in them. This amount registered a 37.48% growth on annual basis. In the end of 2006 the assets of the two investment companies of closed-end type amounted at BGN 8,080 thousand, thus realizing a 44.22% growth on annual basis.

During the accounting period the high **concentration** on the market of services offered by investment companies was retained. Two companies TBI Eurobond and Advance Invest held a little over 50% of the net asset value of the open-end companies. From the closed-end investment companies, IC Nadejda was with largest market share according the sum of the raised amounts, and from the contractual funds – CF Raiffeisen (Bulgaria) Balanced Fund.

The collective investment schemes can most generally be classified in three major groups in terms of risk and yield – aggressive (high-yield), balanced and conservative (low risk). At 31 Dec., 2006 there were 14 CIS with aggressive investment profile, 16 – with balanced, and with conservative – 8. Three of the contractual funds may be defined as moderately aggressive, and another two CF – as conservatively balanced. The above indicated distribution was made on the basis of the declared by the companies/funds **investment strategy**, due to which their belonging to a certain group was conditional – it depended on the adherence by the portfolio managers to the declared investment profile. By decision of the management, the two closed-end investment companies constructed their portfolio aggressively.

Largest part of the CIS assets were concentrated in the companies and funds with balanced investment portfolio – 43.97%. The collective schemes following an aggressive investment strategy accumulated 38.37% of the assets in the sector, and the conservative CIS – 13.69%. With smallest shares were the companies and funds with moderate-aggressive and balanced-conservative investment profile. They took up respectively 1.26% and 2.72% shares of the market according the net assets amount. In **Appendix 12.2.2B** there is published information on the investment profile of the licensed at the end of 2006 collective investment schemes on the Bulgarian market, net asset value per one share (unit), as well as the date of the beginning of the public offering of their shares (units).

### Structure of CIS aggregate investment portfolio on 31 Dec., 2006



At 31 Dec., 2006 most significant share in the **asset structure** of the collective investment schemes was occupied by investments in **capital securities** (shares) traded on BSE-Sofia. Their percent edged up in comparison with the preceding year by 15.58 percentage points, and the growth in absolute terms was over five-fold. Investments in **corporate bonds** climbed up to a lesser extent, their percentage in the structure of the aggregate CIS portfolio marking a decline of 7.21 percentage points for the last 12 months.

Growth was noticed in the percentage of funds, invested in **foreign securities** – their rate reached 4.93% with only 1.38% at the end of 2005. In 2006 the list of foreign markets,

respectively exchange indexes, in which the Bulgarian CIS have the right to invest, was supplemented. Thus, greater freedom of activities was achieved on the side of the portfolio management and at the same time a possibility was provided for diversification of the CIS portfolio, as well as for the creation of schemes with investment horizon, oriented with priority to developing markets and regions with high growth potential.

A comparatively high percentage in the CIS aggregate portfolio in this year, too, was taken up by **cash**. Its rate exceeds considerably the statutory required 10%. This rate was almost entirely formed by investments in bank deposits, namely 21.51% of the total amount of the collective investment schemes' assets.

In comparison with year 2005 the percent of **GS** in the collective investment schemes' portfolio shrank considerably. At the end of the reviewed period their rate fell to 2.24% against 8.68% a year earlier. In view of the wide range of investment alternatives and the positive development of the capital market, the low risk government securities remained more unattractive instrument for the portfolio of the collective investment schemes.

The share of the invested in the mortgage bonds funds also fell substantially during the year. The percentages of the other investment instruments remained comparatively unchanged in comparison with the end of 2005. *Appendix 12.2.2C* presents the aggregate portfolio of the collective investment schemes, as well as the portfolio of anyone company separately.

At 31 Dec., 2006 public offering of units in the country was carried out by 6 foreign CIS, distributing 39 mutual funds and sub-funds. *Appendix 12.2.2D* presents information on the foreign CIS, the darwn by them capital and their investment intermediary (distributor) for Bulgaria.

In the end of 2006 the licensed **management company** became 23, and four of them did not have a concluded contract of management at the end of the reviewed period. The managed by them assets amounted to BGN 417,961 thousand, whereby their growth reach 232.11% on annual basis. That growth was conditioned by the increase in the number of the new collective schemes, whose assets the companies managed, as well as by the increase in the assets of the already existing CIS.

High concentration was noticed among the management companies – 5 companies held over 70% of the assets, managed by all 23 companies. First according the amount of managed assets was TBI Asset Management EAD (21.66%), followed by Elana Fund Management AD (18.35%) and Raiffeisen Asset Management AD (13.13%). MC TBI Asset Management was also with greatest number of concluded contracts for management of institutional investors' assets – 10, followed by Elana Fund Management – with 7, Raiffeisen Asset Management AD with 6 management contracts and DSK Asset Management with 5 contracts. The MC's equity, managed assets and concluded contracts as of 31 Dec., 2006 are presented in *Appendix 12.2.2E*.

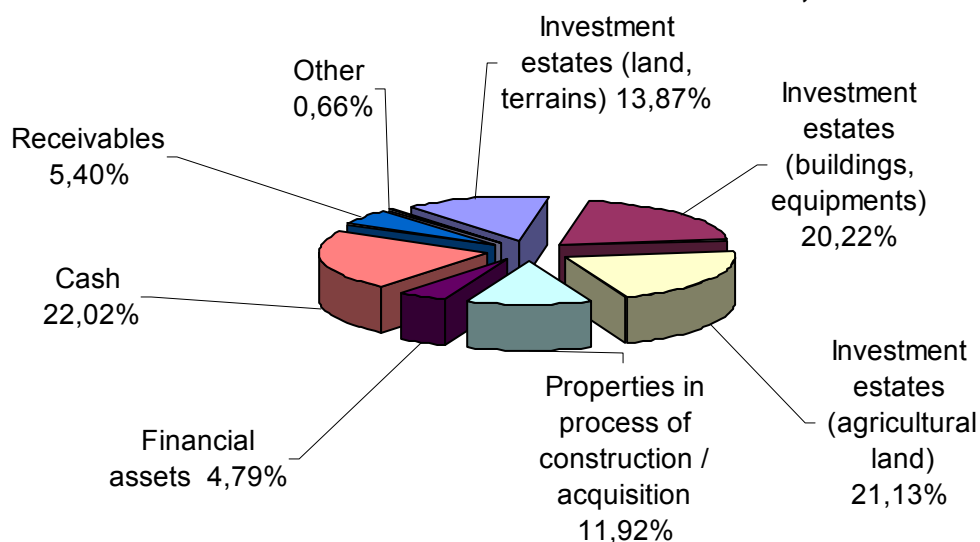
In the last year the sphere of services offered by the **special purpose vehicles**, strongly attracted the investment community's interest. The number of these companies increased over three-folds, and on 31 Dec., 2006 they already were 40, against 13 in the end of 2005. At the end of the reviewed period the SPVs accumulated assets at amount reaching BGN 638,808 thousand, marking a growth on annual basis of 361.28%. The equity, accumulated assets and market share of the special purpose vehicles at 31 Dec., 2006 are given in *Appendix 12.2.2F*.

A the end of 2006 the **companies, pursuing securitization of real estate**, became 34 with accumulated resource at the total amount of BGN 541,661 thousand or 84.79% from the assets of all special purpose vehicles. The growth in the number of companies securitizing real estate resulted in **deconcentration** of the market. While at the end of 2005 five companies held over 50% of the assets (52.67%) in the segment, at 31 December, 2006 the

companies concentrating a large market share were four and owned 36.33% of the total assets of the companies securitizing real estate.

The cash was with a predominant share in the **structure of the assets** of the companies, securitizing real estates at the end of the reporting period. Their rate of 22.02% dropped considerably, in comparison with the registered 46.15% at the end of 2005. The fact that many of the companies were newly established must also be taken into account. The structure of the SPVs assets as of 31 Dec., 2006 is shown in *Appendix 12.2.2G*.

**Structure of the assets of SPVs, pursuing  
securitization of real estates as of 31 Dec., 2006.**



SPVs Real Estate Fund Bulgaria, Black Sea Investment and BenchMark Property Fund were with the biggest amount of invested moneys in investment estates in the form of land, terrains, and in investment properties (buildings and equipments) – SPVs FairPlay Properties, Prime Property BG and ERG Capital – 2 and ERG Capital – 1. At the end of the reviewed period 11 of the companies owned investment properties in process of construction.

At 31 December, 2006 six of the special purpose vehicles securitizing real estate directed their resources mainly to **agricultural land**, namely Elana Agricultural Land Fund REIT, Advance-Terrafund REIT, Real Estate Fund Bulgaria, Bulland Investments REIT, Agricultural Land Fund MelInvest REIT and Agrofinance REIT. At the year's end these companies accumulated assets at the amount of BGN 229,734 thousand or 42.41% of the assets of SPVs, realizing securitization of real estates. The first three of the above stated companies occupied a substantial market share within this segment.

The companies securitizing farm land facilitate the individual investor's access to the investments in large agricultural areas, which otherwise require substantial financial resource. The capitals accumulated by the SPVs allow consolidation (comasation) of large plots of land with the purpose of their subsequent offering to be purchased by or rented to big farmers. In a medium-term and long-term plan the return on the investment is based on dividends for the shareholders (on the basis of the operating revenues from rent and from resale of the consolidated terrians at a profit) and rise of the shares' prices (upon rise in the price of the land in the companies' portfolios). The difference between the small and consolidated plots creates an added value for the investors.

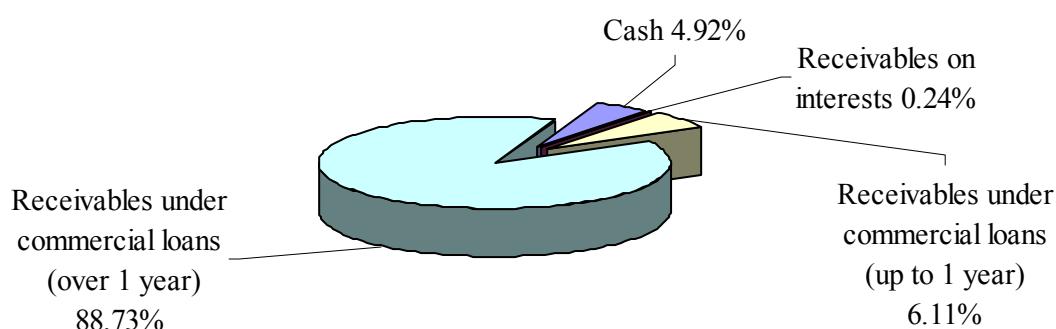
The companies which have directed their activity to securitization of real estate closed year 2006 at total profit of BGN 68,383 thousand, nineteen of them closing the period with a **positive financial result**. *Appendix 12.2.2H* presents the dividends distributed for 2005, the

reported profit and the earnings per share for year 2006 of anyone of the special purpose vehicles.

At the year's end six companies carry out securitization of receivables, five of which were granted a license during the reporting period. The assets, accumulated in the **companies securitizing receivables** jumped over 14-fold for the last 12 months. At 31 Dec., 2006 the accumulated by them funds amounted at BGN 97,147 thousand, whereby they took up a share of 15.21% in the assets of all special purpose vehicles.

The market of services of public securitization was characterized with a considerable **concentration** – SPV Capital Management owned a share of 73.28% from the assets of the SPVs for receivables.

#### Structure of the assets of SPVs, specialized in securitization of receivables as of 31 Dec., 2006



At 31 Dec., 2006 the receivables under commercial loans (over 1 year) had a substantial predominant share in the **aggregate portfolio** of the companies carrying out securitization of the receivables. These investments were widely covered by the portfolio of any of the companies, carrying out activities, as well as by the portfolio of the company with most substantial accumulated resource - Capital Management SPV.

The companies specialized in securitization of receivables closed year 2006 at a total profit of BGN 583 thousand, four of them closing the period with a positive **financial result**.

A large part of the funds in the special purpose vehicles were raised from **foreign investors** for whom the Bulgarian market of real estate and receivables was an exceptionally attractive investment possibility. *Appendix 12.2.2I* presents the major founders and shareholders, date of founding and envisaged period of existence of the SPVs.

The special purpose vehicles are obligated within a set by law term to list their shares on the stock exchange with the purpose of **secondary trade**. SPVs are preferred investment alternative not only for the individual, but also for the institutional investors, in view of the high liquidity combined with low risk and attractive return. In 2006 the executed by this type of companies transactions were 11,785, whereby nearly BGN 94,023 thousand of turnover was realized. The volume of trade with SPVs shares was 60,236 thousand lots. Most intensive was the trade performed with the shares of Elana Agricultural Land Fund REIT.

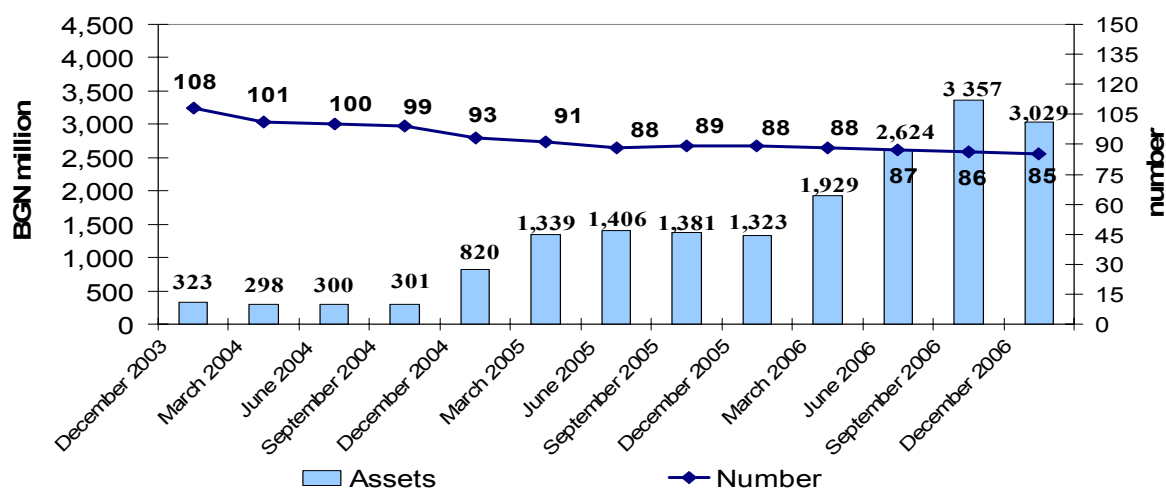
The total **market capitalization of the exchange traded SPVs** as of 31 Dec., 2006 was BGN 539,878 thousand. With the most recent amendments to the SIC, pension funds were allowed to invest up to 5% of their assets in SPVs shares, and a new attractive alternative appeared on the market, namely contractual funds with strategy directed to investments in SPVs shares. In view of applications made for increase in the capital, and expected interest in licensing by the FSC of new companies investing in real estate and

receivables, it is expected the segment to continue to develop at the hitherto prevailing substantial rates.

### 12.2.3. Investment Intermediaries

The total number of the **investment intermediaries** at the end of December 2006 was 85, from which 29 were bank IIs. At the year's end the **assets of the non-bank investment intermediaries** reached a total amount of BGN 3,029,180 thousand, realizing a considerable growth on an annual basis of 128.95%.

#### Change in the total amount of assets and number of investment intermediaries as of 31 Dec., 2006.



The climbing of the intermediaries' assets despite the decrease of their number was explained with the last increase in the amount of the minimum required capital which became effective as from the beginning of 2006, namely the companies which were granted a license to carry out the full range of statutorily stipulated activities for the investment intermediaries, to own not less than BGN 1,500 thousand.

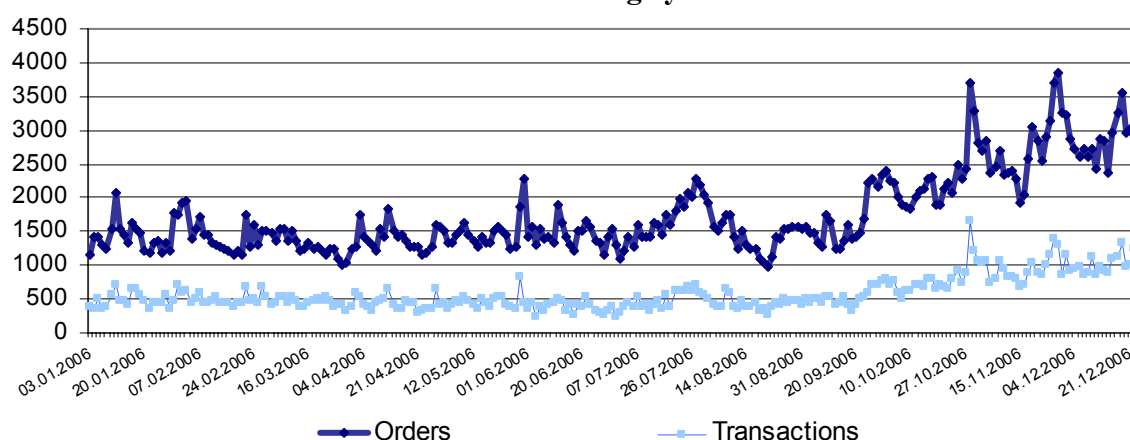
The market of provision of services by the investment intermediaries was characterized with high **concentration**. Four investment intermediaries - Bulbrokers AD, First Financial Brokerage, CB HVB Biochim AD and Economic and Investment Bank AD realized 53.38% of the turnover on the exchange for the period. The largest portion of the realized volume of trade on the exchange during the year was due to intermediation of CB H V B Biochim AD with 14.12%, followed by Bulbrokers AD with 15.47%, First Financial Brokerage House AD and FH Karol LPC, respectively with 12.81% and 8.20% of the exchange's turnover for the period. In the number of concluded transactions first was FH Karol LPC with a share of 16.49%, which sharply outlined it against the following Elana Trading AD (6.38%), Benchmark Finance AD (6.26%) and Yug Market AD (5.90%).

On the market of services offered by the investment intermediaries a considerable foreign interest was noticed. **Appendix 12.2.3** shows the foreign participation in the shareholding structure of the investment intermediaries as of 31 Dec., 2006.

Increasingly high popularity on the capital market is gaining the internet based application COBOS (Client Order Book On-line System), through which the trade on BSE – Sofia is monitored on-line and orders are given for conclusion of transactions which after a confirmation by an exchange intermediary are entered in the stock exchange's trading system. Within 2006 over 140 thousand transactions, which formed 66.21% of the concluded on the exchange transactions were concluded through COBOS.

The dynamics of trade through COBOS may be followed on the following graph:

**Dynamics in the given orders and concluded transactions through  
COBOS trading system**



#### **12.2.4. Activity and Financial Situation of the Fund for Compensation of Investors in Securities in 2006**

The Fund for Compensation of Investors in Securities, whose major objective is to ensure integrity and safety on the capital market has started operating since 1<sup>st</sup> January. The fund will accumulate resources by contributions of the investment intermediaries – initiation and annual as well from revenues from the management of the Fund's assets which may be invested in government securities (GS), short-term deposits in banks and deposits in the Bulgarian National Bank (BNB).

The resources from the Fund will be used for payment of compensation to the clients of an investment intermediary when the latter is unable to fulfill its obligations to the clients due to reasons directly related to its financial condition.

At the end of 2006 participants in the Fund for Compensation of Investors in Securities were 84 investment intermediaries, from which 28 commercial banks and 56 investment intermediaries licensed by the FSC. Since the beginning of 2007 management companies, possessing a license to carry out activity under Art. 202, para 2, item 1 of the LPOS will also participate in the Fund. **Appendix 12.2.4** contains a report on the incomes of the Fund for Compensation of Investors in Securities.

In 2006 no preconditions occurred for the payment of compensation to clients of investment intermediaries. The Fund's operation during the reviewed period was related first of all to the adoption of internal enactments, i. e. – rules of the organization and operation of the Fund, internal rules of the budget's drawing up, outcome and accounting, investment policy, etc, as well as a number of check-ups and reports related to the Fund's operation. During the past year proposals were made for amendments to the LPOS concerning the definition of client assets, rendering separate texts precise, tax treatment of the Fund's revenues, the deadline for the contributions by the investment intermediaries, and also to the Rules on the Fund's Structure and Operaiton.

After the promulgation of Ordinance № 23 on the conditions and procedure of client asset valuation in March 2006, the investment intermediaries, participating in the investor compensation scheme, submit on a daily basis checkups under Art. 77m, para 11 of the LPOS. This information is processed and analyzed in detail with a view to the timely elimination of eventual mistakes, correct fixing of the amount of the due annual contribution and determination of the approximate amount of the compensation in case of eventual bankruptcy of the investment intermediary.

In this connection a number of cases occurred, related mostly to the scope of the exceptions (for instance, other professional investors), the cash of clients under contracts for trade with foreign currency on margin base, client asset valuation, treating of funds provided for investment services to the commercial banks – investment intermediaries, the additional initiation contributions by the relicensed investment intermediaries, etc. The Fund initiated inspections by the FSC and BNB of investment intermediaries whose information was not presented in compliance with the requirements of Ordinance № 23 and the amount of the due contribution was not correctly determined.

The Fund's activities were directed to making analyses aiming to set the optimal level of the Fund's financing, the amount of the eventual compensations in case of bankruptcies of investment intermediaries and of the annual contribution for year 2007. In this relation information was required from the investment intermediaries on the number of clients subject to compensation, which they started to submit regularly.

For the period 1 January – 31 December, 2006 the revenues of the Fund were formed by the annual contribution for year 2005 and  $\frac{3}{4}$  of the annual contribution for year 2006, as well as by the interests on the investment of these funds. The total amount of the collected contributions was BGN 1,027 thousand, from them:

BGN 247 thousand were from contributions for 2005; and

BGN 780 thousand were from contributions for 2006.

The accumulated in the Fund contributions in 2006 were invested in short-term deposits in commercial banks, in conformity with the Fund's investment policy. The interests, received for 2006 on the investments made by the Fund, amounted to BGN 46 thousand.

In the month of March, 2006 the Fund's web site was started, containing information on the Fund's operation, the legislative framework and other data. The web site was updated in time and proved to be exceptionally convenient for communication and exchange of information with the investment intermediaries.

In May 2006 the Fund was accepted as an associated member of the European Fund of Deposit Insurers (EFDI). The membership in this organization provides the possibility for exchange of information and realization of contacts with investor compensation schemes in the EU Member States. With EFDI assistance, a contact was established with the Hungarian fund for investor protection and on their invitation in December representatives of the Fund visited the Hungarian Fund.

In 2006 under the instrument of technical assistance of the European Commission – TAIEX, a project was approved within the framework of which a visit was made to the Irish scheme for compensation of investors in securities. The subject themes discussed during the working visits were directed to improvement of the legislative framework, the methodology of determination of the annual contributions, cases of payment of compensation and other issues. In November, on the Fund's initiative, in the BNB's building a lecture was delivered by a representative of the international consulting agency OXERA about the investor compensation schemes in the EU, based on a study assigned by the European Commission. Experts of the Fund, as well as experts from the FSC and BNB participated in the discussion.

Experts of the Fund participated in the Twinning project between the FSC and the Polish Securities and Exchange Commission (BG/2004/IB/FI/02). Two meetings were held with experts from the Polish investor compensation scheme and they gave concrete recommendations to the Fund's operation and structure, improvement of the legislative framework, exchange of information with the investment intermediaries, determining the contributions, the Fund's investment policy, these notes being reflected in detail in the submitted by the Polish experts reports. The Twinning Project is forthcoming to be finalized in 2007.

## 13. Insurance Market and Market of Voluntary Health Insurance Services

### 13.1. Information on the Market of Non-life (General) Insurance, Life Insurance and Voluntary Health Insurance

#### 13.1.1. Total Premium Income, Insurance Penetration and Insurance Density

At the end of 2006 the licensed insurers in the Republic of Bulgaria were 37. From them 21 were non-life insurance companies, 14 life-insurance companies and 2 mutual co-operative societies, whose activity was in the field of life insurance. 13 companies carried out activity on the market of voluntary health insurance. In 2006 the Financial Supervision Commission issued 7<sup>45</sup> licenses to pursue insurance and voluntary health insurance and did not withdraw any license for carrying out activity.

#### Indicators of the place of insurance and voluntary health insurance (VHI) in the Bulgarian economy

Indicators	2002	2003	2004	2005	2006
Gross domestic products (BGN thousand.)	32,335,083	34,410,200	38,822,636	2,797,407***	49,090,605*
Gross premium income from insurance (BGN thousand)	618,156	666,346	834,291	1,069,204	1,246,949
Gross premium income from voluntary health insurance (BGN thousand)	3,315	6,405	11,612	17,787	22,620
Insurance penetration (%)	1.91	1.94	2.22	2.50	2.54
Penetration of voluntary health insurance (%)	0.01	0.02	0.03	0.04	0.05
Population at the year's end (persons)	7,845,841	7,801,300	7,761,049	7,718,750	7,679,290**
Insurance density (BGN)	78.79	85.41	108.84	138.52	162.38
Health insurance density (BGN)	0.42	0.82	1.49	2.30	2.95

\* NSI – GDP for the Fourth Quarter and Year 2006 (preliminary data)

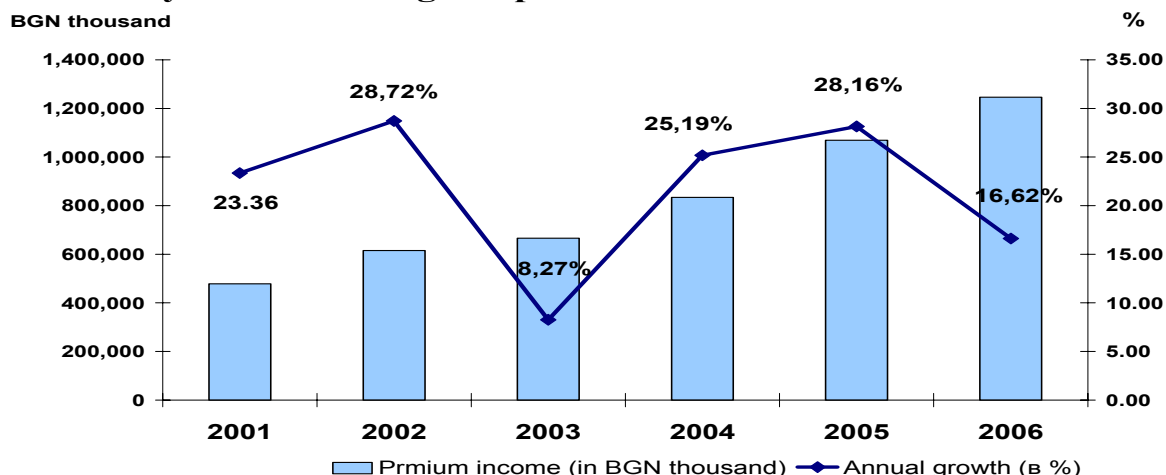
\*\* NSI – Population and Demographic Processes in 2006 (preliminary data)

\*\*\* NSI – GDP for the Fourth Quarter of 2005 and Year 2005 (with the annual 2006 data, the NSI revised the dynamics order of quarterly and annual data from 2002 to 2006)

In 2006 insurers realized a **gross premium income** of BGN 1,246,949 thousand, whereby a growth of 16.62% was marked on a year-to-year basis. In comparison with the period 2001 - 2005, when the reported growth of the gross premium income was at levels over 23% (only year 2003 was an exception), there was slowing down in the insurance sector's growth rate.

<sup>45</sup> Insurance company KD Life AD was granted a license to carry out insurance activity in December, 2006, but was entered in the commercial register in the beginning of 2007, due to which it was not included in this report.

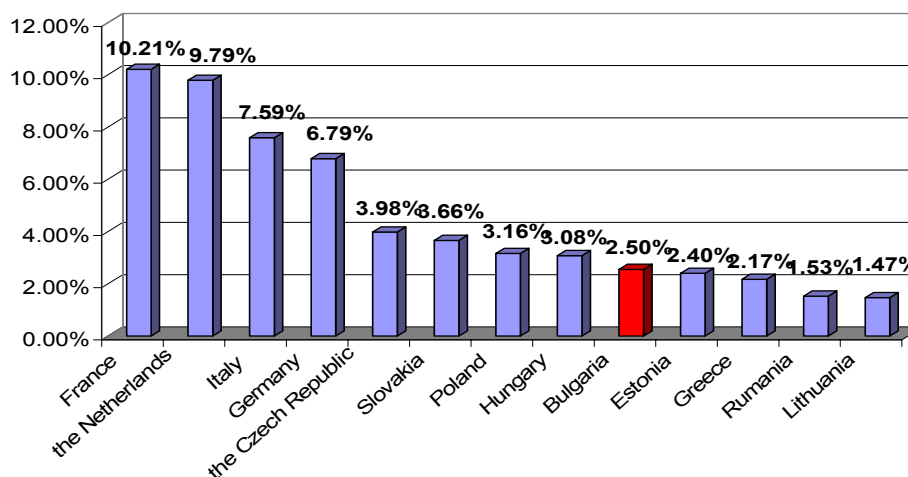
### Dynamics of the gross premium income from insurance



In 2006 the accounted gross premium income in the Republic of Bulgaria was calculated as 2.54 % of the GDP (insurance penetration). In comparison with the preceding year (after data revaluation) in relation to this indicator an increase of 0.04 percentage points was reported.

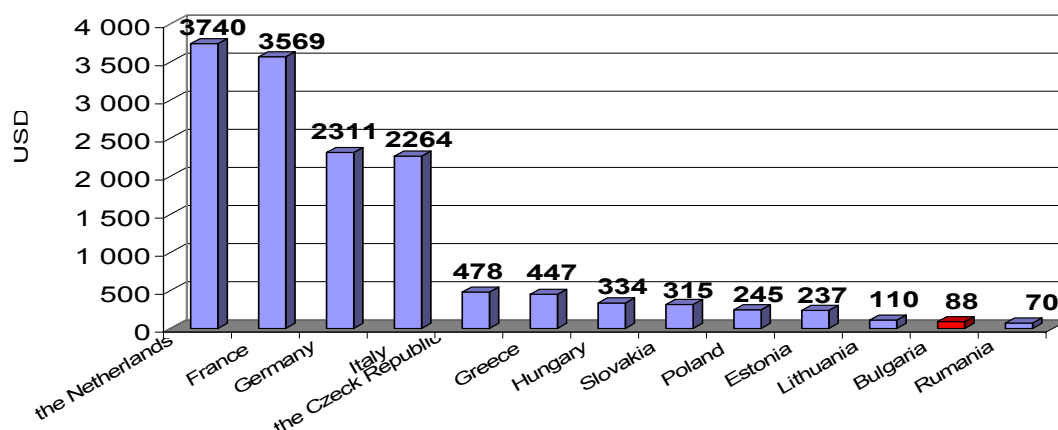
The gross premium income per capita (insurance density) was calculated at BGN 162.38 against BGN 138.52 for year 2005. The integration of the Bulgarian insurance market in the single European insurance market will lead to entry of new participants and enhancement of competition. As a result of that, an improvement is expected of the quality of the existing and the offering of new insurance products and services.

### Insurance penetration in some European states for 2005



Source: Sigma № 5/2006 World insurance in 2005: moderate premium growth, attractive profitability

### Insurance density in some European states for 2005 (in USD)



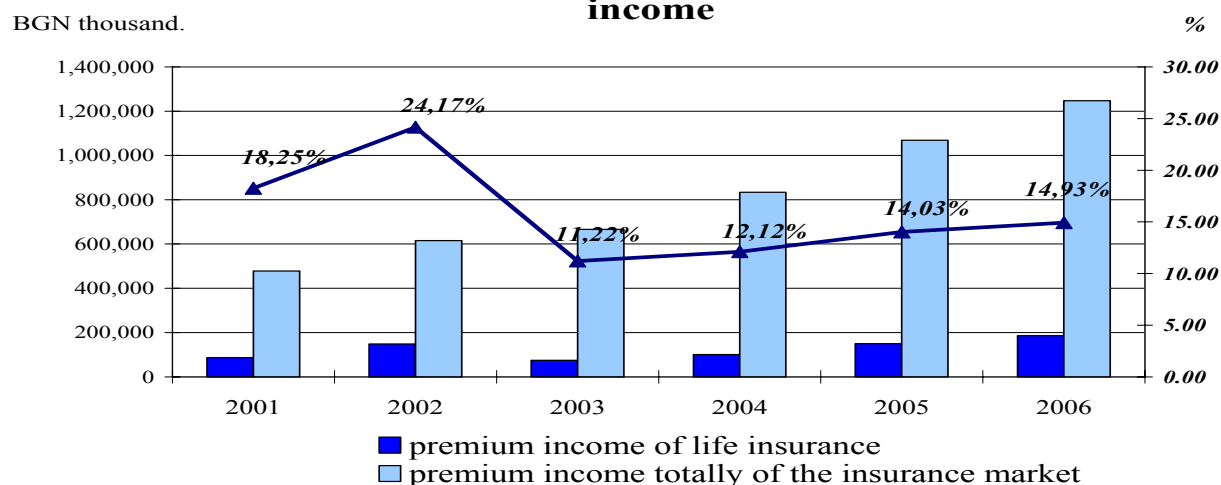
Source: Sigma № 5/2006 World insurance in 2005: moderate premium growth, attractive profitability

In 2006 the gross premium income in **non-life insurance** reached BGN 1,060,768 thousand. The indicator of insurance penetration was calculated at 2.16 % compared with 2.15 % for the preceding year (after data revaluation), and the insurance density was BGN 138.13 per capita against BGN 119.09 for year 2005.

With **life insurance** the gross premium income amounted at BGN 186,181 thousand. The insurance penetration in the sector was 0.38 %, and the insurance density was BGN 24.25 per capita compared with BGN 19.43 computed for year 2005. With regard to the second indicator, a more dynamic growth was noticed of life insurance compared with non-life insurance, which was conditioned by the increase in incomes and enhancement of the insurance culture of the population.

At the end of 2006 **the percentages of the non-life insurance and life insurance** in the gross premium income were respectively 85.07 % and 14.93 % against reported 85.97 % and 14.03 % in 2005. There was an outstripping growth rate in life insurance compared with the non-life insurance, which confirmed the forecasted modification in the correlation and the enhancement of the life insurance significance in the next years.

### Percentage of life insurance in the total premium income



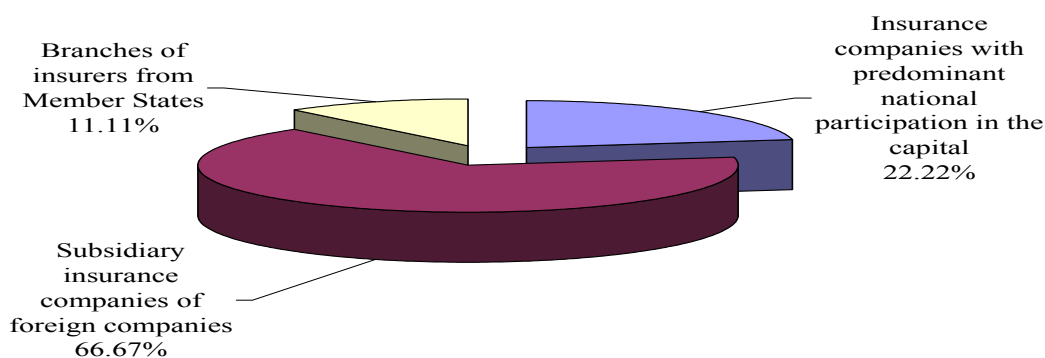
A premium income of BGN 22,620 thousand was realized by the **voluntary health insurance** in 2006. The health insurance density was BGN 2.95 per capita, and the penetration

in the voluntary health insurance was 0,05 %, with respectively BGN 2.30 and 0.04 % registered for year 2005.

Foreign institutional investors continued to show considerable interest in the insurance in Bulgaria in the past year 2006 as well. As a reason for that may be indicated the stable economic environment, the clear and transparent regulation of the insurance activity and supervision over it, the date set for the Republic of Bulgaria's accession to the European Union, as well as the existing high potential for growth of the Bulgarian insurance market. From 36 companies carrying out insurance activity in our country, 24 were subsidiaries of foreign companies (14 in non-life insurance and 10 in life insurance). In 2006 through the two newly licensed insurance companies UBB – AIG Life ZD AD and UBB – AIG ZPD AD, United Bulgarian Bank AD and the Greek non-life insurance company Ethniki, which are subsidiaries of the National Bank of Greece, joint the market. The Italian Group Generali (through its Austrian structure Generali Holding Vienna) acquired from Orel G – Holding the insurance companies Orel and Orel Life. The French insurer Cardif also entered the market through the licensing of its two branches Cardif – Life Insurance – Bulgaria Branch and Cardif – Non-life Insurance – Bulgaria Branch. The financial group ING (through its subsidiary structure in Hungary) has established itself on the Bulgarian insurance market by the opening of branch ZAD ING – Sofia Branch. The Austrian insurer and financial holding Wiener Städtische also extended its position on the Bulgarian market, acquiring shareholding in ZPAD Bulstrad AD.

As a result of the acquisitions made in the insurance sector in year 2006, institutional foreign investors also entered the voluntary health insurance activity. In 2006 with a predominant foreign participation in their capital were Generali Zakrila Health Insurance AD and TBI Health Insurance AD.

#### **Classification of the insurers by origin of their capital as of 31 Dec., 2006**



In 2006 the subsidiary companies of foreign companies realized 69.81% of the premium income in insurance (70.05% in non-life insurance and 68.46% in life insurance). It may be expected that the interest in acquisition of shareholdings in Bulgarian insurance companies will continue in future, too, as this is a dynamically developing sector within the steadily developing economy.

### **13.1.2. Aggregate Income Statement (technical and financial result)**

In 2006 in the field of non-life insurance a decline in the result of insurance activity was noticed, which corresponded to increase of the net combined coefficient from 84% in 2005 to 87.5% in 2006. The companies in the sector reported a positive technical result of BGN 47,425 thousand compared with BGN 63,084 thousand for 2005. Eight of twenty one non-life insurance companies closed year 2006 with a negative technical result. In general for

the sector, faster increase was registered of the arisen claims, net of reinsurance, in comparison with the earned premiums, net of reinsurance, which corresponded to the surge of the net loss ratio from 47% in 2005 to 50% for 2006. With an equal growth of the gross amount of the premium income and the paid claims (by 15% for 2006 compared with 2005), the outpacing rate of the arisen claims towards the earned premiums, net of reinsurance, was as a consequence of increase by 44% of the outstanding claims reserve compared with 2005. For 2006 an increase of the net operating expenses were also reported by 25% or with BGN 62,417 thousand in absolute value.

In total with regard to the sector of non-life insurance the **net financial result** did not undergo considerable change in comparison with the preceding year and amounted at BGN 69,460 thousand against reported BGN 69,540 thousand for year 2005. Five of the insurance companies closed at a loss. At the end of 2006 an increase was registered of the net revenue from investments by BGN 21,619 thousand compared with year 2005, but the net profit in the sector retained approximately its value because of the registered decrease in the technical result.

There was a substantial increase of the **life insurance** companies' profit in comparison with the preceding period. The achieved total financial result for 2006 amounted at BGN 167,273 thousand in comparison with BGN 13,017 thousand in 2005. 97.38 % of the profit in the sector was from the operation of DZI AD, and it was as a result mainly of realized sale of shares, held by the company. Three of the life insurance companies closed the year with a negative financial result.

During the period a substantial decline was noticed in the result of the insurance activity in life insurance. The **technical result** of the activity in the sector was negative, amounting at (- 15,214 BGN thousand). At the end of the preceding reporting period the aggregate technical result amounted at BGN 8,776 thousand. As a reason for its reduction may be indicated the outstripping growth rate of the net arisen claims (36.72%) in comparison with the growth rate of the net earned premiums (25.64%). The formation of the negative technical result was also as a result of increase in the net operating expenses by 68.22% on annual basis. In the sector in total four companies closed year 2006 with a negative technical result.

The financial result, realized by the **health insurance companies** in 2006 was negative and amounted at (- 9 BGN thousand). From 13 health insurance companies, five closed at a loss. The profit in the sector was realized mainly by three companies, but it did not succeed to compensate the negative financial results of the other health insurance companies

In 2006 a negative **technical result** at the amount of (- 392 BGN thousand) was registered in voluntary health insurance. The amount of the overall arisen claims in this area in 2006 increased with higher growth in comparison with the earned premiums during the period. With 9 of the health insurance companies the result of the operation was negative.

### **Technical and financial result of the insurers and health insurance companies**

<b>Indicators</b>	<b>Life insurance</b>		<b>Non-life insurance</b>		<b>Voluntary health insurance</b>	
	2005 (BGN thou)	2006 (BGN thou)	2005 (BGN thou)	2006 (BGN thou)	2005 (BGN thou)	2006 (BGN thou)
Technical result	8,776	-15,214	63,084	47,425	44	-392
Financial result	13,017	167,273	69,540	69,549	563	-9

Data about the financial and technical result of insurers, carrying out activity of non-life insurance, of life insurance and about the health insurance companies are given in *Appendixes 13.2.1, 13.2.2 and 13.2.3* respectively.

### 13.1.3. Aggregate Balance Sheet

#### Major balance sheet indicators of the insurers and the health insurance companies

Indicators	Life Insurance		Non-life Insurance		Voluntary Health Insurance	
	2005 (BGN thousand)	2006 (BGN thousand)	2005 (BGN thousand)	2006 (BGN thousand)	2005 (BGN thousand)	2006 (BGN thousand.)
Equity	140,222	336,251	309,422	390,297	12,840	20,488
Sum of the assets	352,685	633,099	876,458	1,122,184	18,406	29,273

The total amount of the **assets** in the insurance sector edged up in 2006, a growth of 42.81% being registered. Their value at the year's end amounted at BGN 1,755,283 thousand, including BGN 1,122,184 thousand. (63.93%) in non-life insurance and BGN 633,099 thousand (36,07%) in life insurance. At the end of 2006 the assets of the health insurance companies amounted at BGN 29,273 thousand and their growth in comparison with the end of 2005 was by 59% .

**The equity** of the insurers offering non-life insurance services reached BGN 390,297 thousand, with reported data for 2005 of BGN 309,422 thousand, being concentrated mainly in five insurance companies. The percentage of these five companies in the engaged in the sector equity was 52.16%.

In 2006 a reduction of the share of technical reserves in the structure of the balance sheet liabilities was noticed as a result of the outstripping growth of the equity. The registered growth was as a result of the legal requirement for increase in the authorized capital, as well as of the realized profit of DZI AD. The engaged in the life insurance sector **equity** amounted at BGN 336,251 thousand. In comparison with 2005 the equity in the sector increased by 139.80%.

The **equity** of the health insurance companies in 2006 reached BGN 20,488 thousand being concentrated mainly in four companies. The percentage of these companies in the equity for the sector was 52.45%.

For the purposes of the report a detailed analysis was made of the **gross technical reserves** by types, respectively for the non-life insurance, life insurance and voluntary health insurance.

#### Gross technical reserves in the insurance and voluntary health insurance in 2006.

TYPE OF TECHNICAL RESERVES	LIFE INSURANCE		NON-LIFE INSURANCE		VOLUNTARY HEALTH INSURANCE	
	Amount 2005 (BGN thou)	Amount 2006 (BGN thou)	Amount 2005 (BGN thou)	Amount 2006 (BGN thou)	Amount 2005 (BGN thou)	Amount 2006 (BGN thou)
Unearned premium reserve	15,690	18,742	260,518	346,556	3,318	5,746
Unexpired risks reserve	-	-	-	33	-	33
Outstanding claims reserve	13,318	14,760	268,236	343,128	527	570
Mathematical reserve	123,932	172,444	-	-	-	-

Capitalized value of pensions	16,678	22,629	-	-	-	-
Reserve for future income participation	-	516		-		
Bonuses and rebate reserve	-	-		-		40
Equalization reserve	2,573	2,573	1,286	1,176	396	481
Other reserves, approved by FSC	3,610	3,333	3,509	7,724	-	-
Unit-linked life insurance reserves	23,226	32,992	-	-	-	-
TOTAL	199,027	267,989	533,549	698,617	4,241	6,870

The companies form their technical reserves in compliance with effectuated in 2006 Ordinance № 27 on the procedure and methodology of formation of the technical reserves by insurers and of the health insurance reserves.

In the non-life insurance an appreciable increase was noticed of the unearned premium reserve and of the outstanding claims reserves, respectively by 33.03% and by 27.92%.

The increase of the outstanding claims reserve was as a consequence of the growth of 74% of its part concerning arisen but unclaimed pretension, which was a result of the introduced in 2006 preliminary approval of the reserve under Third Party Liability Insurance Related to the Possession and Use of Motor Vehicles, as well as of the measures undertaken with respect to established undervaluation of the reserves in the conducted on-site inspections during the year.

The alteration in the unearned premium reserve followed the increase of the premium income, depending on the period of the contracts' cover. In 2006, with the purpose of ensuring more reliable evaluation of the adequacy of the insurance reserves in next periods, some of the companies made retrospectively changes in their technical reserves. Biggest increase of the unearned premium reserve was reported under Land Vehicle Insurance Excluding Railway Rolling Stock (BGN 42,193 thousand), Third Party Liability Insurance Related to the Possession and Use of Motor Vehicles (BGN 18,076 thousand.) and Insurance Fire and Natural Perils (BGN 14,522 thousand.).

With the life insurance companies, an increase in all types of reserves was reported, most substantial being the growth of the mathematical reserve by 39.14%. Edging up of the mathematical reserve was noted in absolute value in Life Insurance by BGN 41,022 thousand and reduction by BGN 2,018 thousand in Pension Insurance or Annuity. Under Marriage and Child Insurance the increase of the reserve was BGN 9,432 thousand.

A sizable increase was registered of the insurance reserves under Unit-linked Life Insurance by 42.05%, or in absolute value – with BGN 9,767 thousand, in comparison with the relevant reserves, set aside in year 2005.

The growth of the unearned premium reserve totally for the life insurance market in absolute value amounted to BGN 3,052 thousand.

The total amount of the health insurance reserves in 2006 climbed in comparison with the preceding reporting period by 62% or with BGN 2,629 thousand in absolute value. Largest share in that increase belonged to the unearned premium reserve, which increased by 73.18%.

Information on the major balance sheet indicators of insurers, carrying out activity of non-life insurance, of life insurance and about the health insurance companies is given in *Appendixes 13.2.1, 13.2.2 and 13.2.3* respectively.

### 13.1.4. Structure of Investments

#### Investments of the insurers and health insurance companies in 2006

TYPE OF INVESTMENT	LIFE-INSURANCE		NON-LIFE INSURANCE		VOLUNTARY HEALTH INSURANCE	
	Amount 2005 (BGN thou)	Amount 2006 (BGN thou)	Amount BGN thou)	Amount 2006 (BGN thou)	Amount 2005 (BGN thou)	Amount 2006 (BGN thou)
<b>INVESTMENTS</b>						
<b>I. Land and buildings</b>	<b>26,814</b>	<b>28,510</b>	<b>46,419</b>	<b>70,854</b>	<b>1,236</b>	<b>0</b>
<b>II. Investments in subsidiaries. joint and associated undertakings in which the company has an interest. incl:</b>	<b>57,819</b>	<b>31,504</b>	<b>45,101</b>	<b>49,895</b>	<b>599</b>	<b>1,050</b>
Stock and shares in subsidiary. joint and associated undertakings	57,034	31,401	24,816	32,730	530	549
Debt securities issued by subsidiary. joint and associated undertakings as granted to them loans	0	0	6,431	6,728	0	
Other interest	785	103	12,220	10,437	69	501
Debt securities issued by other undertakings. in which the insurer has an interest. as well as the loans granted to them	0	0	1,634	0	0	
<b>III. Other financial investments. incl.:</b>	<b>161,588</b>	<b>341,964</b>	<b>413,943</b>	<b>542,272</b>	<b>7,438</b>	<b>13,520</b>
Stocks and other variable yield securities and units in investment funds	2,449	81,277	20,734	64,092	380	1,147
Debt securities and other fixed-yield securities.	110,002	138,314	253,176	277,010	3,121	6,056
incl. securities issued and guaranteed by the state	90,042	110,349	217,316	181,360	2,460	5,087
Participation in investment pools	0	0	0	0	0	
Mortgage loans	0	0	35	70	0	
Other loans	7,312	14,028	0	0	526	134
Deposits in banks	36,874	104,915	131,831	200,267	3,123	5,683
Others	4,951	3,430	8,166	833	288	500
<b>IV. Deposits in cedents</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Investments in favor of policy of unit-linked Life Insurance</b>	<b>19,828</b>	<b>29,608</b>				
<b>TOTAL</b>	<b>266,049</b>	<b>431,586</b>	<b>505,463</b>	<b>663,021</b>	<b>9,273</b>	<b>14,570</b>

The companies' investment policy was oriented to achievement of return, safety and liquidity of the invested funds with the purpose of guaranteeing the indemnifying of all clients upon the occurrence of insurance events.

In the three sectors a comparative growth of the value by types of investments was noted, in life insurance a decrease being registered of the share of investments in subsidiary, joint and associated undertakings in comparison with the preceding year by 45.51%. A reason for that was the realized sale by DZI AD of the company's shares in DZI Bank AD. Predominant in the structure of investments, in non-life insurance as well as in life insurance and voluntary health insurance were the liquid instruments – government securities and bank deposits, making up a major part of the balanced group Other Financial Investments.

The total amount of the investments of the companies, carrying out activity of non-life insurance, came to BGN 663,021 thousand, whereby a growth of 31.17% was marked for the last 12 months. First place in the structure of the companies' aggregate investment portfolio was taken up by the bank deposits – 30.20%, followed by the government securities – 27.35%.

The investments of insurers, carrying out the activity of life insurance amounted at BGN 431,586 thousand, a growth of 62.22% being calculated on a year-to-year base, The percentage of investments from the balance sheet group Other financial investments was calculated at 79.23% of the total investments.

In the health insurance sector, the total amount of investments came to BGN 14,570 thousand, and a growth of 57.12% was calculated on a year-to-year basis. Main place was occupied by bank deposits - 39% and government securities – 34.91%.

## 13.2. Information on the Insurers and Health Insurance Companies

### 13.2.1. Realized Premium Income and Paid up Claims, Market Share.

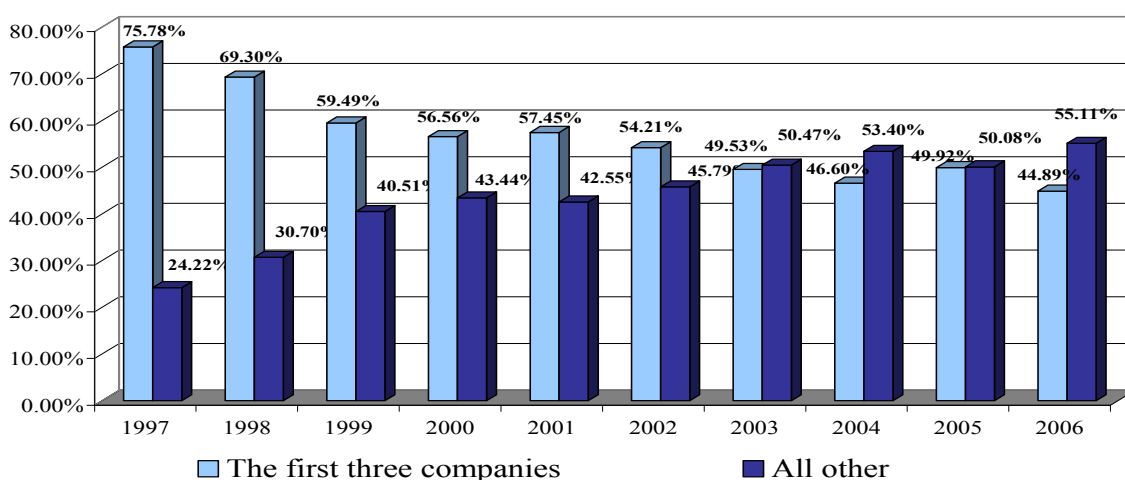
#### Non-life Insurance

In 2006 the FSC issued licenses to two insurers UBB – AIG Insurance and Reinsurance Company AD and Cardif – Non-life Insurance – Bulgaria Branch, with which the number of participants on the non-life insurance market came to 21.

The realized gross premium income by the insurers carrying out activity of non-life insurance reached BGN 1,060,768 thousand, against BGN 919,190 thousand reported in 2005, or a growth of 15.40% was calculated. It was considerably lower in comparison with the preceding year (25.37%), but outstripped the GDP real growth (6.1% according preliminary data of the NSI) and the rate of inflation (7.3% according the forecast of Agency for Economic Analyses and Forecasts). The realized by every company premium income, as well as the respective market share are presented in *Appendix 13.2.1*.

In 2006 the market share of the three companies with highest premium income – DZI Non-life Insurance AD, ZPAD Bulstrad AD and Allianz Bulgaria Insurance and Reinsurance Company AD fell from 49.92% to 44.89%.

**Market concentration on the basis of premium income in non-life insurance**



In the portfolio structure of the companies which carry out non-life insurance activity a major share of 64.06% was taken up by the motor vehicle insurances ( Autocasco – 38.68% and Third Party Liability Insurance Related to the Possession and Use of Motor Vehicles,

including insurance Green Card – 25.38%). In insurance Autocasco a growth was noted in the premium income of 17.11% on an annual basis against a reported growth of 28.92% in 2005 compared with 2004. This slowing down by 11.81 percentage points was reflected in reduction of the premium income if these type of insurance in two insurance companies.

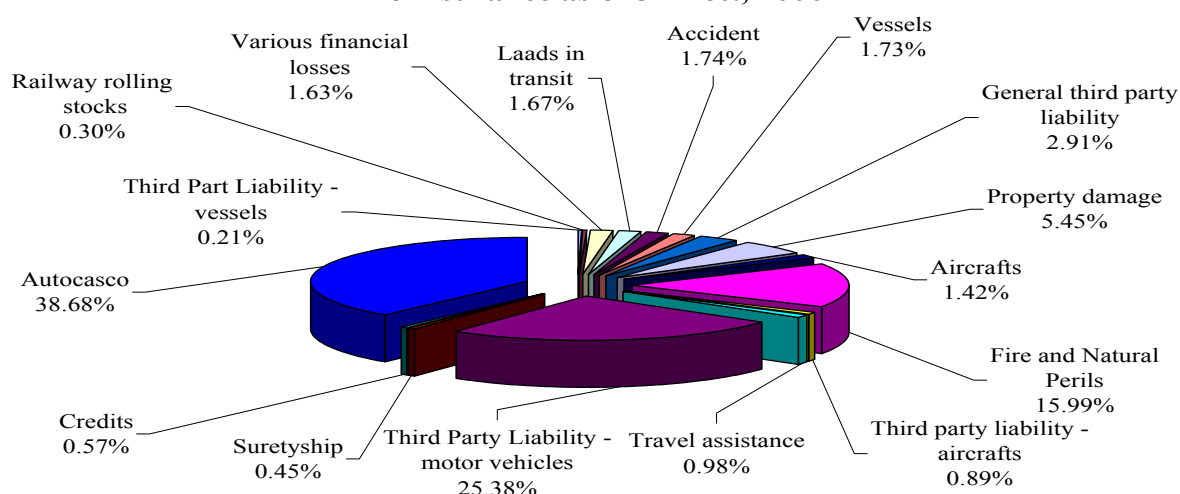
In 2006 Bulgaria fulfilled the criteria of the European Commission with regard to broadening the aggregate of the concluded insurances in relation to the use of motor vehicles, on the basis of registered motor vehicles, which was not assisted with sufficient increase of the premium income. This may be explained with the offered by insurers competitive and flexible schemes to the clients. The average premium in 2006 of Third Party Liability Insurance Related to the Possession and Use of Motor Vehicles (including Insurance Green Card) amounted at BGN 114, calculated on the basis of gross premium income towards the number of objects under acting contracts at the end of the reporting year. The realized gross premium income of Third Party Liability Insurance Related to the Possession and Use of Motor Vehicles came to BGN 269,108 thousand, whereby a growth of 7.07% was registered on a year-to-year basis.

The property insurances occupied a share of 21.44% of the gross premium income. The realized premium income of insurance Fire and Natural Perils marked a climb of 13.27% on annual basis or BGN 19,860 thousand in absolute value. Under Property Damage Insurance a growth in the premium income was noted of 67.85% on annual basis, or of BGN 23,335 thousand in absolute value.

A bigger growth of the premium income compared with the preceding 2005 was marked by insurances: Property Damage – by 90.91 percentage points, Casco of Aircrafts – by 30.44 percentage points, Third Party Liability Insurance Related to the Possession and Use of Vessels – by 14.6 percentage points and Loads in Transit – by 11.19 percentage points.

Decreasing rate in the premium income was registered in Railway Rolling Stock Insurance of 417.98 percentage points, Various Financial Losses Insurance of 42.58 percentage points, Insurance of Legal Expenses of 23.56 percentage points.

**Portfolio structure of the companies, carrying our activity of non-life insurance as of 31 Dec., 2006**



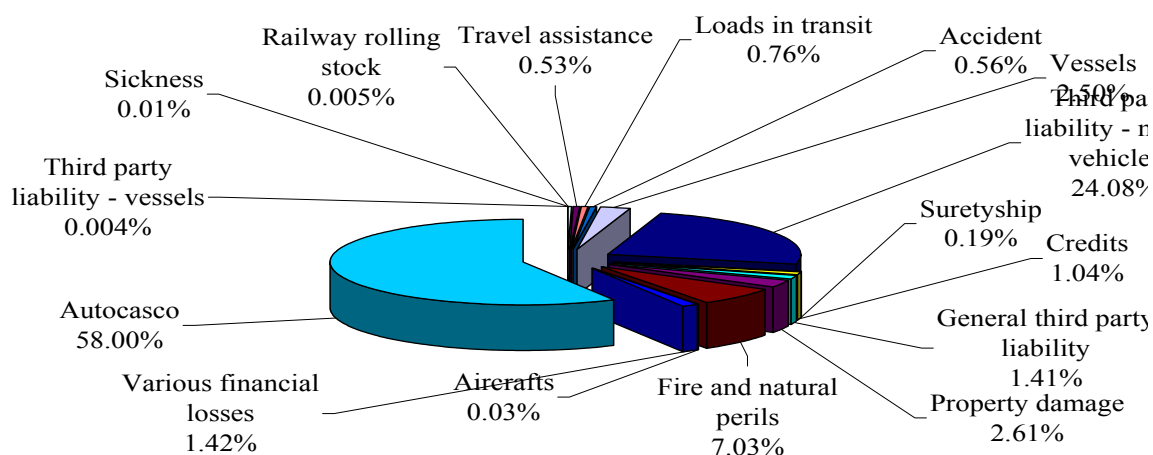
**The paid up indemnities** in 2006 by the insurance companies, carrying out activity of non-life insurance, amounted at BGN 363,472 thousand, which was by 15.24% more in comparison with the preceding year. Largest percentage in the structure of the paid up indemnities was taken up by ZPAD Bulstrad AD with 20.31%, DZI – Non-life Insurance AD with 18.36% and ZD Bul Ins AD with 14.92%. The aggregate share of these companies was 53.59% of the total volume of the paid up claims in the sector.

By types of insurances, a largest share of the overall paid indemnities was occupied by the motor vehicles insurances – 82.08% ( Autocasco – 58% and Third Party Liability Insurance Related to the Possession and Use of Motor Vehicles – 24.08%), followed by Insurance Fire and Natural Perils, under which 7.03% were paid up of the totally paid indemnities in the sector.

In comparison with the preceding reporting year, largest increase in the paid up claims was noticed in insurance Land Vehicles, Excluding Railway Rolling Stock with BGN 42,884 thousand, or by 25.56%. The paid up indemnification in 2006 under Third Party Liability Insurance Related to the Possession and Use of Motor Vehicles edged up with BGN 12,704 thousand or expressed in percentages by 17%.

In 2006 the amount of the paid up indemnities under Insurance Fire and Natural Perils amounted at BGN 25,535 thousand against paid BGN 34,213 thousand for the previous 2005, the reduction being calculated as by 25.36%. With insurance Loads in Transit, the amount of the paid up indemnities in 2006 came to BGN 2,757 thousand compared with BGN 4,754 thousand in 2005, or a fall by 42% was reported.

#### **Structure of the paid up indemnities by companies carrying out activity of non-life insurance as of 31 Dec., 2006**



#### **Life Insurance**

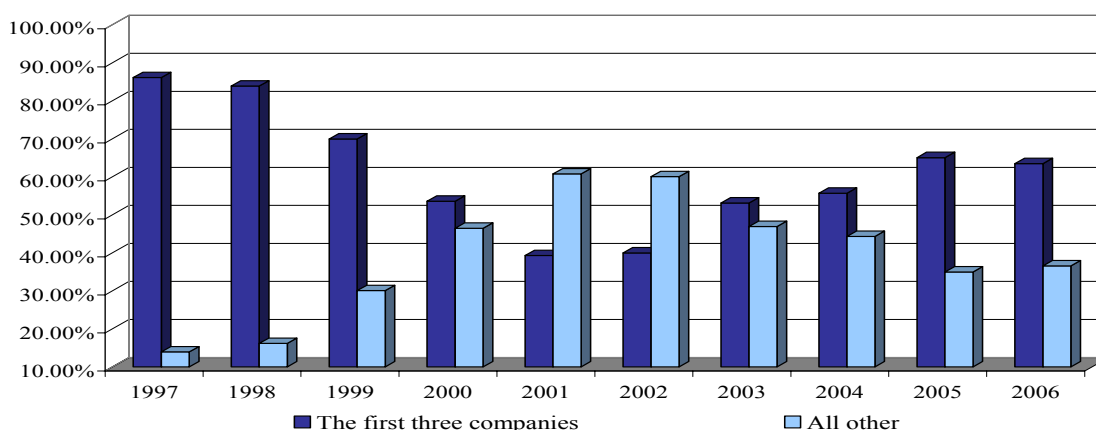
At the end of 2006 there were 13 life insurance companies and 2 mutual co-operative insurance societies participating in the market. During the period, the FSC issued license to carry out activity to UBB – AIG Life Insurance Company AD, Cardif – Life Insurance – Bulgaria Branch, Insurance Company KD Life Insurance AD<sup>46</sup> and ZAD ING – Sofia Branch.

In 2006 in life insurance gross premium income was realized at the amount of BGN 186,181 thousand, by which a growth of 24.11% was registered on a year-to-year basis. In comparison with 2005, the growth in the premium income was reduced by half which was as a consequence of the reported decline with most of the life insurance companies. Only with four of the companies an outpacing growth rate of the premium income was noted compared to the preceding accounting period. The realized by anyone company premium income, as well as the relevant market share are shown in **Appendix 13.2.2**.

In 2006 a drop in the market share of the three life insurance companies with highest premium income (DZI AD, ZAD Allianz Bulgaria Life and ZK Generali Life Insurance AD) was registered from 65.04% for 2005 to 63.44%.

<sup>46</sup> Insurance company KD Life AD was granted a license to carry out insurance activity, but at the end of 2006 it was not entered in the commercial register.

### Market concentration on the basis of premium income in life insurance



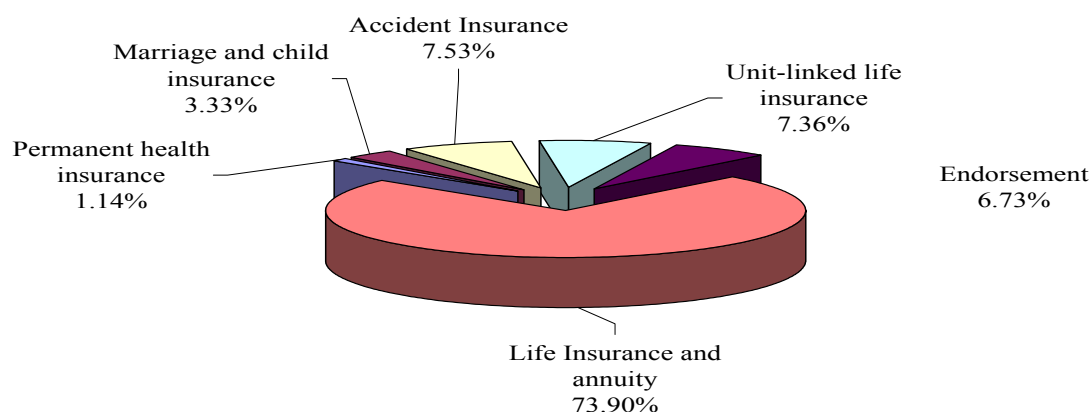
In the structure of life insurance products with highest percentage (73.90%) continued to be those, related to insurance Life and Annuity with the two major varieties – Life Insurance and Pension or Annuity Insurance, respectively with 83.79% and 16.21%. In comparison with 2005 an increase, even tough insignificant, was registered (with 0.17 percentage points) of the share of the Life Insurance and Annuity in the structure of the insurers' portfolio, at the same time the share of Life Insurance increasing and the share of Pension or Annuity Insurance decreasing.

Highest growth of the premium income on annual basis was noted in Life Insurance – by BGN 28,294 thousand or 30.94%, Unit-linked Life Insurance – by BGN 4,716 thousand or 49.56% and Marriage and Child Insurance – by BGN 1,667 thousand or 34.89%. Only in two types of insurance reduction of the premium income was reported in comparison with the preceding year, namely Permanent Health Insurance (-205 BGN thousand.) and Obligatory Accident Insurance of Passengers in the Public Transport Vehicles (-50 BGN thousand).

In comparison with 2005, the growth rate of the **gross premium income** registered a decline in some of the insurances offered by the life insurance companies. Biggest decrease was reported in Pension or Annuity Insurance - 20.89% growth for 2006 with reported 112.89% for 2005, and in Obligatory Accident Insurance of Passengers in the Public Transport vehicles – (-2.53%) growth for 2006 against 57.84% for 2005.

Bigger growth of the gross premium income compared with year 2005 was registered in Unit-linked Life Insurance – 49.56% for 2006 with accounted 7.68% for year 2005 and Endorsement – 22.96% for 2006 against 3.61% for 2005.

### Structure of the portfolio of companies carrying out activity of life insurance as of 31 Dec., 2006



The **paid up claims** by the insurers carrying out activity of life insurance in 2006 amounted at BGN 68,063 thousand. In comparison with year 2005 a growth of 38.17% was marked as a result mainly of the increase of the sums paid in Life Insurance by 42.26% and in Unit-linked Life Insurance by 78.97%, or respectively with BGN 14,633 thousand and with BGN 2,022 thousand in absolute value. By way of comparison, in 2005 the growth of the paid out claims in Life Insurance came to 35.39%, and in Unit-linked Life Insurance – to 12.97%.

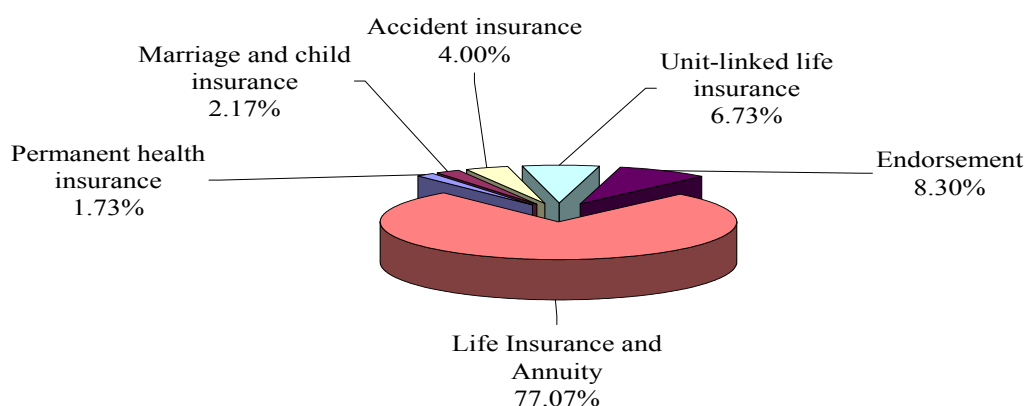
The reported growth in the amount of the paid up claims in 2006 under Endorsement (supplementary insurance) and under Accident Insurance were calculated respectively as 22.88% and 54.62%, while for 2005 the growth in these insurances was negative and amounted respectively at (-1.14%) and (-0.17%).

Reduction in the amount of the paid up claims on annual basis was recorded in Permanent Health Insurance and Marriage and Child Insurance, respectively by (-11.44%) and (-3.39%).

In the overall structure of the paid up claims, largest percent continued to occupy insurance Life and Annuity – 77.07%, followed by Endorsement – 8.3% and Unit-linked Life Insurance – 6.73%.

Detailed information about the claims paid by every insurer, offering life insurance services, may be found in *Appendix 13.2.2*

#### **Structure of the paid up claims by companies carrying out activity of life insurance as of 31 Dec., 2006**

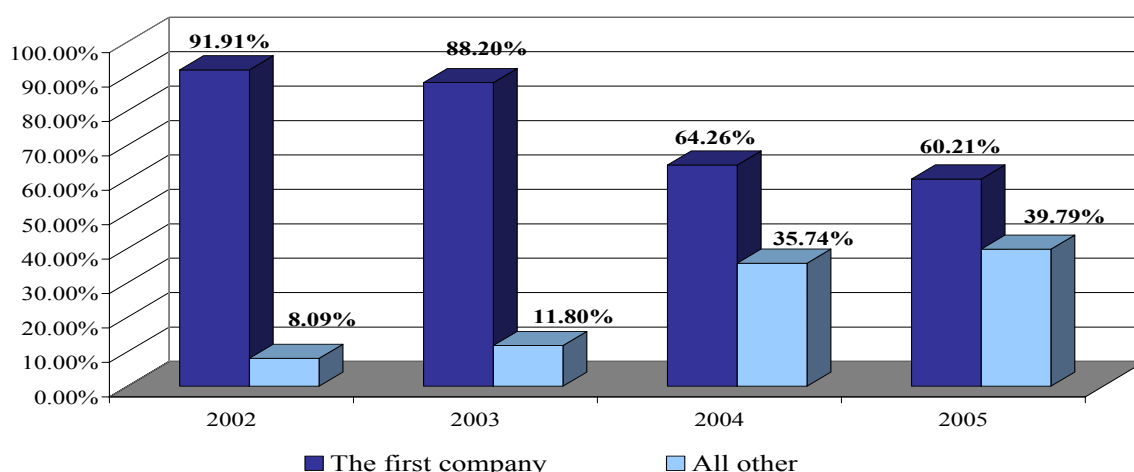


#### **Voluntary Health Insurance**

In the last two years the market of health services expanded, a tendency being observed towards increase in the number of the voluntary health insurance companies. In 2006 the FSC issued one new license to Health Insurance Company Vseotdainost AD to carry out activity of voluntary health insurance. Thus the participants on the market of voluntary health insurance became 13.

The realized during the period premium income amounted at BGN 22,620 thousand, whereby a 27.17% growth on annual basis was registered. For comparison, in 2005 this growth was 52.8%, thus a fall by 25.6 percentage points was reported. During the reviewed period in four of the health insurance companies a decline was noted in the premium income growth – on the average by 45%. The accounted by every company premium income, as well as the relevant market share are given in *Appendix 13.2.3*.

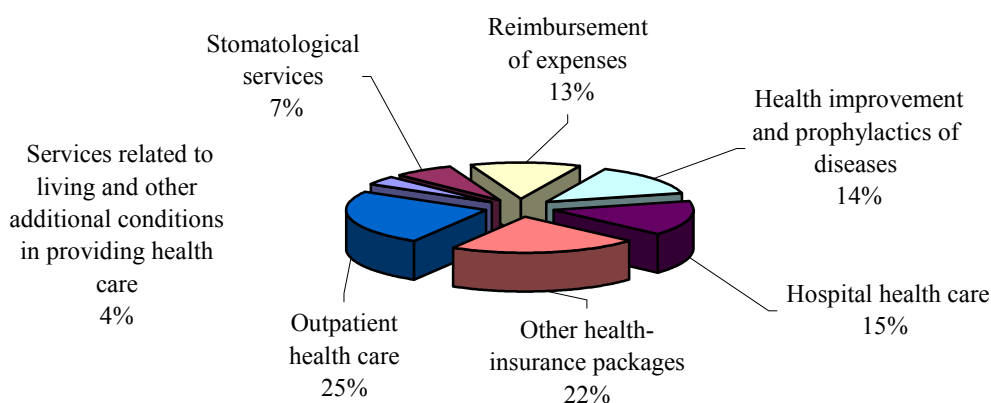
### Market concentration in voluntary health insurance



In the voluntary health insurance gradual reducing was observed of the market concentration, which was a consequence of the appearance of new participants on the market.

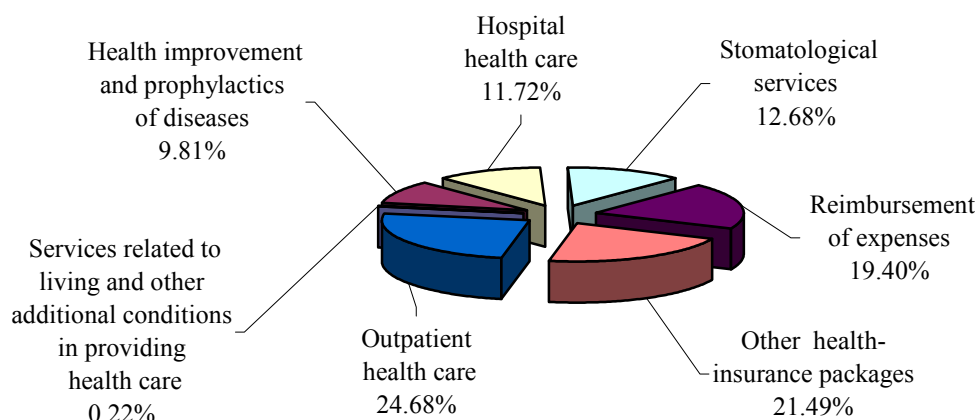
The structure of the health insurance companies' portfolio was relatively symmetrical, without significantly predominating percentages of the health insurance packages. There was no special difference in the portfolio's structure in comparison with 2005. Biggest percentage continued to occupy packages Outpatient Health Care (25%), Other Health Insurance Packages (22%) and Hospital Health Care (15%). With most of a half of the types of health care packages there was a slow down of the growth rate compared with the previous accounting year. Most significant was the decline in Outpatient Health Care and Other Health Insurance Packages.

### Structure of the health insurance companies' portfolio



The **paid up claims** by the health insurance companies in 2006 amounted to BGN 12,599 thousand and registered a 31.86% growth on an annual basis. Here, as with the premium income, a slow down was observed of the growth rate in the paid up sums in the voluntary health insurance in comparison with the past reporting period, when it was 69%. Substantial decrease in the growth of the paid up claims in comparison with year 2005 was reported with the health insurance packages Health Improvement and Prophylactics of Diseases and Other Health Insurance Packages.

### Structure of the paid up claims of the health insurance companies in 2006



The structure of the paid up claims were similar to the structure of the realized premium income. A major share (70.18%) of the total amount of the paid up claims was taken up by the first company – Generali Zakrila Health Insurance AD. Its percent did not undergo a substantial change compared with the preceding period.

The comparison of the paid up claims under voluntary health insurance in 2006 and 2005 shows that their structure was not changed. Biggest percent occupies the package Outpatient Health Care – 24.68%, followed by Other Health Insurance Packages (21.49%) and Reimbursement of expenses (19.40%).

### 13.2.2 Reinsurance

#### Outward Reinsurance

The premiums ceded in non-life insurance during the period amounted at BGN 223,084 thousand, which represented 21.03% of the gross premium income realized in the sector. The self-retention rate of insurance companies, pursuing non-life insurance was 0.79.

#### Self-retention rate of non-life insurance companies in 2006

<i>Insurer</i>	<i>Gross Premium Income</i>	<i>Premiums ceded to the reinsurer</i>	<i>Self-retention rate</i>
ZD Bul Ins AD	125,014	776	0.99
HDI ZAD	9,981	279	0.97
ZAD Victoria	21,052	1,474	0.93
Insurance and Reinsurance Company Vitosha AD	66,400	6,093	0.91
Insurance joint-stock company Armeec AD	57,889	5,792	0.90
DZI – Non-life Insurance AD	186,679	19,457	0.90
QBE International Insurance Limited – Branch Sofia	10,754	1,584	0.85
Insurance Company Evro Ins AD	52,685	10,650	0.80
ZPAD Bulstrad AD	148,633	39,171	0.74
ZPAD Allianz Bulgaria AD	140,885	39,723	0.72
ZAD ZK Lev Ins AD	67,011	19,484	0.71
ZK DSK Garancia AD	2,383	712	0.70
ZAD Energia	46,544	14,187	0.70
Bulgarian Export Insurance Company AD	2,282	713	0.69
Municipal Insurance Company AD	7,397	2,581	0.65

Insurance Company Bulgarski Imoti AD	29,789	10,681	0.64
UBB-AIG ZPD AD	12	5	0.59
Generali Insurance AD	60,440	30,991	0.49
AIG Bulgaria Insurance and Re-insurance Company EAD	16,620	12,189	0.27
Interamerican Bulgaria ZAD	8,318	6,542	0.21
Cardif Non-Life Insurance - Bulgaria Branch	0	0	-
<b>TOTAL:</b>	<b>1,060,768</b>	<b>223,084</b>	<b>0.79</b>

In the structure of the ceded premiums to re-insurers by types of insurances with biggest share (between 50% and 100% of the gross premium income of the respective type of insurance) were the insurances Aircrafts Insurance, Third Party Liability Insurance related to the possession and use of aircrafts, Vessels Insurance, Third Party Liability Insurance related to the possession and use of vessels and Suretyship Insurance.

During the reviewed period the tendency continued of significant decline of the ceded premiums of the Insurance of Land Vehicles, Excluding Railway Rolling Stock. For 2006 it was 4.29%, against 16.50% for 2005. The premiums ceded to re-insurers under the Green Card insurance were 23.34% of the premium income of that insurance, and under Third Party Liability Insurance of Motorists – 11.52%.

The indemnities reimbursed under reinsurance contracts came to BGN 43,380 thousand which accounted for 11.93% of the paid in 2006 indemnities in non-life insurance.

The ceded to re-insurers premiums by the life insurance companies were BGN 4,286 thousand or 2.30% of the gross premium income in the sector. The share of re-insurance with the life insurance companies remained relatively low, the self-retention rate being 0.98.

#### Self-retention rate of life insurance companies in 2006

<i>Insurer</i>	<i>Gross premium income</i>	<i>Ceded premiums to re-insurers</i>	<i>Self-retention rate</i>
VZK Dobrudja-M-Life	812	0	1.00
Syndical Mutual Insurance Co-operative Society	2,629	0	1.00
Life Insurance Institute AD	27	0	1.00
JZK DSK Garancia AD	4,750	0	1.00
ING Life Insurance – Sofia Branch	214	1	1.00
JZK Bulgarski Imoty AD	3,447	27	0.99
DZI AD	55,075	565	0.99
ZK Vitosha – Life AD	15,818	183	0.99
ZAD Allianz Bulgaria Life AD	45,330	735	0.98
Generali Life Insurance AD	17,716	482	0.97
Grave Bulgaria Life Insurance AD	10,516	434	0.96
ZAD Bulstrad Life AD	13,472	685	0.95
AIG Life Bulgaria JZD EAD	15,980	1,022	0.94
UBB – AIG Life Insurance Company AD	395	152	0.62
Cardif Life Insurance AD – Bulgaria Branch	0	0	0.00
<b>TOTAL</b>	<b>186,181</b>	<b>4,286</b>	<b>0.98</b>

In the structure of the ceded premiums to re-insurers by types of insurances. with biggest share were: risk Life Insurance /with covered only mortality risk/. Supplementary Insurance. Permanent Health Insurance and Accident.

The reimbursed indemnities under re-insurance contracts amounted to BGN 1,096 thousand which accounted for 1.61% of the paid up in 2006 claims of life insurance.

### Inward Reinsurance

Nine insurance companies pursued inward insurance in 2006. From them eight were in the field of non-life insurance and one in life insurance. The total amount of the received premiums from cedents amounted at BGN 16,416 thousand. from which BGN 1,155 thousand were by life insurance cedents.

In the field of non-life insurance a major share in the activity of inward reinsurance in 2006 was taken up by the risks associated with insurance Fire and Natural Perils. The premiums received from cedents under that insurance accounted for 86.14% of the total amount of the received premiums of inward reinsurance. Next ranked insurance Property Damage – 5.37%. Land Vehicles. excl. Railway Rolling Stock – 2.72% and Aircrafts Insurance – 2.54%.

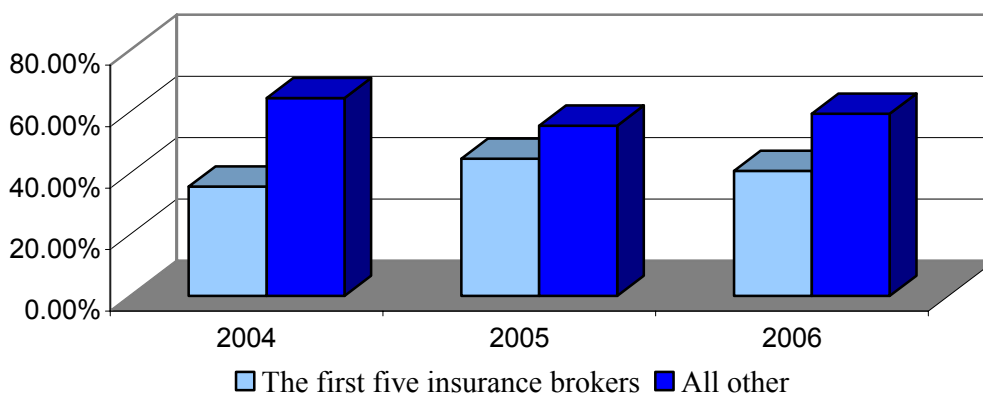
The commission fees paid to cedents in non-life insurance amounted to BGN 2,630 thousand. The indemnities paid to cedents in non-life insurance were at the amount of BGN 1,054 thousand. the biggest being the share of insurance Property Damage – 48.86%. Next ranked insurance Fire and Natural Perils – 22.91%. Third Party Liability Insurance related to the possession and use of motor vehicles – 16.19% and insurance Land Vehicles. excl. Railway Rolling Stock – 12.02% of the total amount of the paid indemnities under contracts. subject of inward reinsurance.

In the field of life insurance. the inward reinsurance activity was realized by assuming risks only of Accident insurance. The paid commission fees to cedents under that insurance amounted to BGN 116 thousand. and the paid indemnities – BGN 45 thousand.

### 13.2.3. Premium Income Realized Through the Insurance Brokers

At the end of 2006 activity of insurance intermediation was carried out by 215 insurance brokers. The realized through them **premium income** during the reviewed period (on the basis of filed 197 reports) amounted to BGN 297,156 thousand. or 23.8% of the gross premium income from insurance. From them BGN 243,464 thousand (82%) were realized in non-life insurance and BGN 53,692 thousand (18%) in life insurance. The revenues from commissions were calculated at BGN 59,949 thousand. The tendency of the past accounting period for increase in the growth was retained. The aggregate premium income realized through the brokers reached a 56.4% growth on a year-to-year basis. and the revenues from commissions also increased almost two-fold their growth – 64.6%. In 2006 activity of insurance intermediation was also carried out by over 31,000 insurance agents.

**Market concentration in the insurance intermediation**



In 2006 as in the last reporting period. largest market share among the insurance brokers occupied the insurance brokers Eurolife Bulgaria EOOD with 12.6% and Marsh

EOOD with 11.6%. The premium income in the insurance intermediation was realized mainly by five larger brokers /with a market share of over 5%/ - Eurolife Bulgaria EOOD. Marsh EOOD. AON Bulgaria EOOD. ING Insurance Brokers OOD and Pfoe Agency EOOD. their aggregate share being 40.53%. For comparison. last year that rate was 44.6%. The amount of the paid commissions during the reviewed period. as a percent of the underwritten premiums. was 20.17%.

A major part of the insurance intermediation in non-life insurance was carried out in insurances Land Vehicles. excl. Railway Rolling Stock (46.75%). Third Party Liability Insurance of Motorists (18.86%). insurance Property Damage (13.27%) and Fire and Natural Perils (7.46%). With the insurance intermediation in life insurance. the premium income was mainly in insurance Life and Annuity (93.87%).

#### **13.2.4. Financial Condition of the Guarantee Fund**

On the basis of the 2006 annual activity report. the following tendencies were established in the Guarantee Fund's financial situation:

The revenues from contributions by insurers amounted at BGN 4 199 thousand and climbed by 50.66% in comparison with the preceding reporting period. This growth was due in part to Decision № 1122-GF of 20 November. 2006. promulgated in State Gazette. iss. 100 from 12 December. 2006 whereby the amount of the contribution by the insures of the obligatory Third Party Liability Insurance of Motor Vehicles was fixed as BGN 10 for each insured motor vehicles. This considerable increase in the amount of the contribution (before the effectuation of this decision it was BGN 2.30 per each insured motor vehicle) aimed at improving the Fund's financial stability. The increased amount of the contribution covers the financing of the Information Center and the 2007 reinsurance program of the Guarantee Fund.

The expenses for indemnities marked a growth of 43.06% in comparison with the previous year and reached BGN 1 608 thousand. including BGN 438 thousand for property and BGN 1 170 thousand for non-material damages.

#### **Main balance sheet indicators of the Guarantee Fund**

<b>Indicators</b>	<b>2006 (BGN thou)</b>	<b>2005 (BGN thou)</b>
Asset sum	10,478	8,814
Own funds*	10,409	7,852
Outstanding claims reserve	2,510	1,967
Financial result	2,014	1,891

\*The amount of the own funds. indicated on the Guarantee Fund's balance covers also the Outstanding claims reserves

The resources of the Guarantee Fund. formed by contributions of the insurers carrying out obligatory insurance. from fines and property sanctions. from investments. etc. were at the amount of BGN 8,635 thousand. Reduced by the sum of the outstanding claims reserve at the amount of BGN 2,510 thousand. they came to BGN 6,125 thousand. The amount of the funds at disposal met the requirement according Art. 287. para 1 of the IC. pursuant to which their minimal amount was fixed as BGN 3,000 thousand.

The Fund's investment policy was developed in compliance with the Insurance Code and the Rules on the Guarantee Fund's Structure and Operation. At 31 Dec 2006 the resources of the Guarantee Fund were allocated as follows:

## Allocation of the Guarantee Fund's Resources as of 31 Dec 2006

		Amount (BGN thou)	Invested funds (%)
<b>I.</b>	<b>Investments of the GF</b>	<b>8,546</b>	<b>98.97%</b>
1	Government securities	2,740	31.73%
2	Corporate bonds (qualified)	290	3.36%
3	Corporate bond (non-qualified)	1,448	16.77%
4	Mortgage bonds	295	3.42%
5	Shares	179	2.07%
6	Investments in units and shares of investment funds	100	1.16%
7	Bank deposits	3,494	40.46%
<b>II.</b>	<b>Cash on current accounts</b>	<b>89</b>	
	<b>Resources of the Fund</b>	<b>8,635</b>	

The total amount of the invested funds amounted to BGN 8,546 thousand. from which highest was the share of bank deposits – 40.88%. next came investments in government securities – 32.06%. A substantial increase was registered of the amount of invested funds compared with the preceding reporting period – by 62.66%. The realized in 2006 revenues from interests at the amount of BGN 377 thousand also marked a growth of 28.67% compared with the previous year (BGN 293 thousand).

## 14. Supplementary Pension Insurance

### 14.1. Development of the Market of Supplementary Pension Insurance in 2006.

The non-banking financial intermediation attains increasingly greater importance for the development of the financial markets and economy. As a major element of it, the field of the supplementary pension insurance has marked a stable for the last five years growth of the managed by the pension insurance companies assets. As of 31 Dec., 2006 the balance sheet assets of the pension funds reached BGN 1,522,396 thousand, whereby they realized a 36.24% growth on a year-to-year basis. The net assets of the supplementary pension insurance funds amounted at BGN 1,517,412 thousand and as a percent of the GDP for the reporting period they were 3.09% compared with 2.60% for year 2005.

The movement of the socio-economic indicators which have influence over the development of the supplementary pension insurance was favorable. According data of the National Statistical Institute (NSI), the 2006 average annual level of unemployment declined by 1.1 percentage points, reaching 9% of the country's labor force. The total income on the average per person increased, and according NSI data during the reviewed period it came to BGN 2,851 against BGN 2,031 in 2005. Simultaneously, the share of the salary in the total income on average per person grew, reaching 46% against 43.6% in 2005.

At the end of 2006 activity of supplementary pension insurance was carried out by 8 companies. Each company managed three pension funds: two supplementary obligatory pension insurance funds and one voluntary pension insurance fund. During the reviewed period a license to carry out activity of supplementary pension insurance was granted to one new company, but in the end of December, 2006 it still did not manage pension funds. In *Appendix 14.1A* are given the own funds, balance sheet assets of pension insurance

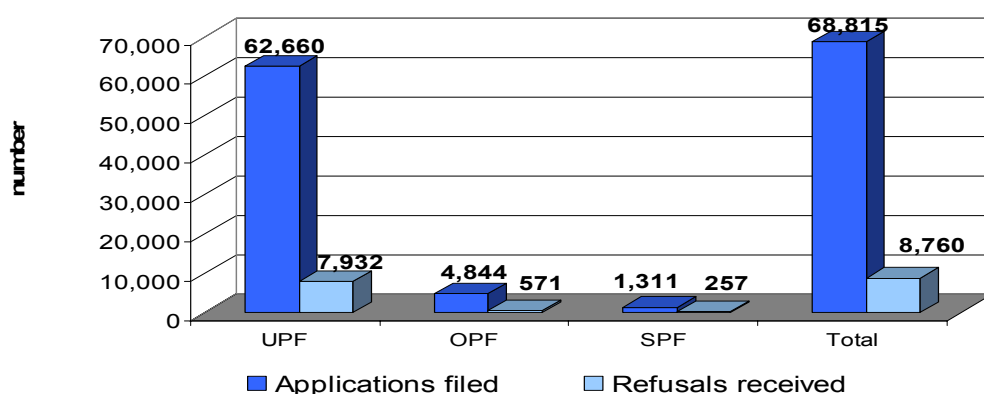
companies (PICs), the balance sheet assets and the number of insured persons in the supplementary pension insurance funds.

The characteristically high concentration of the market of supplementary pension insurance was retained – two of the companies held over 50% share in the sector's net assets (65.20%) and over 50% share in the number of persons, who chose supplementary pension insurance (62.32%). Even though slightly, the market concentration decreased compared with the end of 2005 – the total market share of the two biggest companies on net asset basis dropped by 2.24 percentage points and by 1.01 percentage points according to the number of insured persons.

The considerable foreign participation on the market of supplementary pension insurance was retained. *Appendix 14.1B* presents the major shareholders in the capital of the pension insurance companies, a large part of which are directly or indirectly ownership of foreign investors.

In 2006 the process of switching of participation and transfer of funds in the supplementary pension insurance funds diminished its intensity as compared with the preceding two years. For the period January – December, 2006 the number of the filed applications for switching of participation and transfer of funds came to 68,815 against 95,502 for 2005 and 134,032 for 2004. From the filed during the period applications, 12.73% were given denial.

**Number of filed applications for switching of participation and transfer of funds from the supplementary pension insurance funds in 2006**



The share of the applications filed in the universal pension funds was largest. The proportionately biggest share of the insured persons in the field of supplementary pension insurance was also in these funds.

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

	UPF		OPF		VPF		Total	
	2005	2006	2005	2006	2005	2006	2005	2006
Average number of insured persons	2,122,144	2,341,106	179,326	187,660	542,634	557,816	2,844,104	3,086,582
Total number of persons which switched their	59,987	55,584	6,810	4,521	2,128	1,031	68,925	61,136

participation								
Percentage of the persons who switched their participation (%)	2.83	2.37	3.80	2.41	0.39	0.18	2.42	1.98
Average amount of net assets for the period (BGN thousand.)	350,985	574,371	227,072	283,802	371,712	456,594	949,769	1,314,767
Total amount of the transferred amounts for the period (BGN thousand.)	10,925	14,101	12,100	8,596	2,643	1,682	25,668	24,379
Percentage of the transferred amounts (%)	3.11	2.46	5.33	3.03	0.71	0.37	2.70	1.85

The process of **switching of participation or transfer of funds** between the supplementary pension insurance funds diminished its intensity compared with the preceding 2 years. The number of the insured persons who switched participation or transferred amounts during the period decreased with 7,789 persons or by 11.3% compared with 2005. Respectively, the total amount of the transferred funds for the year also decreased. At the end of 2006 they reached BGN 24,379 thousand. Their value compared with the preceding year dropped by 5.02% or BGN 1,289 thousand.

## 14.2. Analysis of the Participants on the Market of Provision of Supplementary Pension Insurance Services

On the basis of the presented on a daily basis at the FSC information by PICs and the custodian banks, as well as by inspection and analysis of the monthly and annual financial statements and checkup on the activities of PICs SPIFs, filed with the FSC, monitoring and regular assessment have been carried out of the situation of the pension insurance companies and the results of the management of the supplementary pension insurance funds. The levels of all statutorily set indicators (capital adequacy, liquidity, etc.) are considered and indicative indicators, related to the capital, to the incomes and expenses of PIC and to the investment of the pension funds' assets, by which separate aspects are assessed of the operation of PICs and the managed by them funds and comparative analysis is conducted both for any individual company in dynamics, and among the separate companies within a definite time period. In the analysis of the general financial and economic indicators, characterizing the condition of the companies and the managed by them pension funds, risks are identified arising in the individual companies, as well as on the social insurance market or of the financial markets as a whole. The accumulation of information about the PICs operation for a longer period of time allows the outlining of tendencies and will serve as basis for determining the PIC's risk profile and a transition to risk-based supervision and prudential control.

### 14.2.1. Pension Insurance Companies

The values of the **statutory and indicative indicators** for assessment of the results of PIC's operation at the end of 2006 in comparison with those at the end of 2005 are given in *Appendix 14.2.1*.

PICs maintained a comparatively high level of **capital adequacy**. The average rate of the indicator as of 31 Dec., 2006 was 122.42%, with statutorily set rate of not less than 50 per

cent of the minimal capital, varying by companies between 52.34% and 177.04%, with the exception of one PIC, whose capital adequacy was 249.64%. In comparison with the previous year a growth of the indicator's average value was registered from 94.91 % as of 31 Dec., 2005 to 122.42 % on 31 Dec., 2006. The increase in the capital adequacy to a considerable extent was a result of the realized during the year higher profits by the companies. The value of the indicator of the licensed in 2006 PIC Toplina AD was also included in the calculation of its average value.

The minimal **liquidity funds** of PIC and the managed SPIF considerably exceed the statutorily regulated minimal amount. In the calculation of the average value of the indicator liquidity of PIC was also included the value of the indicator of the licensed in 2006 PIC Toplina AD.

The amount of the set aside, using PICs resources, reserves for guaranteeing the minimal rate of return in the supplementary obligatory pension insurance funds was in consistence with the legal regulations, and the funds from the reserves were invested according the statutorily established procedure. The valuation of assets in which the reserve funds were invested was in compliance with the statutory requirements. In October, 2006 SOPIFs, managed by one PIC set aside a reserve for guaranteeing the minimal rate of return, as the achieved by them rate of return was higher than the declared upper limit of the rate of return for the relevant fund in the 24-month period from 30 Sept., 2004 to 29 Sept., 2006.

In 2006 one PIC increased its authorized capital stock with BGN 10 thousand and formed a reserve from a positive premium of issued shares at the amount of BGN 3,290 thousand. At the same time, the degree of **cover of the authorized capital** for most of the companies was within the limits between 24.41% - 164.82%, with the exception of one PIC, whose own funds covered 259.36% of the authorized. The average value of the indicator for 2006 was 109.56% compared with 86.13% for year 2005, i. e. The degree of cover of the authorized capital surged up. The increase of the indicator's value was due to the substantial rise of its value in three PICs, which was as a result of growth of the reported profit for the year, and in one PIC – increase of the authorized capital stock and the received premium on issued shares. In the calculation of the average value of the indicator, that of the licensed in 2006 PIC Toplina AD also participated.

Seven companies reported operating profit from their activities in 2006. Two PICs realized loss from the operation, on account of which **the return on their capital** was with negative value. The highest return on the capital was 49.25%, and the lowest (-27.08%). The average value of the indicator return on equity in 2006 was 12.93% against 1.52% for 2005, i.e. increase in the return was noticed. The increase in the indicator's value was due to considerable increase of its value in three PICs, as a result of the growth of the accounted profit for the year, and in one of the PICs – increase of the authorized capital stock and received premium on issued shares. In the calculation of the average value of the indicator, that of the licensed in 2006 PIC Toplina AD also participated

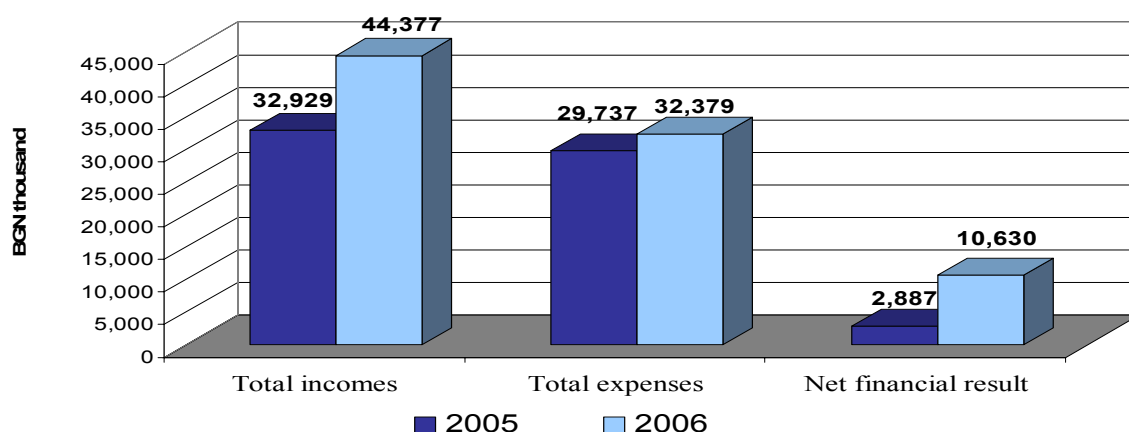
The extent of **cover of the assets** of the managed SPIFs for most of the companies was within the limits between 2.26% - 8.29%, except for two PICs, whose assets covered respectively 23.30% and 32.56% of the managed fund's assets. The average value of the indicator as of 31 Dec., 2006 was 10.43% compared with 13.34% on 31 Dec., 2005, i. e. decrease of the extent of cover of the assets in the managed SPIFs, which was due to the higher rate of growth of the fund's assets in comparison with the PIC's assets.

Because of the positive operating financial result of the activities in 2006, seven PICs had a positive **return on assets**, and only two – negative, which was as a result of registered loss for the year. The average value of the indicator as of 31 Dec., 2006 was 10.64% compared with 1.48% for 2005. Growth of the return was noticed which was due to a substantial increase of the indicator's value with three PICs as a result of growth of the

reported profit for the year and increase in the assets. The lowest return was (–19.80%), and the highest 38.52%. In the calculation of the average value of the indicator, also that of the licensed in 2006 PIC Toplina AD participated.

For the year seven PICs had a positive value of the indicator **asset growth** of PIC, and one – negative. The average value of the indicator was 41.26% compared with 9.51% for year 2005. The indicator's value climbed as a result of the fastest rates of growth of the PICs assets in 2006 in comparison with 2005. With respect to the individual companies the indicator asset growth was within the limits between (-6.92%) and 65.63%, save for one PIC whose asset growth was 146.48%.

#### Financial indicators of the pension insurance companies



In 2006 the **total revenues** of the pension insurance companies edged up by 34.76%, compared with those accounted for in the preceding year. The ratio between revenues from fees and deductions and the revenues from management of own funds became more balanced. Nevertheless, the share of *revenues from fees and deductions* remained predominant (72.28%). The indicator's value picked up by 24.85% compared that of the previous year, reaching BGN 32,074 thousand. To that contributed both the higher receipts from pension insurance contributions as a result of the increased number of insured persons, and the increased revenues from investment fee, as a result of the high rate of return, realized in the management of the pension fund' assets.

In comparison with 2005 the **PICs revenues from fees and deductions per one participant** in the pension funds climbed. The average value in 2006 came to BGN 9.87 compared with BGN 8.11 for the preceding year. The revenues of all companies from fees and deductions in 2006 rose at higher rate than the participants in the managed SPIFs, on account of which the indicator also increased. The indicator's value for the separate companies was within the limits between BGN 7.68 and BGN 11.78.

The **revenues from fees and deductions per BGN 100 assets** of the funds as of 31 Dec., 2006 were between BGN 1.83 and BGN 2.91. The average value of the indicator amounted to BGN 2.32 against BGN 2.44 in 2005. The indicator's value in all companies, save for one PIC, declined due to asset increase at rate which outstripped the growth rate of the revenues from fees and deductions.

More significant was the growth of the other components of PIC's total revenues, namely *revenues from own funds management*. Their amount at the end of 2006 came to BGN 12,303 thousand, thus marking a growth of 69.95% in comparison with the preceding year. In the last three years the share of the revenues from own funds management in the PICs total revenues picked up from 19.17% for year 2004 to 21.98% for 2005 and in 2006 reached 27.72%.

PICs carrying out activity in 2006 made **total expenses**, amounting to BGN 32,379 thousand. This value marked a growth on yearly basis of 8.88%, which was considerably lower growth than that of the revenues. Unlike the previous reporting periods, in 2006 the revenues from fees and deductions covered almost the whole total of the expenses for all companies.

**The expenses for the PIC operation per one participant** in the managed pension funds as of 31 Dec., 2006 were between BGN 6.07 and BGN 14.42. The average value of the indicator amounted to BGN 8.89 compared with 9.98 in 2005. With respect to the separate companies, the indicator's value for all companies, except for one, decreased.

**The expenses for the operation per BGN 100 assets** of the funds as of 31 Dec., 2006 were between BGN 0.99 and BGN 3.84. The indicator's average value amounted to BGN 2.14 compared with BGN 3.25 in 2005. The indicator's value for all companies declined because of asset growth at a rate which outpaced the rate of expenses growth.

**Total net financial result** of the nine licensed companies, pursuing business of supplementary pension insurance for the period year 2006 reached BGN 10,630 thousand, whereby it marked a considerable growth of 268.2% on annual basis. An indicator of that was the strongly outpacing revenues growth compared to that of the companies' expenses. Seven of the pension insurance companies closed the period with a positive net financial result, compared with year 2005 when five of the companies closed at a profit. The factors which contributed to the improvement of the financial result were the increased revenues from fees and deductions, from the 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 PIC's operating **efficiency** was 120.42%, a certain growth being observed in comparison with the preceding year, owing to the higher rate of revenues growth in comparison with the expenses (with five PICs a major source of profit was the growth of revenues from fees and deductions, and with two PICs considerable revenues were recorded from own funds management). The indicator's value for the separate companies is within the limits between 81.50% and 215.50%, with the exception of one company whose operating efficiency was 1.10%. In the calculation of the indicator's average value was also included that of the licensed in 2006 PIC Toplina AD.

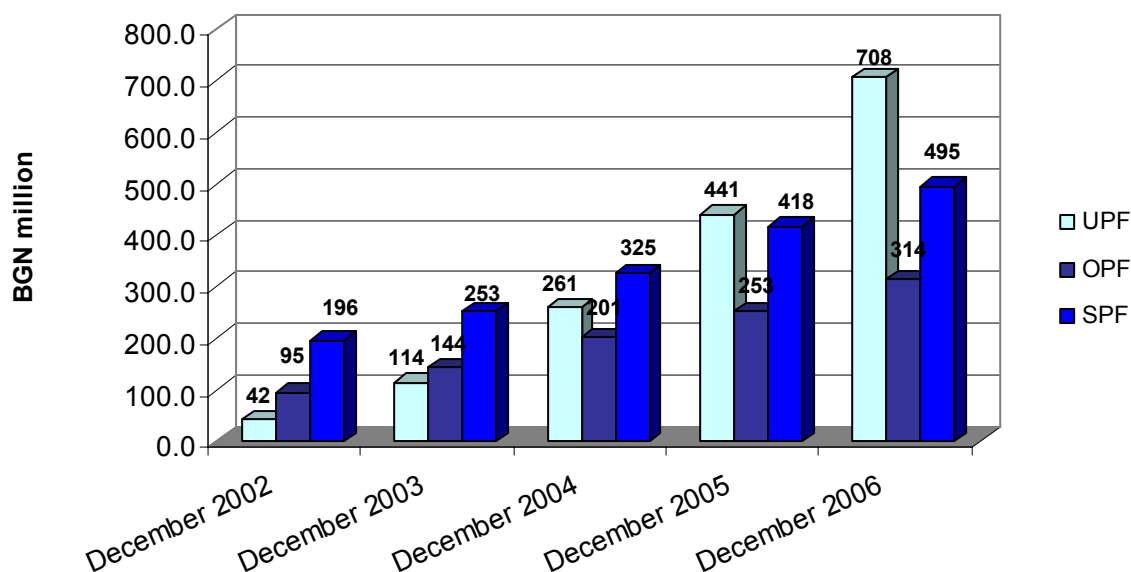
In the control of the PICs operation in 2006, no deviations were established from the statutory requirements in relation to the amount of the obligatory **fees, deducted by the supplementary voluntary pension insurance funds /SVPIF/** in favor of PIC. The fees deducted in the SVPIFs were lower than the statutorily set maximum amounts – the average amount of the initiation fee for opening an individual account was BGN 9.53, with statutorily fixed amount of not more than BGN 10, and the average rate of deductions from the pension contributions came to 3.88%, with legally fixed fee up to 7%.

The compliance of the average size of the **management fees and investment fees** of the supplementary obligatory pension insurance funds /SOPIF/ with the statutory requirements were controlled on the basis of the daily information, submitted electronically by PICs at the FSC. In the exercising of supervision over the PICs activities in 2006, no deviations were found from the statutory requirements in relation to the rate of the obligatory fees deducted by the SOPIFs in favor of PIC.

#### 14.2.2. Supplementary Pension Insurance Funds

As a result of the revenues from pension insurance contributions and the realized positive rate of return from the resources investment, the amount of net assets accumulated in the supplementary pension insurance funds, increased and reached the total amount of BGN 1,517,412 thousand. This amount marked a 36.44% growth on year-to-year basis.

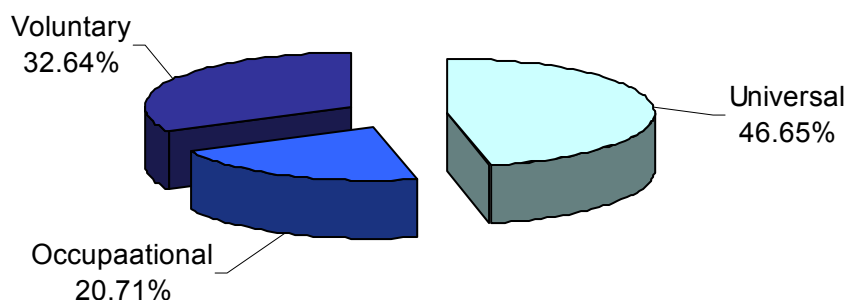
### Dynamics of the net asset distribution by funds



Most significant was the **net asset growth** of the universal funds, whose amount reached BGN 707,898 thousand in the end of 2006 and marked a 60.58% growth on annual basis. The high growth rate was due to increase in the number of insured persons in this type of funds, the achieved high rate of return of the asset management, as well as the increase of the revenues from pension insurance contributions, related to the large number of insured persons in these funds.

In comparison with the preceding year with the three types of SPIFs a decline was noticed in the value of indicator balance sheet asset growth, respectively for UPF from 68.07% in 2005 to 60.69% for 2006, for the occupational pension funds from 24.40% to 23.34%, and for the voluntary pension funds from 28.87% to 18.38%.

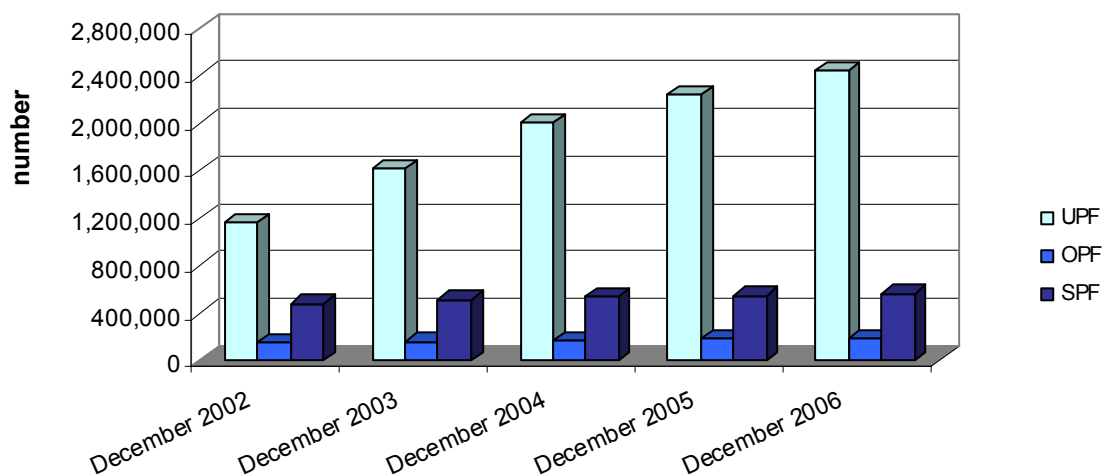
### Distribution of the net assets among the supplementary pension funds as of 31 Dec., 2006



In 2006 the universal pension funds retained their predominant share in the **total net assets value of SPIFs**. Their share even grew compared with those of the preceding year, when for the first time the universal funds assets exceeded the voluntary funds net assets. This growth was both on the account of the share of the voluntary, and of the professional funds.

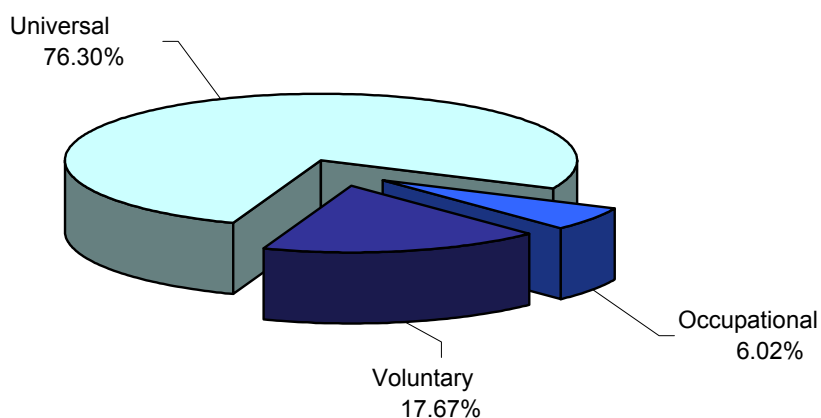
**The Number of persons insured in supplementary pension insurance funds** at the end of 2006 reached 3,201,326 persons, thus marking a 7.72% growth on annual basis. With the OPF and VPF the growth of the insured persons during the reporting period marked a rise in comparison with 2005 – with the occupational from 3.58% to 5.68% and with the voluntary from 2.70% to 2.90%. With the universal funds the growth of the insured persons during the reviewed year marked a decline in comparison with 2005 – from 11.71% for year 2005 to 9.07% for year 2006.

**Dynamics in the distribution of the insured persons among funds**



The structure of the insured persons' distribution among the supplementary pension insurance funds was retained comparatively unchanged in comparison with the preceding year. Biggest part of the insured person were concentrated in the universal pension funds, where 2,442,701 persons (76.30%) were insured, and the number of persons insured in voluntary and occupational pension funds came to 192,843 persons and 565,782 persons accordingly.

**Distribution of the insured persons among the supplementary pension insurance funds as of 31 Dec., 2006**



With all three types of SPIFs during the reporting year the asset growth considerably outstripped the growth of the number of participants. As a result of it, **the average amount**

**of the managed assets per one participant** in SPIF increased for the three types of funds. Most substantial was the increase in the growth rate of this indicator for the universal pension funds. At the end of 2006 the indicator's value was BGN 269.92 and marked a 50.60% growth on annual basis. Because of the higher amount of contributions in the occupational pension funds in comparison with the universal pension funds (12% of the gross remuneration for first category of labor and 7% for second category of labor), the average amount of the managed assets per one participant was considerably higher. At the end of 2006 the indicator's value amounted at BGN 1,350.72 and realized a 18% growth on annual basis. The average amount of the accumulated moneys per participant in the voluntary pension funds at the end of the reviewed period was BGN 936.38. That value marked a 17.25% growth on an annual basis. Deviations by companies were noticed from the average levels – in the UPF the managed assets per one participant were between BGN 177.57 and BGN 319.21, in OPF – between BGN 571.02 and BGN 1,887.40 and in VPF – between BGN 410.55 and BGN 1,672.04. The average values of the indicator for the individual PICs were within the limits between BGN 468.28 and BGN 1,083.88.

**The revenues from insurance contributions** of the supplementary pension insurance funds picked up in comparison with those for the preceding year. The indicator's value for 2006 amounted at BGN 392,288 thousand and marked a 27.28% growth on an annual basis. Most substantial was the growth of the revenues from insurance contributions in the universal pension funds, their amount for 2006 reaching BGN 236,831 thousand and realized a 42.80% growth compared with 2005. The revenues from insurance contributions in the occupational pension funds at the end of 2006 were BGN 52,121 thousand. They increased by 11.03% in comparison with the previous year.

The revenues from insurance contributions in the voluntary pension funds for the reporting period reached BGN 103,336 thousand and marked a 8.29% growth on annual basis. The outlined in 2005 structure of the contributions according the insurer was retained comparatively unaltered. A predominant share of already 59.87% were taken by the personal contributions, and the contributions by an employer fell to 38.97%. Smallest was the share of the contributions made by another insurer, which represented barely 1.16% of the revenues in supplementary pension funds.

The **rate of return** on annual basis for the last 24-month period, realized by the supplementary pension insurance funds, was higher than the base interest rate and the inflation levels for the same period. Thus a real growth was achieved of the pension savings of the persons, using supplementary pension insurance.

The supplementary obligatory pension insurance funds reached rate of return for the period exceeding the minimal levels of 5.06% for the occupational funds and 4.85% for the universal funds. At the same time, funds managed by two of the pension insurance companies, UPF and OPF Saglasie and UPF and VPF CCB Sila surpassed the upper limit of the rate of return for the period of 11.80% for the occupational funds and 11.31% for the universal funds and respectively had set aside reserve for ensuring minimum rate of return.

The achieved by the universal pension funds weighted average rate of return on annual basis for the period 1 Jan., 2004 – 29 Dec., 2006 was 8.08% where among the eight funds it took values between 5.66% and 13.25%. Three funds achieved rate of return exceeding the weighted average for the period – UPF Saglasie, UPF CCB – Sila and DZI – UPF.

The weighted average rate of return of the occupational pension funds on annual basis for the period 1 Jan., 2004 – 29 Dec., 2006 was 8.43%, varying for the eight funds between 5.92% and 12.45%. The same three PICs whose universal finds exceeded the weighted average rate of return for the period, achieved rate of return of their occupational funds, exceeding the weighted average rate of return for the period.

The rate of return of the eight voluntary pension funds on annual basis for the period 1 Jan., 2004 – 29 Dec., 2006 took up values between 6.77% and 11.96%. The weighted average rate of return for the period came to 8.35%, where the rate of return of five of the funds exceeded that value – SPF DSK Rodina, SPF Saglasie, SPF ING, SPF CCB Sila and DZI SPF.

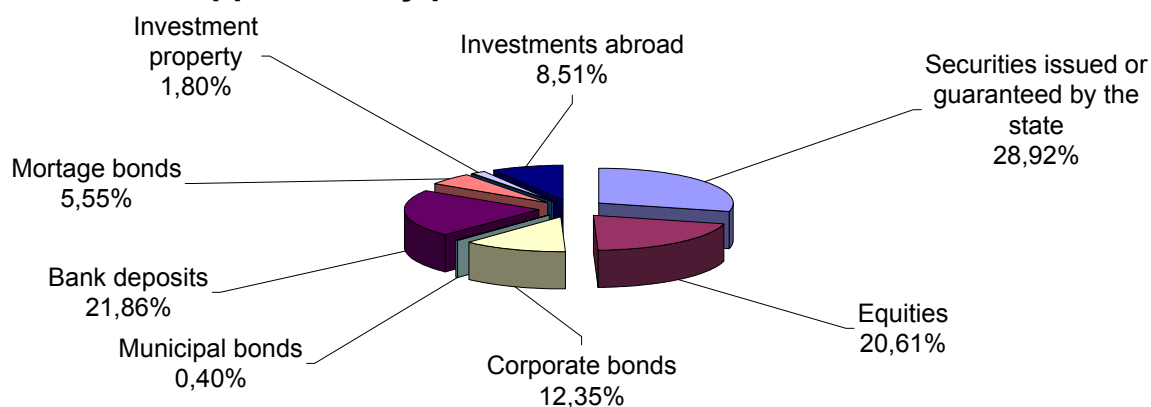
The total amount of the **investments** of the supplementary pension insurance funds at 31 Dec., 2006 was BGN 1,452,043 thousand. Their amount grew by 34.14% for the last 12 months which was due to the considerable increase of the accumulated by the pension funds assets. The invested moneys of the supplementary pension insurance funds formed 95.38% of the total amount of the balance sheet assets.

The universal pension funds retained their predominant share in the total amount of the supplementary pension insurance funds' investments. Their percentage at the end of 2006 was 45.97%. The invested moneys by the voluntary pension funds covered 32.94% of the total investments, and the occupational funds remained with 21.09% percentage in the moneys invested by SPIFs.

The structure of the investments of the supplementary pension insurance funds as of 31 Dec., 2006 is presented in *Appendix 13.2.2*.

The liberalization of the statutorily set investment limitations to the supplementary pension insurance funds, adopted with the amendments to the SIC, resulted in considerable alterations in the structure of the investment portfolio of the three type of funds, as well as of the aggregate investment portfolio.

### Strusture of the aggregate investmen portfolio of the supplementary pension funds as of 31 Dec 2006



The introduced amendments to the SIC, relating to the investment limits, had a significant effect on the percentage of SPIFs' investments in ***securities issued or guaranteed by the state***. The obligatory minimal share of 50% of the SPIFs resources which had to be held in government securities (GS) dropped off and the liberalization of the investment restrictions opened a very attractive opportunities for more full use of other investment alternatives and the funds held in the form of GS reduced their percentage almost in half. In the end of 2006 their percentage was only 28.92% compared with the rate of 51.72% at the end of 2005. Higher remained the percentages with the supplementary obligatory pension insurance funds (32.26% with the universal and 33.12% with the professional), and in the voluntary the percent shrank to 21.58% against 45.62% for the preceding year.

Simultaneously, as a result of the amendments to the SIC, concerning the investment alternatives of SPIFs, the percentage of the ***securities admitted to trading on regulated markets***, doubled compared with the end of 2005. The maximum percent of equities in the invested moneys of the obligatory pension funds climbed from 10% to 20%, and the

percentage of the moneys held in the form of corporate bonds picked up from 20% to 25%. New investment possibilities were also set up – the moneys of the SPIFs may be invested shares of special purpose vehicles (up to 5% of the obligatory funds' assets and up to 10% of the voluntary), as well as in securities issued by collective investment schemes (up to 15% of the obligatory funds' assets). As a result of these changes in the statutory investment limitations in relation to the SPIFs, the share of the funds held in the form of securities admitted to trading on regulated markets edged up from 17.09% in the end of 2005 to 32.96% in the end of 2006. The percentage of the shares grew more than two folds and reached 20.61%, and the rate of the corporate bonds reached 12.35%. Thus at the end of 2006 securities admitted to trading on regulated securities markets were first in size in the SPIFs aggregate portfolio and they displaced the government securities (GS) and bank deposits, the latter remaining in third position. At 31 Dec., 2006 the resources of the supplementary pension insurance funds, held in the form of **bank deposits**, represented 21.86% of the total investments and marked a growth in comparison with the same period of 2005 by 2.54 percentage points.

A significant growth in their percentage in comparison with 2005 was also registered by **investments abroad**. At the end of 2006 they formed 8.51% of the supplementary pension insurance funds, their rate being highest in the voluntary pension funds (10.14%). Compared with 2005 when the percentage of investments abroad was only 1.25%, the growth was over 6 folds.

More than two folds was also the increase in the percentage of the funds held in the form of **investment properties**. Nevertheless, their share of 1.80% remained considerably below the statutorily set threshold for those instruments, namely 5% for the obligatory funds, where the share remained even below 1%, and 10% for the voluntary funds.

The liberalization of the investment limitations with regard to the supplementary pension insurance funds' resources, introduced with the amendments to the SIC in 2006, resulted in redistribution of the percents of the different investment instruments, the growth in some instruments being connected with decline in others.

The resources of the supplementary pension insurance funds invested in **mortgage bonds**, decreased as an absolute value, as well as a percentage in the aggregate investment portfolio. At the end of 2006 only 5.55% of the supplementary pension insurance funds' assets were held in the form of mortgage bonds, compared with 9.24% at the end of 2005.

The statutorily set limit of the funds invested in municipal bonds grew up to 15% for the obligatory pension funds. Nevertheless, the percentage of the municipal bonds in the SPIFs aggregate investment portfolio remained insignificantly small (0.40%) and even declined in comparison with the preceding year, when that value came to 0.68%.

At the end of the reviewed period, assets of none of the supplementary pension funds were invested in **derivative instruments**, traded on regulated securities markets with the purpose of investment risk reduction. Determinative for that was the lack of this investment alternative on a local regulated securities market and the low interest on the side of the supplementary pension insurance funds for investment in securities derivatives traded on foreign regulated securities markets.

The relieving of the stringency of the investment limits for the different investment possibilities of the supplementary pension insurance funds gave an impetus to the development of the sector of the supplementary pension insurance, increasing the flexibility in the management of the accumulated by the funds assets. The challenge facing the sector is related to regulation of the possibility in the voluntary pension insurance portfolios with differing investment profile to be composed, based on the risk and respectively the return which they yield. This would contribute to enhancement of the attractiveness and competitiveness of the supplementary pension insurance.

## Appendixes<sup>47</sup>

### Appendix 2.1.1

Relicensed Investment Intermediaries during 2006 and the decisions taken with regard to them:

• Bulex InvestAD, Varna	Decision No 64-II/25 Jan 06;
• Standart InvestmentAD, Sofia	Decision No 65-II/25 Jan 06;
• Euro – FinanceAD, Sofia	Decision No 81-II/01 Feb 06;
• Beta CorpAD, Sofia,	Decision No 82-II/01 Feb 06;
• BulbrokersAD, Sofia	Decision No 103-II/08 Feb 06;
• Dealing Finance CompayAD, Sofia	Decision No 104-II/08 Feb 06;
• Capital Finance OOD, Sofia	Decision No 83-II/01 Feb 06;
• FFBH OOD, Sofia	Decision No 102-II/08 Feb 06;
• Intercapital MarketsAD, Sofia	Decision No 119-II/14 Feb 06;
• CapmanAD, Sofia	Decision No 120-II/14 Feb 06;
• Status InvestAD, Sofia	Decision No 121-II/14 Feb 06;
• TBI InvestAD, Sofia	Decision No 122-II/14 Feb 06;
• Balkan Investment CompanyAD, Sofia,	Decision No 145-II/22 Feb 06;
• Varchev Finance EOOD, Varna	Decision No 146-II/22 Feb 06;
• FavoritAD, Sofia	Decision No 147-II/22 Feb 06;
• UG MarketAD, гр. Пловдив	Decision No 148-II/22 Feb 06;
• VIP–7AD, Varna	Decision No 159-II/01 Mar 06;
• EurodealingAD, Burgas	Decision No 160-II/01 Mar 06;
• Aval InAD, Sofia	Decision No 170-II/08 Mar 06;
• Elana TradingAD, Sofia	Decision No 171-II/08 Mar 06;
• BalkanADvisory CompanyAD, Sofia	Decision No 169-II/08 Mar 06;
• KarollAD, Sofia	Decision No 189-II/15 Mar 06;
• ABV InvestmentAD, Sofia	Decision No 188-II/15 Mar 06;
• McCup BrokersAD, Sofia	Decision No 192-II/15 Mar 06;
• DZI InvestAD, Sofia	Decision No 190-II/15 Mar 06;
• BBG Simex OOD, Sofia	Decision No 191-II/15 Mar 06;
• Financial House EverAD, Sofia	Decision No 223-II/22 Mar 06;
• Zlaten Lev Brokers OOD, Sofia	Decision No 224-II/15 Mar 06;
• Argo InvestAD, Sofia	Decision No 237-II/29 Mar 06;
• Frontier FinancesAD, Sofia	Decision No 238-II/29 Mar 06;
• Fico Invest OOD, Sofia	Decision No 239-II/29 Mar 06;
• Euroforum OOD, Sofia	Decision No 240-II/29 Mar 06;
• KD SecuritiesAD, Sofia	Decision No 241-II/29 Mar 06;
• Sofia International SecuritiesAD	Decision No 262-II/05 Apr 06;
• MetrikAD, Sofia	Decision No 263-II/05 Apr 06;
• D.I.S.L. SecuritiesAD, Sofia	Decision No 264-II/05 Apr 06;
• Makler 2002 AD, Plovdiv	Decision No 277-II/12 Apr 06;

<sup>47</sup> 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

• STS FinanceAD, Gabrovo	Decision No 276-II/12 Apr 06;
• Sofia Invest BrokerageAD	Decision No 291-II/19 Apr 06;
• BenchMarkAD, Sofia	Decision No 311-II/27 Apr 06;
• Real FinanceAD, Sofia	Decision No 301-II/27 Apr 06;
• CEE SecuritiesAD, Sofia	Decision No 328-II/10 May 06;
• Fina - SAD, Sofia	Decision No 370-II/07 Jun 06;
• Zagora FinakorpAD, Stara Zagora	Decision No 372-II/07 Jun 06;
• Capital Engineer Project OOD, Pleven	Decision No 399-II/15 Jun 06;
• Delta StockAD, Sofia,	Decision No 400-II/15 Jun 06;
• PositivaAD, Sofia	Decision No 427-II/28 Jun 06
• Somony 2001 OOD – Stara Zagora	Decision No 519-II/26 Jul 06;
• BG ProinvestAD, Sofia	Decision No 520-II/26 Jul 06;
• Capital MarketsAD, Sofia	Decision No 569-II/02 Aug 06;
• KD Securities EAD, Sofia	Decision No 471-II/12 Jul 06;
• Standart InvestmentAD, Sofia	Decision No 570-II/02 Aug 06;
• Bul Trend Brokerage OOD, Sofia	Decision No 617-II/09 Aug 06;
• Populiarna Kasa 95AD, Plovdiv	Decision No 688-II/16 Aug 06;
• FactoryAD, Sofia	Decision No 689-II/16 Aug 06
• Naba InvestAD, Varna	Decision No 1026-II/17 Oct 06;
• EurogarantAD, Sofia,	Decision No 1087-II/08 Nov 06;
• Bulfin InvestAD, Sofia	Decision No 1107-II/15 Nov 06;
• Bora InvestAD, Sofia	Decision No 1153-II/29 Nov 06

### Appendix 2.1.2

Individual Administrative Acts, Issued by the Deputy Chair in Charge of Investment Activity Supervision Division, concerning the Collective Investment Schemes in 2006

Company/ Fund	Type
<b>Approval of program with measures for bringing the assets in compliance with the legal requirements</b>	
Golden LevAD	investment company
CF UBB Premium Stocks	contractual fund
<b>Approval of amendments to the Articles of Association</b>	
NadezhdaAD	investment company
Golden LevAD	investment company
UBB Balanced FundAD	investment company
Elana EuroFundAD	investment company
Elana High Yield FundAD	investment company
Industrial FundAD	investment company
BenchMark Fund-2	investment company
UBB Balanced FundAD	investment company
BenchMark Fund Estates	REIT
Bulgaria Real Estate Investment Fund	REIT
Activ Properties	REIT
Park REIT	REIT
Black Sea Investment	REIT
Elana Agricultural Land Opportunity Fund	REIT

TransInvestment	SPV
Universal Properties	REIT
<b>Approval of amendment to the Rules of a contractual fund</b>	
CF DSK Standart	contractual fund
<b>Approval of amendment to the Rules of a contractual fund, as well as in the Rules of portfolio assessment and determining the net asset value</b>	
BenchMark Fund-1	contractual fund
Elana Balanced \$ Fund	contractual fund
Alfa Index Estates	contractual fund
UBB Premium Stocks	contractual fund
UBB Platinum Bonds	contractual fund
DSK Balance	contractual fund
DSK Growth	contractual fund
DSK Standart	contractual fund
BenchMark Fund-3	contractual fund
BenchMark Fund-1	contractual fund
TBI Harmony	contractual fund
TBI Dinamic	contractual fund
TBI Comfort	contractual fund
Status New Shares	contractual fund
Alfa Index Top 15	contractual fund
Sentinel Principal	contractual fund
Sentinel Rapid	contractual fund
UBB Premium Stocks	contractual fund
UBB Platinum Bonds	contractual fund
<b>Approval of amendments to the Rules of portfolio assessment and determining the net asset value</b>	
Elana Balanced \$ Fund	contractual fund
Elana Balanced Euro Fund	contractual fund
Raiffeisen (Bulgaria) Fund Bonds	contractual fund
Standart Investment High Yield Fund	contractual fund
Standart Investment Balanced Fund	contractual fund
Raiffeisen (Bulgaria) Fund Money Market	contractual fund
Raiffeisen (Bulgaria) Fund Shares	contractual fund
Raiffeisen (Bulgaria) Balanced Fund	contractual fund
Alfa Index Estates	contractual fund
Capman Max	contractual fund
KD Bonds Bulgaria	contractual fund
KD Shares Bulgaria	contractual fund
BenchMark Fund-2	investment company
NadezhdaAD	investment company
Golden LevAD	investment company
UBB Balanced FundAD	investment company
Industrial FundAD	investment company
Elana High Yield FundAD	investment company
Elana EuroFundAD	investment company
TBI EuroBondAD	investment company
ADvance InvestAD	investment company
Capman CapitalAD	investment company
KD PelikanAD	investment company

<b>Approval for change in the general conditions</b>	
FFBH Asset ManagementAD	managment company
UBB Asset ManagementAD	managment company
DSK Asset ManagementAD	managment company
BenchMark Asset ManagementAD	managment company
Raiffeisen Asset Management-BulgariaAD	managment company
Standart Asset ManagementAD	managment company
Elana Fund ManagementAD	managment company
TBI Asset ManagementAD	managment company
Sentinel Asset ManagementAD	managment company
UBB Asset ManagementAD	managment company
BenchMark Fund ManagementAD	managment company
<b>Authorization to CIS to invest up to 20% of their assets in shares of a single issuer</b>	
ICADvance InvestAD	Advance TerraFund REIT
IC Elana High Yield FundAD	Elana Agricultural Land Opportunity Fund REIT
IC Capman CapitalAD	Holding Company Roads AD
IC Capman CapitalAD	Moststroy AD
IC BenchMark Fund-2AD	Himimport AD
IC UBB Balanced FundAD	Himimport AD
IC Golden LevAD	Plovdiv Yuri Gagarin BT AD
IC Golden LevAD	Biovet AD
IC BenchMark Fund - 2AD	Monbat AD
CF Elana Balanced \$ Fund	Elana Agricultural Land Opportunity Fund REIT
CF Elana Balanced Euro Fund	Elana Agricultural Land Opportunity Fund REIT
CF BenchMark Fund - 1	Intercapital Property Developement REIT
CF BenchMark Fund - 1	Finance Consulting 2002 EAD
CF DSK Balance	BAC Bank AD
CF DSK Growth	BAC Bank AD
CF Raiffeisen (Bulgaria) Balanced Fund	BAC Bank AD
CF Raiffeisen (Bulgaria) Fund Shares	BAC Bank AD
CF Standart Investment Balanced Fund	Plovdiv Yuri Gagarin BT AD
CF Standart Investment Balanced Fund	Биовет AD
CF Standart Investment High Yield Fund	Plovdiv Yuri Gagarin BT AD
CF Standart Investment High Yield Fund	Lead and Zinc Complex AD
CF DSK Standart	Finance Consulting 2002 EAD
CF Status New Shares	Himimport AD
CF Capman Max	Holding Company Roads AD
CF Capman Max	Moststroy AD
CF Standart Investment High Yield Fund	Himimport AD
CF DSK Growth	Himimport AD
CF Standart Investment Balanced Fund	Himimport AD
CF UBB Premium Stocks	Himimport AD
CF BenchMark Fund – 1	Monbat AD
CF BenchMark Fund – 1	Finteksko AD

Appendix 2.1.3A  
Public offering of securities prospectuses in 2006

Company	Public offering	Securities	Confirmative Decision
<b>Companies whose prospectus were approved by the FSC</b>			
St. Constantine and Helena Holding (Varna)AD	secondary	corporate bonds	Decision No 24-E/11 Jan 2006
Alianz Bulgaria Financier	secondary	corporate bonds	Decision No 53-E/18 Jan 2006
St. Constantine and Helena Holding (Varna)AD	secondary	corporate bonds	Decision No 174-E/08 Mar 2006
BM Leasing AD	secondary	corporate bonds	Decision No 173-E/08 Mar 2006
Doverie United Holding AD	secondary	corporate bonds	Decision No 193-E/15 Mar 2006
FairPlay International AD	secondary	corporate bonds	Decision No 230-E/22 Mar 2006
Trade League - National Pharmacy Centre AD	secondary	corporate bonds	Decision No 270-E/06 Apr 2006
AutoBohemia AD	secondary	corporate bonds	Decision No 305-E/27 Apr 2006
Leasing Company AD	secondary	corporate bonds	Decision No 335-E/17 May 2006
FairPlay International AD	secondary	corporate bonds	Decision No 336-E/17 May 2006
United Milk Company AD	secondary	corporate bonds	Decision No 355-E/31 May 2006
Agrileasing EAD	secondary	corporate bonds	Decision No 356-E/31 May 2006
Transleasing EAD	secondary	corporate bonds	Decision No 357-E/31 May 2006
Zarneni Hrani Bulgaria Bulgaria EAD	secondary	corporate bonds	Decision No 358-E/31 May 2006
BAC Bank AD	secondary	corporate bonds	Decision No 371-E/07 Jun 2006
I-Build AD	secondary	corporate bonds	Decision No 486-E/19 Jul 2006
Hipocredit AD	secondary	corporate bonds	Decision No 470-E/12 Jul 2006
Balkanstroy AD	secondary	corporate bonds	Decision No 573-E/02 Aug 2006
East Gaz Company AD	secondary	corporate bonds	Decision No 854-E/27 Sep 2006
Alen Mak AD	secondary	corporate bonds	Decision No 997-E/11 Oct 2006
B. L. Leasing AD	secondary	corporate bonds	Decision No 1021-E/17 Oct 2006
NLB Bank West-East AD	secondary	corporate bonds	Decision No 1082-E/08 Nov 2006
Elana Holding AD	secondary	corporate bonds	Decision No 1126-E/22 Nov 2006
Etap - adress	secondary	corporate bonds	Decision No 1149-

			E/29 Nov 2006
Enemona AD	secondary	corporate bonds	Decision No 1125-E/22 Nov 2006
Alma Tour BG AD	secondary	corporate bonds	Decision No 1208-E/20 Dec 2006
Raiffeisenbank (Bulgaria) AD	secondary	corporate bonds	Decision No 1194-E/13 Dec 2006
Bulgarian Post Bank	secondary	mortgage Bonds	Decision No 80-E/01 Feb 2006
CB Allianz Bulgaria AD	secondary	mortgage Bonds	Decision No 316-E/03 May 2006
BAC Bank AD	secondary	mortgage Bonds	Decision No 749-E/30 Aug 2006
CB Investbank AD	secondary	mortgage Bonds	Decision No 1206-E/20 Dec 2006
CB Investbank AD	secondary	mortgage Bonds	Decision No 1207-E/20 Dec 2006
ZPAD Bulstrad AD	първично	stocks	Decision No 222-E/22 Mar 2006
Finteksko AD	първично	stocks	Decision No 401-E/15 Jun 2006
Advance Equity Holding AD	първично	stocks	Decision No 428-E/28 Jun 2006
Sofia Commerce - Pawn Brokerage AD	първично	stocks	Decision No 469-E/12 Jul 2006
Himimport AD	първично	stocks	Decision No 618-E/09 Aug 2006
Monbat AD	първично	stocks	Decision No 855-E/27 Sep 2006
Golden Lev Holding AD	secondary	stocks	Decision No 69-ПД/25 Jan 2006
BAC Bank AD	secondary	stocks	Decision No 176-ПД/08 Mar 2006
FairPlay Residential Properties AD	secondary	stocks	Decision No 337-ПД/17 May 2006
Media Sys AD	secondary	stocks	Decision No 1083 – ПД/08 Nov 2006
Prime Tourist AD	secondary	stocks	Decision No 1142 – ПД/29 Nov 2006
Sluntchevi Luchi EAD	secondary	stocks	Decision No 1148 – ПД/29 Nov 2006
<b>Procedures for granting permission that have not been completed as of 31 Dec 2006</b>			
FairPlay Properties REIT	secondary	corporate bonds	
Starcom Leasing AD	secondary	corporate bonds	
TBI Credit EAD	secondary	corporate bonds	
Holding Varna AD	secondary	corporate bonds	
Farin AD	secondary	corporate bonds	
ITD Network AD	secondary	corporate bonds	
Black Sea Investment EAD	secondary	corporate bonds	
BROSS Holding AD	secondary	corporate bonds	

Nikrom Trubna Mebel AD	secondary	corporate bonds	
Festa Holding AD	secondary	corporate bonds	
TBI Credit EAD	secondary	corporate bonds	
Bulgarian Post Bank AD	secondary	mortgage Bonds	
NOHA AD	първично	stocks	
FIA Bulgaria AD	secondary	stocks	
White Lagoon AD	secondary	stocks	
Tchaikapharma High Quality Medicines AD	secondary	stocks	
Todorov AD	secondary	stocks	
Companies to which FSC refused to grant permission to publish prospectus			
Trade League - National Pharmacy Centre AD	secondary	corporate bonds	Decision No 100-ПД/08 Feb 2006
Bulgarian Bergman AD	secondary	stocks	Decision No 1081–E/08 Nov 2006
MDCC Biocheck AD	secondary	stocks	Decision No 1205–E/20 Dec 2006

### Appendix 2.1.3B

#### Issues of securities registered or deleted from the FSC register in 2006

Company	Public offering	Securities
<b>Issues registered by FSC on granting a permission to publish public offering prospectus</b>		
St. Constantine and Helena Holding (Varna ) AD	secondary	corporate bonds
Alianz Bulgaria Financier	secondary	corporate bonds
BM Leasing AD	secondary	corporate bonds
St. Constantine and Helena Holding (Varna ) AD	secondary	corporate bonds
Doverie United Holding AD	secondary	corporate bonds
FairPlay International AD	secondary	corporate bonds
Trade League - National Pharmacy Centre AD	secondary	corporate bonds
Auto Bohemia AD	secondary	corporate bonds
Leasing Company AD	secondary	corporate bonds
FairPlay International AD	secondary	corporate bonds
United Milk Company AD	secondary	corporate bonds
Agrileasing EAD	secondary	corporate bonds
Transleasing EAD	secondary	corporate bonds
Zarneni Hrani Bulgaria Bulgaria EAD	secondary	corporate bonds
BAC Bank AD	secondary	corporate bonds
Hipocredit AD	secondary	corporate bonds
I-BuildAD	secondary	corporate bonds
Balkanstroy AD	secondary	corporate bonds
East Gaz Company AD	secondary	corporate bonds
Alen Mak AD	secondary	corporate bonds
B. L. Leasing AD	secondary	corporate bonds
NLB West – East Bank AD	secondary	corporate bonds
Elana Holding AD	secondary	corporate bonds
Etap - adress	secondary	corporate bonds
Enemona AD	secondary	corporate bonds
Alma Tour BG AD	secondary	corporate bonds
Raiffeisenbank (Bulgaria) AD	secondary	corporate bonds
Bulgarian Post Bank AD	secondary	mortgage Bonds

CB Allianz Bulgaria AD	secondary	mortgage Bonds
BAC Bank AD	secondary	mortgage Bonds
CB Investbank AD	secondary	mortgage Bonds
CB Investbank AD	secondary	mortgage Bonds
ZPAD Bulstrad AD	shares in process of issuing	
Monbat AD	shares in process of issuing	
Himimport AD	shares in process of issuing	
Finteksko AD	shares in process of issuing	
Advance Equity Holding	shares in process of issuing	
Sofia Commerce - Pawn Brokerage AD	shares in process of issuing	
Golden Lev Holding AD	secondary	shares
BAC Bank AD	secondary	shares
FairPlay Residential Properties AD	secondary	shares
Prime Tourist AD	secondary	shares
Sluntchevi Luchi Bulgaria EAD	secondary	shares
Registered issues of shares with the purpose of trading on a regulated securities market		
<i>Issues registered by FSC on an entry in the public register</i>		
Quantum Developments REIT		shares
FairPlay Properties REIT		shares
Bulgarian Investment Group REIT		shares
Sopharma Estates REIT		shares
Black Sea Investment REIT		shares
TransInvestment REIT		shares
Premier Fund REIT		shares
Agricultural Land Opportunity Fund Mel Invest REIT		shares
Hipocapital REIT		shares
CEE Estates REIT		shares
Agro Finance REIT		shares
Universal Properties REIT		shares
Luke REIT		shares
Liam REIT		shares
Alfa Property 1 REIT		shares
Invest Property REIT		shares
Super BorovetzProperty Fund REIT		shares
<i>Issues registered by FSC on an increase in the capital</i>		
Elma AD		shares
Interlogic Leasing AD		shares
Central Cooperative Bank AD		shares
Alcomet AD		shares
Synergion Holding AD		shares
ZD Euroins AD		shares
Decotex AD		shares
Emka AD		shares
Synergion Holding AD		shares
Bulgar Czech Invest Holding -		shares
Bulstrad AD		shares
M+S Hydraulic AD		shares
ZD Euroins AD		shares
Hydraulic Elements and Systems AD		shares
Bulgarian Rose-Sevtopolis AD		shares

Euroterra Bulgaria AD	shares
Dominant Finance AD	shares
Sopharma AD	shares
Central Cooperative Bank AD	shares
Finteksko AD	shares
Interlogic Leasing AD	shares
Oil and Gas Exploration and Production AD	shares
Activ Properties REIT	shares
Park REIT	shares
BenchMark Fund Estates REIT	shares
Advance TerraFund REIT	shares
Colos 1 REIT	shares
Bulgaria Real Estate Investment Fund REIT	shares
Agricultural Land Opportunity Fund Mel InvestREIT	shares
Prime Property REIT	shares
Sopharma Estates REIT	shares
Intercapital Property Development REIT	shares
FairPlay Properties REIT	shares
Issues of securities deleted from the FSC's register	
Central Cooperative Bank AD	mortgage Bonds
MKB Unionbank AD	mortgage Bonds
CB Alianz Bulgaria AD	mortgage Bonds
Alma Tour BG AD	corporate bonds

### Appendix 2.1.3C

Public companies and issuers of other securities registered or deleted from the FSC register in 2006

Company	Type
Companies registered by FSC on granting a permission to publish public offering prospectus	
BAC Bank AD	public company
Golden Lev Holding AD	public company
FairPlay Residential Properties AD	public company
Finteksko AD	public company
Advance Equity Holding	public company
Himimport AD	public company
Media Sys AD	public company
Prime Tourist AD	public company
Slanchevi Luchi Bulgaria EAD	public company
Monbat AD	public company
Alianz Bulgaria Financier EAD	issuer
BM Leasing AD	issuer
FairPlay International AD	issuer
Trade League - National Pharmacy Centre AD	issuer
Leasing Company AD	issuer
United Milk Company AD	issuer

Agrileasing EAD	issuer
Transleasing EAD	issuer
Zarneni Hrani Bulgaria EAD	issuer
Advance Equity Holding AD	issuer
I-Build AD	issuer
Balkanstroy AD	issuer
East Gaz Company AD	issuer
Alen Mak AD	issuer
B. JI. Leasing AD	issuer
NLB West - East Bank AD	issuer
Elana Holding AD	issuer
Etap - adress AD	issuer
CB Investbank AD	issuer
Companies registered by FSC on an entry of issues after the initial increase in the capital	
Quantum Developements REIT	public company
FairPlay Properties REIT	public company
Bulgarian Investment Грyп REIT	public company
Sopharma Estates REIT	public company
Black Sea Investment REIT	public company
Transinvestment REIT	public company
Premier Fund REIT	public company
Agricultural Land Opportunity Fund Mel Invest REIT	public company
Hipocapital REIT	public company
CEE Estates REIT	public company
Agro Finance REIT	public company
Universal Properties REIT	public company
Luke REIT	public company
Liam REIT	public company
Alfa Property 1 REIT	public company
Invest Property REIT	public company
Super BorovetzProperty Fund REIT	public company
Issues registered by FSC on an increase in the capital	
Companies deleted from the FSC's register on a decision for deleting their issues from the Trade Register	
Bules AD	public company
Iskar Transport AD	public company
Oborishte AD	public company
Companies deleted from the FSC's register upon the company's application	
Gerila AD	public company
Companies deleted from the FSC's register after a tender offer	
Kramex AD	public company
Energoremont – Russe AD	public company
Energoremont – Varna AD	public company

Napredak Holding AD	public company
Vincom AD	public company
Slavyana AD	public company
ОтПисани предвѣC обстоятелството, че емисията Stocks не е приета за търговия на регулиран пазар на ценни книжа в 6-месечен срок от вПисването ѝ	
Riga Hotels AD	public company

### Appendix 2.1.3D

#### Natural persons registered at the FSC as professional investors in 2006

Natural persons registered in FSC's Professional Investors Registry in 2006:

• Dimitar Iliav Dimitrov	Decision No 52- PI/18 Jan 2006
• Petar Iliev Goranov	Decision No 105-PI/08 Feb 2006
• Miroslav Naskov Avdzhiev	Decision No 127-PI/14 Feb 2006
• Irina Belcheva Belcheva	Decision No 128-PI/14 Feb 2006
• Vladimir Zhelev Zhelev	Decision No 129-PI/14 Feb 2006
• Iwan Georgiev Georgiev	Decision No 142-PI/14 Feb 2006
• Pravin Benker	Decision No 175-PI/08 Mar 2006
• Biser Tzvetanov Ivanov	Decision No 195-PI/15 Mar 2006
• Miroslav Petrov Sevlievski	Decision No 196-PI/22 Feb 2006
• Petar Atanasov Korumbashev	Decision No 197-PI/15 Mar 2006
• Sevdalin Rusanov Rusanov	Decision No 226-PI/22 Mar 2006
• Plamen Ivanov Dermendzhiev	Decision No 228-PI/22 Mar 2006
• Vladislav Panchev Panev	Decision No 280-PI/12 Apr 2006
• Hristo Kirilov Minkovski	Decision No 281-PI/12 Apr 2006
• Stanimir Grudev Chobanov	Decision No 306-PI/27 Apr 2006
• Dilian Peichev Panev	Decision No 307-PI/27 Apr 2006
• Viktor Aleksiev Michailov	Decision No 338-PI/17 May 2006
• Maria Ilieva Ivandzhikova	Decision No 340-PI/17 May 2006
• Jordan Georgiev Gerov	Decision No 341-PI/17 May 2006

Natural persons whom FSC refused to register in FSC's Professional Investors Registry in 2006:

1. Aleksander Dimitrov Todorov	Decision No 487-PI/19 Jul 2006
2. Grigor Vihrov Zdravkov	Decision No 488-PI/19 Jul 2006
3. Petko Todorov Petkov	Decision No 489-PI/19 Jul 2006
4. Georgi Kostadinov Georgiev	Decision No 490-PI/19 Jul 2006
5. Petar Georgiev Hristov	Decision No 491-PI/19 Jul 2006
6. Iovko Atanasov Nikolov	Decision No 492-PI/19 Jul 2006
7. Michail Ivanov Boindrukov	Decision No 493-PI/19 Jul 2006
8. Ivalin Georgiev Ivanov	Decision No 494-PI/19 Jul 2006
9. Olia Dimitrova Gromova - Gencheva	Decision No 726-PI/23 Aug 2006
10. Vassil Georgiev Chulov	Decision No 858-PI/27 Sep 2006

### Appendix 3.1.3

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 2006

Procedure	Commenced procedures	Imposed coercive administrative measures	Suspended procedures
<b>Reports</b>	<b>338</b>	<b>74</b>	<b>341</b>
Not submitted 2005 second-, third- and fourth-quarter reports	9	-	11
Not submitted 2005 annual reports	15	6	9
Not submitted 2006 first- and second- quarter reports	17	7	4
Rectification of established incompleteness and discrepancies in 2004 annual reports	-	1	-
Rectification of established incompleteness and discrepancies in 2005 first-, second- and third- quarter reports	43	19	104
Rectification of established incompleteness and discrepancies in 2005 annual reports	110	15	95
Rectification of established incompleteness and discrepancies in 2006 first-, second- and third- quarter reports	144	26	118
<b>General meeting of shareholders</b>	<b>26</b>	<b>21</b>	<b>11</b>
Omitting a point from the agenda of the general meeting	19	15	9
Convention of a general assembly	2	2	-
art. 116c, para 2 LPOS	1	1	-
art. 116d, para 1 LPOS	4	3	1
Others	-	-	1
<b>Total</b>	<b>364</b>	<b>95</b>	<b>352</b>

## Appendix 5

### Initiatives for training and extension of the FSC's personnel qualification carried out in 2006

Topic	Type of training	Duration		Organizer/ Lector	Number of employees
		days	time		
<u>Program Managerial Skills and Interpersonal Relations in the FSC</u>					
Leader skills	seminar	1 day	27 Jan 2006	USAID Labor Market Project	2
Development of efficient organizational teams	seminar	3 days	6-8 Apr 2006	FSC	187
Development of modern managerial approaches – for the FSC’s senior managerial team	seminar	3 days	5-7 Oct 2006	FSC	22
Development of modern managerial approaches – for the heads of departments in the FSC	seminar	3 days	19-21 Oct. 2006	FSC	16
<u>Program Legal Regulations</u>					
Changes in the State Social Security and the pension insurance, ensuing from the Act on the 2006 Budget of the State Social Security	seminar	1 day	16 Mar 2006	Kitov Center	1
The new Administrative Penal Code	seminar	3 days	7-9 May 2006	NCC Reshenie and PC Trud i Pravo	11
Practical aspects of the amendments to the Commercial Law in 2006 – 2007. New regime of the commercial registration under the Commercial Register Act.	seminar	2 days	5-6 Dec 2006	Union of Lawyers in Bulgaria and association Bulgarian Discussion Forum	4
<u>Program Financial Management and Economic Activity in the Public Sector</u>					
Servicing of the budgetary accounts and payments to the budget supported enterprises	seminar	1 day	27 Jan 2006	International Banking Institute	1
The new legislation in the field of the financial management and control in the public sector	seminar	2 days	21-22 Feb 2006	Institute of Internal Auditors in Bulgaria	2
The new legislation in the field of the state internal financial control	seminar	1 day	08 Jun 2006	SiKon Group EOOD	2
The role of the internal audit for efficient management and control	conference	2 days	9-10 Oct 2006	Institute of Internal Auditors in Bulgaria	3
Accounting closing of 2006. Annual financial statement	seminar	8 days	11-18 Oct 2006	NCC Reshenie and PC Trud i Pravo	2
New legislation in the field of the financial management and control in the public sector. Preparation for an annual financial statement. Social, health insurance. Labor legislation.	seminar	6 days	25-30 Sep 2006	ET Apis – Romil Kolev	2
Instruments and techniques of the internal audit management	seminar	3 days	22-24 Nov 2006	Institute of Internal Auditors in Bulgaria	1
<u>Program Human Resources Development</u>					

Human resources management strategy	seminar	5 days	6-10 May 2006	FAR Project and ICPR Directorate of the FSC	5
Human capital management – how to increase the value of the organization	conference	3 days	18-20 May 2006	Bulgarian Human Resources Management Association (BHRMA)	3
Human resources management strategy - 2-nd part	seminar	5 days	19-23 Jun 2006	FAR Project and ICPR Directorate of the FSC	5
Design and assessment of training programs	seminar	5 days	24-28 Jul 2006	FAR Project and ICPR Directorate of the FSC	6
<u>Program Foreign Language Training</u>					
English language: I-st level	course	5 months	14 Feb - 31 Jul 2006	FSC	20
English language: II-nd level	course	5 months	13 Feb - 31 Jul 2006	FSC	13
English language: III-rd level	course	5 months	15 Feb - 31 Jul 2006	FSC	14
English language : IV-th level - 1-st group	course	5 months	14 Feb - 31 Jul 2006	FSC	12
English language: IV-th level - 2-nd group	course	5 months	14 Feb - 31 Jul 2006	FSC	14
English language for preparation about First Cambridge Certificate	course	5 months	13 Feb - 31 Jul 2006	FSC	16
English language: II-nd level	course	5 months	24 Oct 2006 - 15 Mar 2007	FSC	22
English language: III-rd level	course	5 months	24 Oct 2006 - 15 Mar 2007	FSC	16
English language: IV-th level	course	5 months	25 Oct 2006 - 15 Mar 2007	FSC	17
English language for preparation about First Cambridge Certificate	course	5 months	11 Dec 2006 - 30 Apr 2007	FSC	22
English language: II-nd level	course	4 months	18 Sep - 31 Dec 2006	FSC	1
English language with the British Council	course	4 months	1 Feb - 31 May 2006	British Council	1
English language with the British Council	course	4 months	17 Apr - 18 Jul 2006	British Council	5
English language with the British Council	course	4 months	18 Sep - 10 Dec 2006	British Council	8
<u>Program Specialized Training</u>					
General presentation of strategy for integrated supervision : sub-strategy - supervision over the supplementary pension insurance funds (activity 1.4)	seminar	5 days	16-20 Jan 2006	FAR Project and ICPR Directorate of the FSC	9
Global strategy for the FSC's integrated supervision (activity 1.5)	seminar	3 days	16-18 Jan 2006	FAR Project and ICPR Directorate of the FSC	10
The new Insurance Code and the challenges facing the insurance supervision	seminar	5 days	25-29 Jan 2006	FSC	33
Financial derivatives	seminar	1 day	15 Feb 2006	USAID Project and ICPR Directorate of	21

				the FSC	
Financial derivatives	seminar	1 day	16 Feb 2006	USAID Project and ICPR Directorate of the FSC	13
Financial derivatives	seminar	1 day	17 Feb 2006	USAID Project and ICPR Directorate of the FSC	19
Outlining a strategy for integrated supervision: Substrategy on Insurance	seminar	5 days	13-17 Mar 2006	FAR Project and ICPR Directorate of the FSC	4
Motor Information Bureau	seminar	3 days	15-17 Mar 2006	FAR Project and ICPR Directorate of the FSC	9
Outline of a strategy for integrated supervision: Substrategy on Insurance	seminar	3 days	22-24 Mar 2006	FAR Project and ICPR Directorate of the FSC	26
Global FSC strategy for integrated supervision	seminar	3 days	10-12 Apr 2006	FAR Project and ICPR Directorate of the FSC	14
Surveillance System	seminar	5 days	05-09 Jun 2006	FAR Project and ICPR Directorate of the FSC	55
Shareholders' rights and corporate governance	specialization	2 months	05 Jun - 30 Jul 2007	USAID and Georgetown University - Washington	4
Financial law and securities law	specialization	1 year	10 Jul 2006 - 31 Jul 2007	USAID and Georgetown University - Washington	1
Licensing insurance companies	seminar	5 days	05-09 Jun 2006	FAR Project and ICPR Directorate of the FSC	30
Investor compensation schemes	seminar	3 days	12-14 Jun 2006	FAR Project and ICPR Directorate of the FSC	60
Acquisition activity of open pension funds - inspection and supervision	seminar	5 days	19-23 Jun 2006	FAR Project and ICPR Directorate of the FSC	30
Capital market supervision	practical course	7 days	18-24 Jun 2006	FAR Project and ICPR Directorate of the FSC	10
Module 5.2. Principles and practices of non-life insurance	course	5 days	12-16 Jun 2006	Bulgarian actuarial society	5
Risk – based supervision over the investment activity	course	15 days	5-23 Jun 2006	USAID Project and ICPR Directorate of the FSC	20
Risk – based insurance supervision and supervision over the supplementary pension insurance	course	2 месеца	3 Jun-29 Sep 2006	USAID Project and ICPR Directorate of the FSC	40
Supervision over investment funds	seminar	5 days	26-30 Jun 2006	FAR Project and ICPR Directorate of the FSC	60
Development and conduct of the consumer protection policy on financial markets	seminar	3 days	27-29 Jun 2006	FAR Project and ICPR Directorate of the FSC	35
Retirement benefit products - types and valuation techniques	seminar	5 days	10-14 Jul 2006	FAR Project and ICPR Directorate of the FSC	7

Information bureau about Third Party Liability Insurance / Motor Information Bureau /	seminar	3 days	11-13 Jul 2006	FAR Project and ICPR Directorate of the FSC	36
Surveillance of Insurance Companies	seminar	3 days	17-19 Jul 2006	FAR Project and ICPR Directorate of the FSC	38
Collective investment schemes	seminar	1 day	18 Jul 2006	Project FIRST and ICPR Directorate of the FSC	18
Collective investment schemes	seminar	1 day	20 Jul 2006	Project FIRST and ICPR Directorate of the FSC	17
Basic accounting issues	seminar	1 day	25 Jul 2006	Project FIRST and ICPR Directorate of the FSC	16
Intermediation (specific) accounting issues	seminar	1 day	26 Jul 2006	Project FIRST and ICPR Directorate of the FSC	19
Review of financial audit	seminar	1 day	27 Jul 2006	Project FIRST and ICPR Directorate of the FSC	12
Module 4 Investments and asset management	course		25 Nov - 8 Dec 2006	Bulgarian Actuarial Society	1
Harmonization of the provisions of the Directive on prospectus with the national legislation	seminar	5 days	23-27 Jan 2006	FAR Project and ICPR Directorate of the FSC	27
Preparation of strategy for international cooperation	seminar	5 days	23-27 Jan 2006	FAR Project and ICPR Directorate of the FSC	8
Adoption of proposals on harmonisation of the Bulgarian insurance legislation on organisation of the market	seminar	5 days	30 Jan - 3 Feb 2006	FAR Project and ICPR Directorate of the FSC	23
Harmonization of regulations on supplementary pension funds and their supervision	seminar	5 days	30 Jan - 10 Feb 2006	FAR Project and ICPR Directorate of the FSC	6
Harmonization of the EU legal provisions regarding undertakings for collective investment in transferable securities (UCITS)	seminar	5 days	6-10 Feb 2006	FAR Project and ICPR Directorate of the FSC	27
Harmonization of the provisions of the Directive on takeover bids	seminar	5 days	20-24 Feb 2006	FAR Project and ICPR Directorate of the FSC	18
Harmonization of the provisions of the Directive on transparency requirements	seminar	5 days	27 Feb - 2 Mar 2006	FAR Project and ICPR Directorate of the FSC	23
Harmonization of the provisions of Market Abuse Directive (MAD)	seminar	4 days	7-10 Mar 2006	FAR Project and ICPR Directorate of the FSC	39
Preparation of an action plan for enhancement of the international cooperation	seminar	4 days	25-28 Apr 2006	FAR Project and ICPR Directorate of the FSC	21
Project management - preparation for success	seminar	4 days	15-18 May 2006	Kitov Center	1
Participating in drafting EU legislation - organizational aspects	seminar	4 days	24-27 Jul 2006	FAR Project and ICPR Directorate of the FSC	10
<u>Other trainings</u>					

Time management	seminar	1 day	03 Feb 2006	Bulgarian Human Resources Management Association (BHRMA)	4
Anticorruption training	remote seminar	5 days	1-6 Dec 2006	FSC	200

## Appendix 12.1A

Financial indicators of public companies, included in the calculation of SOFIX as of 31 Dec 2006

Company	Capitalization	Total assets	Total revenue	Current financial result	Equity	Free float (5%) *	Foreign-owned capital of the company
	In EUR thousand						
AlbenaAD (ALB)	330,184	387,406	92,216	15,587	260,272	30.63%	6.45%
BiovetAD (BIOV)	115,996	112,792	122,221	500	56,177	19.04%	9.95%
Blagoevgrad BTAD (BLABT)	214,372	106,283	167,664	7,916	185,367	9.76%	11.28%
Bulgartabac HoldingAD (BTH)	260,137	112,304	87,642	43,064	105,216	12.07%	15.82%
Sunny BeachAD (SLB)	97,598	136,945	30,288	-1,200	107,350	7.98%	2.61%
ЗПИД ДЗИАД (DZI)	770,379	340,845	4,784	162,895	245,079	15.62%	28.48%
NeochimAD (NEOH)	120,375	121,915	182,363	3,577	76,816	19.60%	28.34%
OrgachimAD (ORGH)	58,010	54,976	106,250	8,095	14,826	35.79%	75.82%
PetrolAD (PET)	473,051	463,175	664,345	16,853	181,935	10.37%	24.91%
Sunny BeachAD (SLB)	35,241	105,467	23,252	4,134	90,235	14.98%	0.73%
SopharmaAD (SFARM)	892,320	282,780	136,724	22,034	183,963	15.04%	23.31%
CB Central Cooperative BankAD (CCB)	515,146	1,131,987	98,295	12,013	116,640	26.35%	9.13%
TOTAL	3,882,809	3,356,875	1,716,044	295,468	1,623,876	17.32%	19.86%

\* The free float is calculated on data provided by Central Depository without taking into account the relativeness between minority shareholders

## Appendix 12.1B

Financial indicators of public companies, included in the calculation of BG-40 as of 31 Dec 2006

Company	Capitalization	Total assets	Total revenue	Current financial result	Equity	Free float (5%) *	Foreign-owned capital of the company
	In EUR thousand						
Advancee Terrafund REIT (ATERA)	27,608	44,314	8,751	7,348	32,074	74.70%	6.12%
AlbenaAD (ALB)	330,184	387,406	92,216	15,587	260,272	30.63%	6.45%
Albena-Invest HoldingAD (ALBHL)	78,155	101,997	5,427	4,417	92,683	53.59%	5.57%
Alcomet ShoumenAD (ALUM)	191,558	182,365	220,692	4,591	66,168	8.29%	19.40%
Balkantourist Elite HoldingAD (MGEHL)	25,447	27,789	6,897	6,308	27,752	21.13%	78.87%
Benchmark Real Estate Investment Trust (BNREIT)	32,519	33,578	2,908	1,166	32,842	70.12%	27.79%
BiovetAD (BIOV)	115,996	112,792	122,221	500	56,177	19.04%	9.95%
Bulgarian Rose-Sevtopolis (SEVTO)	40,540	15,459	11,449	1,608	10,423	44.39%	9.26%
Bulgarian Telecommunication CompanyAD (BTC)	2,922,300,	2,005,387	249,178	283,080	1,323,345	19.19%	94.82%
Bulgarian Holding CompanyAD (BHC)	21,463	43,620	3,413	1,906	35,246	61.21%	2.02%
Doverie - United HoldingAD (DOVUHL)	35,636	35,812	1,882	87	23,026	85.18%	25.69%
Elana Agricultural Land Opportunity Fund (ELARG)	77,033	84,567	13,253	10,460	84,015	45.49%	43.44%
Emka - Sevlievo (EMKA)	53,872	26,736	56,651	2,651	14,816	20.57%	3.12%
Euro Inc (EURINS)	62,475	42,861	55,512	4,237	17,012	24.09%	16.33%
Golden Lev Holding (HLEV)	11,149	22,054	1,511	1,239	21,588	68.70%	21.79%
IC Golden LevAD (LEV)	39,994	8,781	1,037	724	8,781	21.50%	1.10%
Investor BG (IBG)	8,396	1,577	682	2	1,430	37.08%	11.48%
Industrial Capital HoldingAD (HIKA)	18,390	10,898	5,997	763	10,764	55.74%	6.94%
Industrial Holding BulgariaAD (IHLBL)	127,280	42,887	3,184	1,858	35,719	57.68%	48.83%
Odessos Shiprepair YardAD (ODES)	127,280	54,853	40,237	6,584	49,627	41.68%	3.02%

KremikovtziAD (KREM)	267,023	-	-	-	-	3.71%	1.19%
M+S HydraulicAD (MCH)	91,650	50,397	58,506	3,341	29,489	22.75%	1.27%
NeochimAD (NEOH)	120,375	121,915	182,363	3,577	76,816	19.60%	28.34%
OrgachimAD (ORGH)	58,010	54,976	106,250	8,095	14,826	35.79%	75.82%
Plovdiv BT (PLOBT )	32,145	41,079	38,820	5,076	23,664	8.93%	7.69%
PolimeriAD (POLIM)	53,139	103,626	45,389	1,246	93,854	21.08%	47.85%
St. Constantine and Helena HoldingAD – Varna (SKELN)	83,144	53,441	6,659	1,153	19,082	33.56%	0.13%
Severcoop Gumza HoldingAD (GAMZA)	6,952	13,788	2127	1691	12,930	86.83%	1.61%
Synergon HoldingAD (PETHL)	113,829	151,462	16,692	13,330	120,217	54.27%	12.63%
Sunny BeachAD (SLB)	35,241	105,467	23,252	4,131	90,235	14.98%	0.73%
SopharmaAD (SFARM)	892,320	282,780	136,724	22,034	183,963	15.04%	23.31%
Stara Planina HoldAD (CENHL)	34,948	24,976	779	351	24,074	68.12%	26.93%
CB DZI BankAD (RXB)	402,500	-	-	-	-	3.12%	98.47%
CB Central Cooperative BankAD (CCB)	515,146	1,131,987	98,295	12,013	116,640	26.35%	9.13%
TK - HOLD (TCH)	12,254	11,664	1226	558	9314	61.48%	0.70%
Favorit HoldAD (AFH)	18,855	11,266	963	182	9,486	84.06%	0.83%
Hydraulic Elements and SystemsAD (HES)	32,748	19,124	42,682	1,761	5,631	16.68%	1.60%
ChimcoAD (HIMKO)	1,635	144,872	628	-15,885	-67,455	100.00%	8.05%
Varna A HoldingAD (HVAR)	36,390	34,794	6,970	6,569	10,569	54.25%	0.17%
Holding COOP-SouthAD (HUG)	3,085	5,056	291	-118	5,340	93.33%	4.98%
TOTAL	7,113,033	5,648,403	1,671,714	424,221	2,982,435	22.49%	53.31%

\* The free float is calculated on data provided by Central Depository without taking into account the relativeness between minority shareholders

## Appendix 12.1C

Number of public companies registered for trading and stopped from trading on the BSE-Sofia for the period Jan – Dec 2006

Markets & Segments	Companies registered for trading during the period Jan – Dec 2006
Unofficial Market of Equities A	30
Unofficial Market of Other Securities	71
Unofficial Market of Bonds	27
Market of Equities B	1
Market of Corporate Bonds	1
IPO Market of Other Securities	24
Markets & Segments	Companies stopped from trading during the period Jan – Dec 2006
Unofficial Market of Equities A	11
Unofficial Market of Equities B	1
Unofficial Market of Other Securities	50
Unofficial Market of Bonds	7
Market of Municipal Bonds	1
IPO Market of Other Securities	24
Markets & Segments	Number of companies registered as of 31 Dec 2006
Unofficial Market of Equities A	161
Unofficial Market of Equities B	190
Unofficial Market of Other Securities	34
Unofficial Market of Bonds	69
Market of Equities A	3
Market of Equities B	14
Market of Corporate Bonds	6
Market of Government Securities	2
Market of Municipal Bonds	1
Unofficial Market of Compensation Instruments	3
IPO Market of Other Securities	2

### Appendix 12.2.1

Market Capitalization, free float and foreign-owned capital of the public companies by industries as of 31 Dec 2006

	Industries	Market Capitalization (BGN)	Share of the industry in the market capitalization	Foreign owned capital of the industry	Free float (5%)*
A	Products of agriculture, hunting and forestry	10,134,513	0.07%	0.55%	11.62%
B	Fishing	223,920	0.00%	0.00%	11.09%
CA	Mining and quarrying of energy producing materials	99,903,267	0.65%	0.47%	26.99%
DA	Manufacture of food products, beverages and tobacco	490,769,481	3.20%	8.05%	10.58%
DB	Manufacture of textiles and textile products	123,305,533	0.81%	13.47%	19.27%
DC	Manufacture of leather and leather products	2,978,393	0.02%	0.00%	6.58%
DD	Manufacture of wood and wood products	48,885,279	0.32%	20.79%	20.64%
DE	Manufacture of pulp, paper and paper products; publishing and printing	298,271,058	1.95%	80.69%	4.70%
DG	Manufacture of chemicals, chemical products and man-made fibres	1,408,692,993	9.20%	29.02%	17.15%
DH	Manufacture of rubber and plastic products	136,709,388	0.89%	22.28%	14.78%
DI	Manufacture of other non-metallic mineral products	350,813,218	2.29%	98.81%	2.53%

DJ	Manufacture of basic metals and fabricated metal products	888,415,280	5.80%	6.26%	4.86%
DK	Manufacture of machinery and equipment n.e.c.	252,315,857	1.65%	7.66%	18.35%
DL	Manufacture of electrical and optical equipment	174,481,793	1.14%	10.96%	16.62%
DM	Manufacture of transport equipment	95,246,657	0.62%	5.43%	37.90%
DN	Manufacturing n.e.c.	1,727,194	0.01%	0.69%	17.38%
F	Construction	384,384,400	2.51%	40.20%	17.16%
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	1,849,206,504	12.08%	10.73%	13.82%
H	Hotels and restaurants	824,372,876	5.38%	8.04%	21.07%
I	Transport, storage and communication	3,097,389,803	20.23%	89.96%	18.06%
J	Financial intermediation	4,410,848,520	28.80%	41.49%	23.85%
K	Real estate, renting and business activities	355,823,131	2.32%	42.85%	22.19%
O	Other community, social and personal service activities	7,972,500	0.05%	0.00%	11.19%
	<b>TOTAL</b>		<b>100.00%</b>	<b>41.67%</b>	<b>17.89%</b>

\* The free float is calculated on data provided by Central Depositary without taking into account the relativeness between minority shareholders

### Appendix 12.2.2A Equity, assets and market concentration of service provided by CIS

Company	Assets total (BGN)		Net assets (BGN)		Annual Growth	Share in the net assets of the type of collective investment scheme		Share in the net assets of all collective investment scheme	
	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006		31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006
Investment Companies					31 Dec 2006/ 31 Dec 2005				
IC Golden LevAD	8,016,917	8,781,003	7,737,894	8,781,001	13.48%	9.87%	8.09%	8.21%	2.79%
IC Elana EurofundAD	10,488,284	8,828,472	10,449,086	8,810,136	-15.69%	13.33%	8.12%	11.09%	2.80%
IC TBI EurobondAD	22,430,080	21,999,843	22,339,259	21,958,225	-1.71%	28.51%	20.23%	23.70%	6.97%
ICADvancee InvestAD	19,793,758	33,693,362	19,738,092	33,610,349	70.28%	25.19%	30.97%	20.94%	10.66%
IC Capman CapitalAD	3,934,845	9,441,046	3,881,182	9,422,316	142.77%	4.95%	8.68%	4.12%	2.99%
IC KD PelikanAD	5,344,000	5,195,045	5,332,000	5,175,060	-2.94%	6.80%	4.77%	5.66%	1.64%
IC UBB Balanced FundAD	4,164,827	5,463,536	4,138,369	5,449,335	31.68%	5.28%	5.02%	4.39%	1.73%
IC Elana High Yield FundAD	4,944,631	9,935,335	4,743,273	9,904,295	108.81%	6.05%	9.13%	5.03%	3.14%
IC Benchmark Fund - 2		5,432,956		5,411,264			4.99%		1.72%
Open-end investment funds	79,117,342	108,770,598	78,359,155	108,521,981	38.49%	100.00%	100.00%	83.15%	34.43%
Nadezhda ID (Sofia )	4,233,167	5,599,378	4,210,794	5,571,031	32.30%	75.51%	69.32%	4.47%	1.77%
Industrial Fund PLC - Investment company (Sofia )	1,369,716	2,481,249	1,365,492	2,465,703	80.57%	24.49%	30.68%	1.45%	0.78%
Close-end investment funds	5,602,883	8,080,627	5,576,286	8,036,734	44.12%	100.00%	100.00%	5.92%	2.55%
Contractual Funds	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2006/ 31 Dec 2005	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006
CF DSK Standart	668,346	3,722,897	667,381	3,719,266	457.29%	6.48%	1.87%	0.71%	1.18%
CF Sentinel Principal	1,121,270	2,111,493	1,116,789	2,108,233	88.78%	10.84%	1.06%	1.19%	0.67%

CF TBI Dynamik	1,744,773	7,274,239	1,741,143	7,232,594	315.39%	16.89%	3.64%	1.85%	2.2,9%
CF Elana Balanced Euro Fund	4,919,343	14,385,910	4,706,315	14,340,585	204.71%	45.67%	7.22%	4.99%	4.55%
CF Benchmark Fund - 1	263,134	2,845,177	261,301	2,839,173	986.55%	2.54%	1.43%	0.28%	0.90%
CF DSK Balance	712,372	17,115,384	708,531	17,064,555	2308.44%	6.87%	8.59%	0.75%	5.41%
CF Sentinel Rapid	1,007,488	1,456,430	1,006,576	1,455,336	44.58%	9.77%	0.73%	1.07%	0.46%
CF UBB Premium Stocks		5,786,000		5,772,000			2.91%		1.83%
CF UBB Platinum Bonds		1,947,000		1,946,000			0.98%		0.62%
CF Capman Max		7,311,843		7,284,089			3.67%		2.31%
CF TBI Comfort	11,830	5,326,653	11,276	5,312,563	47013.90%	0.11%	2.67%	0.01%	1.69%
CF TBI Harmony	88,498	7,645,627	86,763	7,618,082	8680.33%	0.84%	3.84%	0.09%	2.42%
CF DSK Growth		17,163,630		17,083,623			8.60%		5.42%
CF Standart Investment High Yield Fund		10,417,114		10,383,332			5.23%		3.29%
CF Standart Investment Balanced Fund		4,581,703		4,567,466			2.30%		1.45%
CF Elana Balanced \$ Fund		11,683,366		11,641,100			5.86%		3.69%
CF Raiffeisen (Bulgaria) Money market		3,204,773		3,202,481			1.61%		1.02%
CF Raiffeisen (Bulgaria) Bonds		5,383,511		5,374,672			2.71%		1.71%
CF Raiffeisen (Bulgaria) Shares		13,279,301		13,249,865			6.67%		4.20%
CF Raiffeisen (Bulgaria) Balanced		26,771,721		26,723,251			13.45%		8.48%
CF Alfa Index Imoti		1,875,750		1,875,116			0.94%		0.59%
CF KD bonds		595,122		591,703			0.30%		0.19%
CF KD stocks		1,034,568		1,026,515			0.52%		0.33%
CF Status New Stocks		4,505,077		4,467,168			2.25%		1.42%
CF Benchmark Fund - 3 (Sofia)		679,960		677,239			0.34%		0.21%
CF Alfa Index TOP 15		451,337		441,238			0.22%		0.14%

CF UG Market Maximum		1,018,870		1,013,746			0.51%		0.32%
CFADvancee Eastern Europe		2,950,488		2,942,765			1.48%		0.93%
CF Conservative – Saving Fund		505		483			0.00%		0.00%
CF Europe		16,697,000		16,667,716			8.39%		5.29%
CF Varchev High Yield Fund									
CF Standart Investment International Fund									
CF Synergon Profit									
CF Synergon Prestige									
Contractual funds	10,537,054	199,222,449	10,306,075	198,621,955	1827.23%	100.00%	100.00%	10.94%	63.02%
Collective investment schemes	95,257,279	316,073,674	94,241,516	315,180,670	234.44%			100.00%	100.00%

Appendix 12.2.2B Investment profile, Net value of assets per stock/ share and Rate of return of CIS as of 31 Dec 2006

Company	Investment Profile	Legal form	Par value of stock/ share	Net value of assets per stock/ share	Rate of return*	Rate of return from starting of the public offering	Starting date of the public offering
IC Golden LevAD	balanced	investment company of open-end type	1	6.49	17.77%	549%	1999
IC Elana EurofundAD	conservative	investment company of open-end type	100	137.45	5.05%	37%	4 Dec 2002
IC TBI EurobondAD	conservative	investment company of open-end type	200	265.62	6.02%	33%	17 Nov 2003
ICADvancee InvestAD	aggressive	investment company of open-end type	1	2.4	30.83%	131%	25 May 2004
IC Capman CapitalAD	balanced	investment company of open-end type	10	22.1	51.01%	121%	1 Oct 2004
IC KD PelikanAD	balanced	investment company of open-end type	10	16.96	13.02%	30%	17 Dec 2004
IC UBB Balanced FundAD	balanced	investment company of open-end type	100	134.38	13.20%	22%	31 Jan 2005
IC Elana High Yield FundAD	aggressive	investment company of open-end type	100	125.49	31.02%	34%	20 Jun 2005
IC Benchmark Fund - 2	aggressive	investment company of open-end type	100	142.91	42.91%	46%	1 Mar 2006
IC NadezhdaAD	-	investment company of close-end type	1	1.68	32.30%	237%	Close-end
IC Industrial FundAD	-	investment company of close-end type	1	3.06	80.57%	206%	Close-end
CF DSK Standart	conservative	contractual fund	1	1.07	6.29%	6.55%	1 Dec 2005
CF Sentinel Principal	balanced	contractual fund	1	1.11	11.58%	10.61%	12 Sep 2005
CF TBI Dynamik	aggressive	contractual fund	10	12.31	20.64%	23.06%	7 Sep 2005

CF Elana Balanced Euro Fund	balanced	contractual fund	100	119.45	19.92%	18.86%	7 Dec 2005
CF Benchmark Fund - 1	balanced	contractual fund	100	130.58	30.78%	30.58%	14 Dec 2005
CF DSK Balance	balanced	contractual fund	1	1.29	29.32%	29.15%	1 Dec 2005
CF Sentinel Rapid	conservative	contractual fund	1	1.03	2.47%	2.63%	15 Nov 2005
CF UBB Premium Stocks	aggressive	contractual fund	10	11.79		17.92%	30 Jan 2006
CF UBB Platinum Bonds	conservative	contractual fund	10	9.95		-0.46%	30 Jan 2006
CF Capman Max	aggressive	contractual fund	10	20.01		100.13%	5 Jan 2006
CF TBI Comfort	conservative	contractual fund	10	11.48	14.81%	14.81%	27 Dec 2005
CF TBI Harmony	balanced	contractual fund	10	11.64	16.44%	16.44%	27 Dec 2005
CF DSK Growth	balanced	contractual fund	1	1.45		44.54%	1 Mar 2006
CF Standart Investment High Yield Fund	aggressive	contractual fund	10	15.72		58.75%	1 Mar 2006
CF Standart Investment Balanced Fund	balanced	contractual fund	10	11.8		28.29%	1 Mar 2006
CF Elana Balanced \$ Fund	balanced	contractual fund	100,(\$)	169.87		12.69%	6 Mar 2006
CF Raiffeisen (Bulgaria) Money market	conservative-balanced	contractual fund	1	1.03		2.99%	16 Mar 2006
CF Raiffeisen (Bulgaria) Bonds	conservative-balanced	contractual fund	1	1.03		3.17%	16 Mar 2006
CF Raiffeisen (Bulgaria) Shares	aggressive	contractual fund	1	1.33		33.24%	16 Mar 2006
CF Raiffeisen (Bulgaria) Balanced	balanced	contractual fund	1	1.18		18.37%	16 Mar 2006
CF Alfa Index Imoti	aggressive	contractual fund	1	1		1.09%	17 Apr 2006
CF KD bonds	balanced	contractual fund	100	105.04		5.04%	4 May 2006
CF KD stocks	aggressive	contractual fund	1	1.26		25.88%	4 May 2006
CF Status New Stocks	balanced	contractual fund	1	1.28		28.49%	22 May 2006
CF Benchmark Fund - 3 (Sofia)	balanced	contractual fund	100	92.91		-7.09%	21 Jun 2006
CF Alfa Index TOP 15	aggressive	contractual fund	1	1.18		18.69%	16 Aug 2006

CF UG Market Maximum	moderate-aggressive	contractual fund	1	1.32		31.83%	18 Sep 2006
CFADvancee Eastern Europe	moderate-aggressive	contractual fund	1 (EUR)	1.05		6.40%	10 Oct 2006
CF Conservative – Saving Fund	conservative	contractual fund	100	98.57		-1.43%	21 Nov 2006
CF Europe	aggressive	contractual fund	100	108.72		8.72%	21 Nov 2006
CF Varchev High Yield Fund	aggressive	contractual fund	100				5 Jan 2007
CF Standart Investment International Fund	aggressive	contractual fund	10				12 Feb2007
CF Synergon Profit	conservative	contractual fund	10				19 Feb2007
CF Synergon Prestige	moderate-aggressive	contractual fund	10				5 Apr 2007

\* Calculated after the following formula (Net value of the share as of 31 Dec 2006 - Net value of the share as of 31 Dec 2005)/ Net value of the share as of 31 Dec 2005

### Appendix 12.2.2C. Structure of collective investment schemes' assets as of 31 Dec 2006

#### Structure of assets of the investment companies of open-end type as of 31 Dec 2006

Assets	IC Golden LevAD		IC Elana EurofundAD		IC TBI EurobondAD		ICADvancee InvestAD		IC Capman CapitalAD	
	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)
Cash. incl.	1,050,382	11.96%	2,415,393	27.36%	12,397,183	56.35%	7,112,408	21.11%	3,473,624	36.79%
Bank deposits	720,200	8.20%	2,390,792	27.08%	10,559,993	48.00%	6,983,966	20.73%	0	0.00%
Equities	4,306,495	49.04%	0	0.00%	0	0.00%	20,529,944	60.93%	3,502,134	37.09%
Corporate bonds	1,510,603	17.20%	4,337,035	49.13%	5,593,194	25.42%	1,711,356	5.08%	1,412,210	14.96%
Foreign securities	299,976	3.42%	111,380	1.26%	148,859	0.68%	3,947,923	11.72%	0	0.00%
Mortgage bonds	293,966	3.35%	1,028,128	11.65%	1,150,867	5.23%	309,216	0.92%	0	0.00%
Municipal bonds	0	0.00%	214,178	2.43%	298,283	1.36%	0	0.00%	0	0.00%
Compensatory notes	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Government securities	639,752	7.29%	570,796	6.47%	2,140,966	9.73%	0	0.00%	1,019,670	10.80%
Euro-bonds	578,241	6.59%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Non-financial assets	101,589	1.16%	151,563	1.72%	270,491	1.23%	38,151	0.11%	33,408	0.35%
Receivables	101,589	1.16%	151,563	1.72%	270,491	1.23%	38,151	0.11%	33,408	0.35%
Others	0	0.00%	0	0.00%	0	0.00%	44,364	0.13%	0	0.00%
Balance Sheet Assets	8,781,004	100.00%	8,828,473	100.00%	21,999,843	100.00%	33,693,362	100.00%	9,441,046	100.00%

Structure of assets of the investment companies of open-end type as of 31 Dec 2006

Assets	IC KD PelikanAD		IC UBB Balanced FundAD		IC Elana High Yield FundAD		IC Benchmark Fund - 2		Total for open-end investment funds	
	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)
Cash. incl.	1,366,209	26.30%	727,312	13.31%	2,015,788	20.29%	1,503,550	27.67%	32,061,849	29.48%
Bank deposits	1,090,000	20.98%	550,000	10.07%	2,004,000	20.17%	400,000	7.36%	24,698,951	22.71%
Equities	1,989,651	38.30%	2,236,187	40.93%	6,705,606	67.49%	3,883,109	71.47%	43,153,126	39.67%
Corporate bonds	982,678	18.92%	1,831,171	33.52%	80,784	0.81%	0	0.00%	17,459,031	16.05%
Foreign securities	553,349	10.65%	183,599	3.36%	703,962	7.09%	0	0.00%	5,949,048	5.47%
Mortgage bonds	0	0.00%	301,922	5.53%	31,692	0.32%	0	0.00%	3,115,791	2.86%
Municipal bonds	0	0.00%	132423	2.42%	0	0.00%	0	0.00%	644,884	0.59%
Compensatory notes	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Government securities	235,420	4.53%	0	0.00%	0	0.00%	0	0.00%	4,606,604	4.24%
Euro-bonds	0	0.00%	0	0.00%	0	0.00%	0	0.00%	578,241	0.53%
Non-financial assets	53,000	1.02%	43,595	0.80%	397,503	4.00%	46,297	0.85%	1,135,597	1.04%
Receivables	53,000	1.02%	43,595	0.80%	397,503	4.00%	46,297	0.85%	1,135,597	1.04%
Others	14,738	0.28%	7,327	0.13%	0	0.00%	0	0.00%	66,429	0.06%
Balance Sheet Assets	5,195,045	100.00%	5,463,536	100.00%	9,935,335	100.00%	5,432,956	100.00%	108,770,600	100.00%

Structure of assets of the investment companies of close-end type as of 31 Dec 2006

Assets	Nadezhda ID (Sofia )		Industrial Fund PLC - Investment company (Sofia )		Total for close-end investment funds	
	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)
Cash. incl.	523,771	9.35%	1,226,840	49.44%	33,812,460	28.94%
Bank deposits	202,096	3.61%	1,183,850	47.71%	26,084,897	22.32%
Equities	3,917,070	69.96%	1,219,453	49.15%	48,289,649	41.33%
Corporate bonds	817,196	14.59%	0	0.00%	18,276,227	15.64%
Foreign securities	0	0.00%	0	0.00%	5,949,048	5.09%
Mortgage bonds	0	0.00%	0	0.00%	3,115,791	2.67%
Municipal bonds	0	0.00%	0	0.00%	644884	0.55%
Compensatory notes	35601	0.64%	0	0.00%	35601	0.03%
Government securities	259,081	4.63%	0	0.00%	4,865,685	4.16%
Euro-bonds	0	0.00%	0	0.00%	578,241	0.49%
Non-financial assets	21,052	0.38%	2,507	0.10%	1,159,156	0.99%
Receivables	21,052	0.38%	2,507	0.10%	1,159,156	0.99%
Others	25,607	0.46%	32,449	1.31%	124,485	0.11%
Balance Sheet Assets	5,599,378	100.00%	2,481,249	100.00%	116,851,227	100.00%

Structure of contractual funds' assets as of 31 Dec 2006

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)
Cash. incl.	2,091,133	56.17%	344,936	16.34%	850,577	11.69%	586,394	20.61%	6,646,413	38.83%	335,360	23.03%	2,081,141	14.47%
Bank deposits	2,087,820	56.08%	281,375	13.33%	772,806	10.62%	202,000	7.10%	6,571,685	38.40%	308,210	21.16%	2,078,964	14.45%
Equities	103,900	2.79%	703,467	33.32%	3,965,385	54.51%	1,494,506	52.53%	6,016,248	35.15%	0	0.00%	7,964,114	55.36%
Corporate bonds	1,425,250	38.28%	896,409	42.45%	986,184	13.56%	738,427	25.95%	4,143,284	24.21%	482,889	33.16%	1,992,869	13.85%
Foreign securities	0	0.00%	166,334	7.88%	882,110	12.13%	0	0.00%	0	0.00%	127,947	8.78%	925,204	6.43%
Mortgage bonds	51,489	1.38%	0	0.00%	0	0.00%	12,091	0.42%	99,018	0.58%	0	0.00%	928,691	6.46%
Municipal bonds	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	27349	1.88%	0	0.00%
Compensatory notes	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Government securities	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	482,682	33.14%	0	0.00%
Euro-bonds	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Non-financial assets	51,125	1.37%	347	0.02%	589,983	8.11%	13,758	0.48%	210,421	1.23%	202	0.01%	382,511	2.66%
Receivables	51,125	1.37%	347	0.02%	589,983	8.11%	13,758	0.48%	210,421	1.23%	202	0.01%	382,511	2.66%
Others	0	0.00%	0	0.00%	0	0.00%	1	0.00%	0	0.00%	0	0.00%	111,380	0.77%
Balance Sheet Assets	3,722,897	100.00%	2,111,493	100.00%	7,274,239	100.00%	2,845,177	100.00%	17,115,384	100.00%	1,456,429	100.00%	14,385,910	100.00%

Structure of contractual funds' assets as of 31 Dec 2006

Assets	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	
	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)
Cash. incl.	1,230,000	21.26%	341,000	17.51%	2,255,937	30.85%	1,685,404	31.64%	1,665,159	21.78%	5,549,501	32.33%	1,468,081	14.09%
Bank deposits	1,210,000	20.91%	335,000	17.21%	0	0.00%	1,625,454	30.52%	1,594,254	20.85%	5,221,639	30.42%	625,879	6.01%
Equities	3,755,000	,	130,000	6.68%	4,792,268	65.54%	910,766	17.10%	2,219,999	29.04%	9,666,734	56.32%	8,744,046	83.94%
Corporate bonds	702,000	,	1,362,000	69.95%	196,534	2.69%	2,249,594	42.23%	2,812,622	36.79%	1,786,131	10.41%	49,077	0.47%
Foreign securities	17,000	0.29%	0	0.00%	0	0.00%	278,205	5.22%	580,159	7.59%	0	0.00%	0	0.00%
Mortgage bonds	,	,	91,000	4.67%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Municipal bonds	,	,	0	0.00%	0	0.00%	67275	1.26%	28713	0.38%	0	0.00%	0	0.00%
Compensatory notes	11000	0.19%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Government securities	,	,	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Euro-bonds	,	,	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Non-financial assets	68,000	1.18%	20,000	1.03%	67,104	0.92%	135,409	2.54%	338,975	4.43%	161,264	0.94%	155,910	1.50%
Receivables	68,000	1.18%	20,000	1.03%	67,104	0.92%	135,409	2.54%	338,975	4.43%	161,264	0.94%	155,910	1.50%
Others	3,000	0.00%	3,000	0.15%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Balance Sheet Assets	3,972,473	100.000%	1,229,575	100.00%	2,748,386	100.00%	3,700,342	100.00%	6,384,662	100.00%	5,449,131	100.00%	5,615,429	100.00%

Structure of contractual funds' assets as of 31 Dec 2006

Assets	CF Standart Investment Balanced Fund		Elana Balanced \$ fund		Raiffeisen (Bulgaria) Money market		Raiffeisen (Bulgaria) Bonds		Raiffeisen (Bulgaria) Shares		Raiffeisen (Bulgaria) Balanced		Alfa Index Imoti	
	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)
Cash. incl.	1,030,560	22.49%	2,388,653	20.44%	1,264,616	39.46%	1,272,548	23.64%	6,953,065	52.36%	9,593,778	35.84%	383,610	20.45%
Bank deposits	322,516	7.04%	2,370,525	20.29%	680,000	21.22%	1,010,000	18.76%	3,206,308	24.15%	7,460,514	27.87%	330,000	17.59%
Equities	3,397,542	74.15%	5,865,434	50.20%	0	0.00%	287,973	5.35%	5,955,153	44.85%	5,838,963	21.81%	1,116,117	59.50%
Corporate bonds	150,510	3.29%	1,789,079	15.31%	1,918,685	59.87%	3,648,671	67.77%	0	0.00%	8,677,857	32.41%	0	0.00%
Foreign securities	0	0.00%	1,147,000	9.82%	0	0.00%	0	0.00%	326,708	2.46%	1,383,000	5.17%	0	0.00%
Mortgage bonds	0	0.00%	148,181	1.27%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Municipal bonds	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Compensatory notes	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Government securities	0	0.00%	0	0.00%	0	0.00%	171,368	3.18%	0	0.00%	1,176,819	4.40%	372,896	19.88%
Euro-bonds	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Non-financial assets	3,091	0.07%	344,814	2.95%	21,471	0.67%	2,949	0.05%	44,375	0.33%	101,302	0.38%	3,127	0.17%
Receivables	3,091	0.07%	344,814	2.95%	21,471	0.67%	2,949	0.05%	44,375	0.33%	101,302	0.38%	3,127	0.17%
Others	0	0.00%	205	0.00%	1	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Balance Sheet Assets	4,581,703	100.00%	11,683,366	100.00%	3,204,773	100.00%	5,383,509	100.00%	13,279,301	100.00%	26,771,719	100.00%	1,875,750	100.00%

Structure of contractual funds' assets as of 31 Dec 2006

Assets	KD Bonds		KD Stocks		Status New Stocks		Benchmark Fund - 3 (Sofia)		Alfa Index TOP 15		UG Market Maximum		Advancee Eastern Europe	
	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)
Cash. incl.	149,221	25.07%	238,529	23.06%	1,153,614	25.61%	129,089	18.98%	71,744	15.90%	304,022	29.84%	693,914	23.52%
Bank deposits	110,531	18.57%	175,000	16.92%	371,250	8.24%	50,000	7.35%	40,125	8.89%	0	0.00%	450,000	15.25%
Equities	99,266	16.68%	554,079	53.56%	1,736,753	38.55%	550,051	80.89%	379,530	84.09%	638,104	62.63%	203,032	6.88%
Corporate bonds	345,727	58.09%	64,304	6.22%	0	0.00%	0	0.00%	0	0.00%	58,755	5.77%	0	0.00%
Foreign securities	0	0.00%	172,149	16.64%	1,583,788	35.16%	0	0.00%	0	0.00%	0	0.00%	2,053,086	69.58%
Mortgage bonds	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Municipal bonds	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Compensatory notes	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Government securities	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Euro-bonds	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Non-financial assets	908	0.15%	5,507	0.53%	30,922	0.69%	820	0.12%	62	0.01%	17,988	1.77%	456	0.02%
Receivables	908	0.15%	5,507	0.53%	30,922	0.69%	820	0.12%	62	0.01%	17,988	1.77%	456	0.02%
Others	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Balance Sheet Assets	595,122	100.00%	1,034,568	100.00%	4,505,077	100.00%	679,960	100.00%	451,336	100.00%	1,018,869	100.00%	2,950,488	100.00%

### Structure of contractual funds' assets

Assets	CF Conservative – Saving Fund		CF Europe		CF Varchev High Yield Fund		CF Standart Investment International Fund		CF Synergon Profit		CF Synergon Prestige		Total for contractual funds	
	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)
Cash. incl.	505	100.00%	3,470,000	20.78%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	56,228,512	28.22%
Bank deposits	0	0.00%	2,400,000	14.37%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	41,891,860	21.03%
Equities	0	0.00%	13,223,000	79.19%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	90,311,442	45.33%
Corporate bonds	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	36,476,864	18.31%
Foreign securities	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	9,642,692	4.84%
Mortgage bonds	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	1,330,470	0.67%
Municipal bonds	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	123,337	0.06%
Compensatory notes	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	11,000	0.01%
Government securities	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	2,203,766	1.11%
Euro-bonds	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Non-financial assets	0	0.00%	4,000	0.02%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	2,776,801	1.39%
Receivables	0	0.00%	4,000	0.02%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	2,776,801	1.39%
Others	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	117,587	0.06%
Balance Sheet Assets	505	100.00%	16,697,000	100.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	199,222,471	100.00%

## Structure of collective investment schemes' assets as of 31 Dec 2006

Assets	Total for investment funds		Total for contractual funds		Total for collective investment schemes	
	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)	Amount (BGN)	Share (%)
Cash. incl.	33,812,460	28.94%	56,228,512	28.22%	90,040,972	28.49%
Bank deposits	26,084,897	22.32%	41,891,860	21.03%	67,976,757	21.51%
Equities	48,289,649	41.33%	90,311,442	45.33%	138,601,091	43.85%
Corporate bonds	18,276,227	15.64%	36,476,864	18.31%	54,753,091	17.32%
Foreign securities	5,949,048	5.09%	9,642,692	4.84%	15,591,740	4.93%
Mortgage bonds	3,115,791	2.67%	1,330,470	0.67%	4,446,261	1.41%
Municipal bonds	644,884	0.55%	123,337	0.06%	768,221	0.24%
Compensatory notes	35,601	0.03%	11,000	0.01%	46,601	0.01%
Government securities	4,865,685	4.16%	2,203,766	1.11%	7,069,451	2.24%
Euro-bonds	578,241	0.49%	0	0.00%	578,241	0.18%
Non-financial assets	1,159,156	0.99%	2,776,801	1.39%	3,935,957	1.25%
Receivables	1,159,156	0.99%	2,776,801	1.39%	3,935,957	1.25%
Others	124,485	0.11%	117,587	0.06%	242,072	0.08%
Balance Sheet Assets	116,851,227	100.00%	199,222,471	100.00%	316,073,698	100.00%

Appendix 12.2.2D Foreign mutual funds, offering shares in Bulgaria as of 31 Dec 2006

Foreign collective investment schemes	Funds / subfunds	Management company	Investment intermediary (distributor) in Bulgaria
Pioneer funds (Luxemburg)	13 subfunds	Pioneer Assets Management S.A	CB BulbankAD
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.	Capitalinvest	CB HVB BiochimAD
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)	Societe Generale Asset Management S.A.	CB Societe Generale ExpressbankAD
Raiffeisen Capital Management MBX (Austria)	1. Raiffeisen Global Balanced Fund; 2. Raiffeisen Global Shares Fund; 3. Raiffeisen Global Bonds Fund; 4. Raiffeisen Europlus Bonds Fund; 5. Raiffeisen East European Shares Fund; 6. Raiffeisen Convergence to EU Fund; 7. Raiffeisen Bonds Fund in USD; 8. Raiffeisen Eurasia Shares Fund.	Raiffeisen Capital Management MBX (Austria)	Raiffeisen Bank (Bulgaria) EAD
OTP International Equity - UBS Fund of Funds	—		
OTP Central European Shares Fund	—		

# Appendix 12.2.2E.

Equity, assets managed by and contracts concluded by management companies as of 31 Dec 2006

Management company	Authorized capital (BGN)	Equity (BGN)	Annual growth of equity (BGN)	Assets managed as of 31 Dec 2006	Annual growth of assets	Share in the managed assets	Management contracts concluded by the company as of 31 Dec 2006
MC Golden Lev CapitalAD	250,000	350,087	6.97%	8,781,003	13.18%	2.10%	1. IC Golden LevAD
MC Elana Fund ManagementAD	260,000	819,472	138.19%	76,683,083	272.44%	18.35%	1. IC Elana EurofundAD
							2. IC Elana High Yield FundAD
							3. CF Elana Balanced Euro Fund
							4. VZK Dobrudja - M - Life
							5. Health Insurance Company – PlanetAD
							6. Elana Agricultural Land Opportunity Fund SPV
							7. Elana Balanced \$ fund
MC TBI Asset Management	1400000	812072	-23.24%	90551036	69.11%	21.66%	1. IC TBI EurobondAD
							2. CF TBI Dynamik
							3. CF TBI Comfort
							4. CF TBI Harmony
							5. ZAD Bulstrad Life InsuranceAD
							6. ZPAD BulstradAD
							7. Voluntary Health Insurance Network – ZdraveAD
							8. Guarantee Fund
							9. National Bureau of Bulgarian Motor Insurers
							10. Bulstrad - Health InsuranceAD
MC Capman Asset ManagementAD	250,000	376,590	43.04%	16,752,889	325.76%	4.01%	1. IC Capman CapitalAD
							2. CF Capman Max

MC Karoll Capital Management EAD	550,000	835,590	43.32%	36,643,850	85.13%	8.77%	1. ICADvancee InvestAD
							2. CFADvancee Eastern Europe
MC KD Investments EAD	2075000	425000	140.11%	6793307	28.80%	1.63%	1. IC KD PelikanAD
							2. CF KD Bonds (Bulgaria)
							3. CF KD Shares (Bulgaria)
MC FFBH Asset ManagementAD	250,000	323,321	15.24%	5,599,378	32.27%	1.34%	1. IC NadezhdaAD
MC UBB Asset Management EAD	330,000	303,000	3.41%	13,167,358	218.10%	3.15%	1. IC UBB Balanced FundAD
							2. CF UBB Premium Stocks
							3. CF UBB Platinum Bonds
MC DSK Asset Management EAD	650,000	724,720	118.16%	45,586,455	1070.20%	10.91%	1. CF DSK Standart
							2. CF DSK Balance
							3. CF DSK Growth
							4. ZK DSK GarantziaAD
							5. ZHZK DSK GarantziaAD
MC Sentinel Asset ManagementAD	250,000	253,119	9.16%	3,567,923	67.61%	0.85%	1. CF Sentinel Principal
							2. CF Sentinel Rapid
MC BanchMark Asset ManagementAD	260,000	272,689	8.03%	19,237,292	7210.83%	4.60%	1. CF Benchmark Fund - 1
							2. IC Benchmark Fund - 2
							3. CF Benchmark Fund - 3
							4. VZK Dobrudja - M -Jivot
							5. Benchmark Fund Estates REIT
MC Standart Asset ManagementAD	250,000	312,726	21.12%	14,998,817	5049.10%	3.59%	1. CF Standart Investment High Yield Fund
							2. CF Standart Investment Balanced Fund
							3. CF Standart Investment International Fund
MC Raiffeizen Asset Management	250,000	642,193	156.88%	54,879,307		13.13%	1. CF Raiffeisen (Bulgaria) Money market
							2. CF Raiffeisen (Bulgaria) Bonds
							3. CF Raiffeisen (Bulgaria) Shares

							4. CF Raiffeisen (Bulgaria) Balanced
							5. IC Euro InsAD
							6. IC BAEZAD
							7. Individual portfolios management contract
MC UG Market Fund Management	250,000	246,674		1,018,870		0.24%	1. CF UG Market Maximum
MC Balkan Capital Management	300,000	285,911		16,697,174		3.99%	1. CF Conservative - saving
							2. CF Europe
MC Status Capital	250,000	260,089		4,677,107		1.12%	1. CF Status New Shares
MC Alfa Asset Management	300,000	276,000		2,326,427		0.56%	1. Alfa Index Imoti
							2. Alfa Index TOP 15
MC Synergon Asset Management	250,000	209,918		0		0.00%	1. CF Synergon Profit
							2. CF Synergon Prestige
MC Varchev Managing Company	250,000	242,809		0		0.00%	1. CF Varchev High Yield Fund
MC Avrora Capital	250,000	225,158		0		0.00%	
MC Titan Asset Management	250,000	241,066		0		0.00%	
MC Somony Asset Management	260,000	258,754		0		0.00%	
MC Real Finance Asset Management	250,000	250,000		0		0.00%	
Total	9,635,000	8,946,958	92.38%	417,961,276	232.11%	100.00%	

Appendix 12.2.2F Equity, assets accumulated and market share of SPV/ REITs as of 31 Dec 2006

Company	Authorized capital (BGN)	Equity (BGN)	Annual growth of equity	Assets (BGN)	Market share	Annual growth of assets	Specific activity
Capital Direct - 1 Special Investment Purpose Joint Stock Company	650,000	701,000	2.64%	4,779,000	4.92%	-10.86%	securitization of receivables
Capital Management - Special Investment Purpose Joint Stock Company	650,000	5,213,000	942.60%	71,187,000	73.28%	14137.40%	securitization of receivables
Hipocapital - Special Investment Purpose Joint Stock Company	650,000	622,000	25.15%	633,000	0.65%	26.60%	securitization of receivables
Transinvestment Special Purpose vehicle	650,000	950,000	91.92%	11,035,000	11.36%	2129.29%	securitization of receivables
Energetics and Energy Savings Funds SPV	650,000	780,000		8,292,000	8.54%		securitization of receivables
Alfa Credit SPV	500,000	461,000		1,221,000	1.26%		securitization of receivables
Total (SPV)	3,750,000	8,727,000	301.24%	97,147,000	100.00%	1316.96%	securitization of receivables
Bulgarian Real Estate Fund Inc. REIT	60,450,000	74,345,000	261.44%	88,964,000	38.72%	330.51%	securitization of real estate - farm land
Elana Agricultural Land Opportunity Fund	59,717,000	84,015,000	252.65%	84,567,000	36.81%	253.44%	securitization of real estate - farm land
Advancee Terrafund REIT	22,086,729	32,074,000	179.37%	44,314,000	19.29%	273.91%	securitization of real estate - farm land
Bullend Investments REIT	5,469,641	6,166,000	1088.05%	6,178,000	2.69%	1076.76%	securitization of real estate - farm land
Agricultural Land Opportunity Fund Mel Invest REIT	2,463,250	2,579,000		3,465,000	1.51%		securitization of real estate - farm land

Agrofinance REIT	650,000	778,780		2,245,858	0.98%		securitization of real estate - farm land
Total (agriculture funds)	150,836,620	199,957,780	254.58%	229,733,858	100.00%	303.27%	securitization of real estate - farm land
Prime Property BG REIT	35,706,593	58,728,706	160.13%	59,444,776	19.06%	159.85%	securitization of real estate
Benchmark Fund Estates REIT	23,394,706	32,842,000	296.45%	33,578,000	10.76%	280.49%	securitization of real estate
Colos – 1 REIT	1,603,000	1,633,000	268.62%	1,698,000	0.54%	250.10%	securitization of real estate
ERG Capital - 1 REIT	3,000,000	4,667,000	5.37%	12,240,000	3.92%	-4.98%	securitization of real estate
Aktiv Properties REIT	5,200,000	6,806,000	900.88%	8,279,000	2.65%	545.79%	securitization of real estate
Park REIT	5,200,000	5,626,000	683.57%	6,407,000	2.05%	687.10%	securitization of real estate
Intercapital Property Development REIT	4,824,000	14,116,000	122.93%	31,141,000	9.98%	362.51%	securitization of real estate
Quantum Developments REIT	650,000	7,216,405	1369.51%	8,055,645	2.58%	942.30%	securitization of real estate
ERG Capital - 2 REIT	3,450,000	6,204,000	176.59%	17,499,000	5.61%	-2.84%	securitization of real estate
CCB Real Estate Fund REIT	650,000	920,000	84.00%	950,000	0.30%	90.00%	securitization of real estate
FairPlay Properties REIT	50,700,000	51,787,000	10779.62%	72,610,000	23.28%	15027.08%	securitization of real estate
Bulgarian Investments Group REIT	650,000	627,000	26.67%	633,000	0.20%	26.85%	securitization of real estate
Premier Fund REIT	650,000	659,000		667,000	0.21%		securitization of real

							estate
Black See Investment REIT	650,000	20,455,000		20,476,000	6.56%		securitization of real estate
CEE Estates REIT	650,000	795,000	59.00%	797,000	0.26%	59.40%	securitization of real estate
Sopharma Estates REIT	5,850,000	6,402,000		6,416,000	2.06%		securitization of real estate
Universal Properties REIT	650,000	1,645,000		1,855,000	0.59%		securitization of real estate
Liam REIT	1,700,000	1,669,000		1,692,000	0.54%		securitization of real estate
Luke REIT	1,500,000	1,625,000		4,288,000	1.37%		securitization of real estate
Invest Property REIT	650,000	639,000		2,254,000	0.72%		securitization of real estate
Superborovetz REIT	650,000	9,980,000		10,251,000	3.29%		securitization of real estate
Alfa Property 1 REIT	650,000	2,430,000		2,452,000	0.79%		securitization of real estate
Forukom REIT	715,000	525,000		696,000	0.22%		securitization of real estate
Status Estates REIT (Sofia)	500,000	500,000		502,000	0.16%		securitization of real estate
Exclusive Property REIT	500,000	495,000		495,000	0.16%		securitization of real estate
Health and Wellness REIT (Sofia)	750,000	951,000		964,000	0.31%		securitization of real estate
Solid Invest REIT (Sofia)	500,000	441,000		444,000	0.14%		securitization of real estate
Real Estates Sofia REIT (Sofia)	500,000	4,254,000		5,143,000	1.65%		securitization of real estate

Total REITs (ex. agriculture funds)	152,093,299	244,638,111	407.89%	311,927,421		317.80%	securitization of real estate
Total (REITs & agriculture funds)	302,929,919	444,595,891	325.20%	541,661,279		311.51%	securitization of real estate
TOTAL (REITS&SPV)	306,679,919	453,322,891	324.72%	638,808,279		361.28%	securitization of real estate and receivables

Appendix 12.2.2G Divident distrubited for 2005 and earning of REITs and SPVs for 2006

Company	Divident distributed for 2005 (lv. per share)	Earning for 2006	Earning per share	Specific activity
Capital Direct - 1 Special Investment Purpose Joint Stock Company	35.54	170,000	26.15	securitization of receivables
Capital Management - Special Investment Purpose Joint Stock Company		208,000	0.32	securitization of receivables
Hipocapital - Special Investment Purpose Joint Stock Company				securitization of receivables
Transinvestment Special Purpose Vehicle		75,000	0.12	securitization of receivables
Energetics and Energy Savings Funds SPV		130,000	0.20	securitization of receivables
Alfa Credit SPV				securitization of receivables
Bulgarian Real Estate Fund Inc. REIT		4,115,000	0.07	securitization of real estate - farm land
Elana Agricultural Land Opportunity Fund		10,460,000	0.18	securitization of real estate - farm land
Advancee Terrafund REIT		7,348,000	0.33	securitization of real estate - farm land
Bullend Investments REIT		453,000	0.08	securitization of real estate - farm land
Agricultural Land Opportunity Fund Mel Invest REIT		96,000	0.04	securitization of real estate - farm land
Agrofinance REIT		128,780	0.20	securitization of real estate - farm land
Prime Property BG REIT		3,413,585	0.10	securitization of real estate
Benchmark Fund Estates REIT		350,000	0.01	securitization of real estate
Colos – 1 REIT		30,000	0.19	securitization of real estate
ERG Capital - 1 REIT	0.17	598,000	0.20	securitization of real estate
Aktiv Properties REIT		1,022,000	0.20	securitization of real estate
Park REIT		267,000	0.05	securitization of real estate

Intercapital Property Development REIT				securitization of real estate
Quantum Developments REIT		6,575,331	10.12	securitization of real estate
ERG Capital - 2 REIT	0.08	734,000	0.21	securitization of real estate
CCB Real Estate Fund REIT				securitization of real estate
FairPlay Properties REIT		841,000	0.02	securitization of real estate
Bulgarian Investments Group REIT				securitization of real estate
Premier Fund REIT		9,000	0.01	securitization of real estate
Black See Investment REIT		19,317,000	29.72	securitization of real estate
CEE Estates REIT				securitization of real estate
Sopharma Estates REIT				securitization of real estate
Universal Properties REIT				securitization of real estate
Liam REIT				securitization of real estate
Luke REIT				securitization of real estate
Invest Property REIT				securitization of real estate
Superborovetz REIT		8,871,000	13.65	securitization of real estate
Alfa Property 1 REIT				securitization of real estate
Forukom REIT				securitization of real estate
Luke REIT				securitization of real estate
Status Estates REIT				securitization of real estate
Exclusive Properties REIT				securitization of real estate
Health and Wellness REIT				securitization of real estate
Solid Invest REIT		3,754,000	7.51	securitization of real estate
Real Estates Sofia REIT				securitization of real estate

## Appendix 12.2.2H Structure of Special Purpose Vehicles and Real Estate Investment Trusts' assets as of 31 Dec 2006

### Structure of Special Purpose Vehicles' assets

Assets (BGN)	Capital Direct - 1	Capital Management	Hipocapital	Trans investment	Energetics and Energy Savings Funds	Alfa Credit SPV	Total
Cash	142,000	150,000	633,000	148,000	3,387,000	316,000	4,776,000
Receivables under interest	117,000	0	0	117,000	0	0	234,000
Receivables under commercial loans (up to 1 year)	667,000	4,363,000	0	0	0	905,000	5,935,000
Receivables under commercial loans (over 1 year)	3,853,000	6,667,400	0	10,770,000	4,905,000	0	86,202,000
Others	4,779,000	71,187,000	633,000	11,035,000	8,292,000	1,221,000	97,147,000

### Structure of Real Estate Investment Trusts' assets

Assets (BGN)	Bulgaria Real Estate Investment Fund	Elana Agricultural Land Opportunity Fund	Advancee Terrafund	Bullend Investments	Agricultural Land Opportunity Fund Mel Invest	Agrofinance	Total for the agriculture funds
Investment property (land, terrains)	21,701,000	0	0	0	0	0	21,701,000
Investment property (buildings, equipment)	0	0	0	0	0	0	0
Investment property (farm land)	9,480,000	58,091,000	36,492,000	5,008,000	3,308,000	2,087,296	114,466,296
Property in process of building (acquisition)	23,184,000	0	0	0	0	0	23,184,000
Financial assets	30,000	7,344,000	0	464,000	0	0	7,838,000
Cash	27,988,000	18,349,000	7,230,000	283,000	17,000	32,450	53,899,450
Receivables	4,302,000	729,000	591,000	420,000	140,000	98,257	6,280,257
Others	2,279,000	54,000	1,000	3,000	0	27,855	2,364,855
Balance sheet assets	88,964,000	84,567,000	44,314,000	6,178,000	3,465,000	2,245,858	229,733,858

Structure of Real Estate Investment Trusts' assets

Assets (BGN)	Prime Property BG	Benchmark Real Estate Investment Trust	Colos - 1	ERG Capital - 1	Aktiv Properties	Park Inc.	Intercapital Property Development
Investment property (land,terrains)	0	10,338,000	1,214,000	797,000	3,414,000	861,000	8,729,000
Investment property (buildings, equipment)	23,298,682	5,755,000	0	10,285,000	2,314,000	861,000	0
Investment property (farm land)	0	0	0	0	0	0	0
Property in process of building (acquisition)	3,532,135	4,290,000	448,000	0	2,172,000	0	16,986,000
Financial assets	17,700,000	0	0	105,000	0	0	0
Cash	14,320,564	12,334,000	30,000	1,036,000	7,000	1,734,000	2,740,000
Receivables	589,899	861,000	3,000	2,000	357,000	2,845,000	2,661,000
Others	3,496	0	3,000	15,000	15,000	106,000	25,000
Balance sheet assets	59,444,776	33,578,000	1,698,000	12,240,000	8,279,000	6,407,000	31,141,000

Assets (BGN)	Quantum Developments	ERG Capital - 2	CCB Real Estate Fund	FairPlay Properties	Bulgarian Investments Group	Premier Fund	Black See Investment
Investment property (land,terrains)	2,018,011	3,419,000	0	7,611,000	0	158,000	10,397,000
Investment property (buildings, equipment)	4,971,711	12,635,000	0	46,442,000	0	0	0
Investment property (farm land)	0	0	0	0	0	0	0
Property in process of building (acquisition)	0	0	500,000	10,696,000	630,000	0	0
Financial assets	0	269,000	0	0	0	10,000	0
Cash	165,547	1,155,000	450,000	4,197,000	3,000	298,000	8,962,000
Receivables	900,376	3,000	0	3,292,000	0	201,000	600,000
Others	0	18,000	0	372,000	0	0	517,000
Balance sheet assets	8,055,645	17,499,000	950,000	72,610,000	633,000	667,000	20,476,000

Structure of Real Estate Investment Trusts' assets

Assets (BGN)	CEE Estates	Sopharma Estates	Universal Properties	Liam	Luke	Invest Property	Super borovetz
Investment property (land,terrains)	0	0	423,000	1,346,000	581,000	2,072,000	0
Investment property (buildings, equipment)	0	0	0	0	0	0	0
Investment property (farm land)	0	0	0	0	0	0	0
Property in process of building (acquisition)	0	0	322,000	0	1,807,000	0	0
Financial assets	0	0	0	0	0	0	0
Cash	797,000	3,177,000	0	345,000	407,000	177,000	8,676,000
Receivables	0	584,000	0	1,000	1,399,000	1,000	1,571,000
Others	0	0	0	0	94,000	4,000	4,000
Balance sheet assets	797,000	6,416,000	1,855,000	1,692,000	4,288,000	2,254,000	10,251,000

Assets (BGN)	Alfa Property 1	Forukom	Status Estates	Exclusive Properties	Health and Wellness	Solid Invest	Real Estates Sofia
Investment property (land,terrains)	0	47,000	0	0	0	0	0
Investment property (buildings, equipment)	0	294,000	0	0	0	0	0
Investment property (farm land)	0	0	0	0	0	0	0
Property in process of building (acquisition)	0	0	0	0	0	0	0
Financial assets	0	0	0	0	0	0	0
Cash	649,000	353,000	501,000	491,000	932,000	72,000	254,000
Receivables	1,798,000	0	0	0	32,000	372,000	4,889,000
Others	5,000	2,000	1,000	4,000	0	0	0
Balance sheet assets	2,452,000	696,000	502,000	495,000	964,000	444,000	5,143,000

#### Structure of Real Estate Investment Trusts' assets

Assets (BGN)	Total REITs (ex. agriculture funds)	Total REITs (real estates and agriculture funds)
Investment property (land,terrains)	53,425,011	75,126,011
Investment property (buildings, equipment)	109,511,393	109,511,393
Investment property (farm land)	0	114,466,296
Property in process of building (acquisition)	41,383,135	64,567,135
Financial assets	18,084,000	25,922,000
Cash	65,353,111	119,252,561
Receivables	22,962,275	29,242,532
Others	1,208,496	3,573,351
Balance sheet assets	311,927,421	541,661,279

## Appendix 12.2.2I

Special Purpose Vehicles/ Real Estates Investment Trusts – date of establishment, envisaged period of existence and main shareholders as of 31 Dec 2006

Company	Date of establishment (registration in the Court)	Envisaged period of existence	Main founders	Main shareholders
Capital Direct - 1 Special Investment Purpose Joint Stock Company	06 Aug 2003 (11 Sep 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%
Capital Management - Special Investment Purpose Joint Stock Company	24 Oct 2005 (08 Nov 2005 Sofia Town Court)	undetermined	1. CCB Group Asset Management - 70% 2. ZAD Armeetz – 30%	1. CCB Group Asset Management - 70% 2. ZAD Armeetz – 30%
Hipocapital - Special Investment Purpose Joint Stock Company	14 Oct 2005 (08 Nov 2005 Sofia Town Court)	undetermined	1. HipocreditAD – 70% 2. ZPAD Bulstrad – 30%	1. HipocreditAD – 70% 2. ZPAD Bulstrad – 30%
Trasinvestment Special Purpose vehicle	10 Aug 2005 (01 Sep 2006 Sofia Town Court)	undetermined	1. Petrol Holding – 70% 2. Pireous Eurobank – 30%	1. Petrol Holding – 70% 2. Pireous Eurobank – 30%
Energetics and Energy Savings Funds SPV	21 Feb 2006 (10 Mar 2006 Sofia Town Court)	undetermined	1. EnemonaAD – 70% 2. Eko Invest HoldingAD – 30%	1. EnemonaAD – 70% 2. Eko Invest HoldingAD – 30%
Alfa Credit SPV	29 Aug 2006 (27 Sep 2006 Sofia)	undetermined	1. Alfa Finance HoldingAD - 40% 2. Albena Invest HoldingAD - 30%	1. Alfa Finance HoldingAD - 40% 3. Tekam OOD - 30%

	Town Court)		3. Tekam OOD - 30%	
Real estate Investment Trusts				
Bulgarian Real Estate Fund Inc. REIT	04 Oct 2004 (11 Dec 2004 Sofia Town Court)	15 years	1. IC NadezhdaAD – 40%	1. AS Hansapank (Talin) – 31.4% 2. AS Hansapank - Clients (Talin) – 22.6% 3. BANK AUSTRIA CREDITANSTALT AG – 6.7% 4. „Danske Fund – 6.5% 5. Raiffeisen Zentralbank Osterreich AG – 6.3%
Elana Agricultural Land Opportunity Fund	14 Mar 2005 (07 Apr 2005 Sofia Town Court)	7 years	1. Elana HoldingAD – 70% 2. VZK Dobrudja - M -Jivot - 20% 3. Health Insurance Company PlanetAD - 10%	1. QVT FUND LP (Cayman Islands) – 28.3% 2. Allianz – 21.4% 3. New Europe Capital SRL – 5.1%
Advancee Terrafund REIT	12 Apr 2005 (26 Apr 2005 Sofia Town Court)	undetermined	1. Karoll Standart EOOD – 70% 2. ICADvancee InvestAD – 30%	1. ICADvancee InvestAD – 11.3% 2. Karoll Finance EOOD - 8.2% 3. VPF Allianz Bulgaria – 6.8%
Bullend Investments REIT	09 Aug 2005 (24 Aug 2005 Sofia Town Court)	undetermined	1. ZD Euro InsAD – 30% 2. Askent Shop EOOD – 23.20% 3. SevtAD – 20% 4. ET Askent Plamen Pnachev – 10% 5. ET Selekt Ilia Mihailov– 10%	1. ZPAD Allianz Bulgaria – 13,5%
				2. VPF Allianz Bulgaria – 7%
				3. UPF Allianz Bulgaria – 7%
				4. ET Askent Plamen Pnachev – 5% 5. ET Selekt Ilia Mihailov– 8.5%
Agricultural Land Opportunity Fund Mel Invest REIT	20 Feb 2006 (09 Mar 2006 Sofia Town Court)	7 years	1. Mel Invest HoldingAD – 45.4% 2. MIA EOOD – 22%	1. Mel Invest HoldingAD – 45.4% 2. MIA EOOD – 22%
Agrofinance REIT	30 Jan 2006 (23 Feb 2006 Sofia Town Court)	7 years	1. ZPAD BulstradAD - 30% 2. ZAD Bulstrad JivotAD - 20% 3. CSIFAD – 20% 4. TBI Credit EAD– 20%	1. ZPAD BulstradAD - 28% 2. ZAD Bulstrad JivotAD - 18,76% 3. CSIFAD – 18,62% 4. TBI Credit EAD– 18,76%

			5. TBI Invest EAD – 10%	5. TBI Invest EAD – 9,38%
Prime Property BG REIT	08 Sept 2003 (06 Oct 2003 Sofia Town Court)	8 years	1. Balkan Consulting Company – 50% 2. ZPAD BulstradAD – 48.8% 3. TBI Invest EAD – 0.2%	1. Immoeast Beteiligung Gmbh (Vienna) – 42% 2. Hansapank Clients (Talin) – 9% 3. VPF Doverie – 6,8% 4. OPF Doverie – 6,8% 5. UPF Doverie – 6,8%
Benchmark Fund Estates REIT	29 Jun 2004 (11 Jul 2004 Sofia Town Court)	undetermined	1. Razvitie Industry HoldingAD – 30%	1. Foreign legal persons - 21.05% (Hansapank Clients (Talin) – 12.21%) 2. Institutional investors – 42.43% (BenchMark Group – 13.93%)
Colos – 1 REIT	29 Oct 2003 (31 Oct 2003 Sofia Town Court)	undetermined	1. V-vesta HoldingAD – 74.4% 2. PerlaAD – 25.6%	1. V-vesta HoldingAD – 56.56% 2. PerlaAD – 12.35% 3. ZOK NadezhdaAD – 29.65%
ERG Capital - 1 REIT	05 Aug 2004 (18 Aug 2004 Sofia Town Court)	7 years	1. Bulgarian American Investment Fund (BAIF)– 99,9%	1. BAIF – 37%
				2. BACB - 10%
				3. VPF Allianz Bulgaria – 5%
				4. UPF Allianz Bulgaria – 5%
				5. Frank Luis Bauer – 5.8%
Aktiv Properties REIT	23 Dec 2004 (20 Jan 2005 Plovdiv Region Court)	undetermined	1. Roads Holding CompanyAD – 65.5% 2. ICADvancee InvestAD – 30%	6. Michael Hansburger – 5.5%
				1. Roads Holding CompanyAD – 36.58% 2. ICADvancee InvestAD – 10% 3. Sienit EOOD– 7% 4. Dilian Peichev Panev – 5% - Executive

				Director
Park REIT	23 Mar 2005 (05 Apr 2005 Sofia Town Court)	5 years	1. Zagora Invest OOD – 20% 2. RHLAD – 30% 3. Beta CorpAD – 12%	1. Zagora Invest OOD – 8.2% 2. Vitazone OOD – 7% 3. FairPlay InternationalAD – 8.2 4. Bullbrokers Finance EOOD – 9.8% 5. Alfa Finance HoldingAD – 27% 6. KINSALE CAPITAL MANAGEMENT LIMITED – 11%
Intercapital Property Development REIT	18 Feb 2005 (29 Mar 2005 Sofia Town Court)	undetermined	1. Roads Holding CompanyAD– 31.7% 2. Naver Investment Inc. – 43.2% 3. Intercapital EOOD – 18.9%	1. Naver Investment Inc. – 13% 2. Titan Services Limited (island Nevis) – 6% 3. Lange investments Ltd (BVO) – 6% 4. Landsbanki Luxembourg S.A. – 5.5%
Quantum Developments REIT	18 Oct 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 DevelopmentsAD– 47.5%
ERG Capital - 2 REIT	25 May 2005 (08 Jun 2005 Sofia Town Court)	31 Dec 2012	1. BAIF - 70%	1. BAIF – 36.8% 2. BACB – 9.9% 3. UPF Doverie – 7% 4. Frank Luis Bauer – 5.6%
CCB Real Estate Fund REIT	26 Oct 2005 (08 Oct 2005 Sofia Town Court)	undetermined	1. CCB Group Asset Management - 70% 2. ZAD Armeetz – 30%	1. CCB Group Asset Management - 53.8% 2. ZAD Armeetz – 23.1% 3. CCBAD – 30%
FairPlay Properties REIT	15 Jul 2005 (28 Jul 2005 Sofia Town Court)	undetermined	1. Anna Petrova Zaharieva – 7% - Chairperson 2. Mario Zahariev Zahariev – 12% 3. FairPlay InternationalAD – 51% 4. IC Capman CapitalAD -30%	1. FairPlay InternationalAD – 73.6% 2. Mario Zahariev Zahariev – 9.4% 3. Anna Petrova Zaharieva – 5.4% - Chairperson
Bulgarian Investments	10 Mar 2005	undetermined	1. Key Development EOOD – 50%	1. Ivanka T. Ivanova – 11.4%

Group REIT	(05 May 2005 Sofia Town Court)		2. ZK Lev InsAD - 40% 3. Atlas EOOD – 10%	2. ZK Lev InsAD - 46.1% 3. Atlas EOOD – 30.8%
Premier Fund REIT	11 Jan 2006 (27 Jan 2006 Varna Region Court)	undetermined	1. Varna A Holding – 10% 2. IC KD PelicanAD – 20%	1. CCB SilaAD – 9.2% 2. CF Status New Shares – 9.1% 3. UPF Saglasie – 6.1% 4. Adrijan Stare Stare – 6.1% 5. Via Oil EOOD – 5.4% 6. Silvia Nikolova – 7.1% 7. Unimash EOOD – 7.3% 8. Express Garantion OOD – 7.6% 9. Borislav Naydenov - 6.9%
Black See Investment REIT	17 Mar 2006 (28 Mar 2006 Sofia Town Court)	undetermined	1. Investment companyAD – 35% 2. IC Elana High Yield Fund – 30% 3. Stefan Plamenov Papalezov – 35% - Executive Director	1. Svetoslav Dimitrov Ivanov - 50% Deputy- Chairman 2. Stefan Plamenov Papalezov – 50% - Executive Director
CEE Estates REIT	15 Nov 2005 (20 Dec 2005 Sofia Town Court)	undetermined	1. West - East BankAD – 40% 2. CEE Assets Management Ltd - London – 30% 3. M AutoAD – 30%	1. BK Investment EOOD – 44.4% 2. Traizis OOD - 30.1% 3. M AutoAD – 23.1%
Sopharma Estates REIT	20 Mar 2006 (24 Mar 2006 Sofia Town Court)	undetermined	1. IC NadezhdaAD – 30% 2. SofiaAD – 20% 3. TelekomplektAD – 20% 4. TelsoAD – 25.5% (direct and through related persons) 5. SopharmaAD – 16.5% (direct and through related persons)	1. SofiaAD – 20% 2. TelekomplektAD – 20% 3. TelsoAD– 18% 4. SopharmaAD – 3.46%
Universal Properties	13 Feb 2006	undetermined	1. Universal EOOD – 51%	1. Universal EOOD – 60.2%

REIT	(21 Feb 2006 Sofia Town Court)		2. ZD EuroinsAD – 30% 3. Lubomir Mancharov – 19%	2. Lubomir Mancharov – 37.7%
Liam REIT	27 Jun 2006 (12 Jul 2006 Sofia Town Court)	undetermined	1. IC Elana High Yield Fund – 30% 2. Karl-Heintz Hans Hugo Walter Pfohe – 65%	1. Karl-Heintz Hans Hugo Walter Pfohe – 95.1%
Luke REIT	27 Jun 2006 (05 Jul 2006 Sofia Town Court)	undetermined	1. IC Elana High Yield Fund – 30% 2. Karl-Heintz Hans Hugo Walter Pfohe – 50%	1. Philip Michael Pfohe – 35% 2. Karl-Heintz Hans Hugo Walter Pfohe – 40%
Invest Property REIT	20 Apr 2006 (26 Apr 2006 Vratza Region Court)	undetermined	1. Mihail Aleksandrov Petkov – 55% 2. IC Elana High Yield Fund – 30%	1. Mihail Aleksandrov Petkov – 53.1% 2. Levent Nazifoglu -12.9% 3. Mehmed Onder Derekchi – 6.5%
Superborovetz REIT	06 Apr 2006 (26 May 2006 Varna Region Court)	undetermined	1. Superborovetz Property InvestmentAD – 65,50% 2. West - East BankAD – 30%	1. Superborovetz Property InvestmentAD – 20% 2. Dobromir Andonov – 25.6% 3. Ivailo Koevsky – 25.6% 4. Krasimir Iliev – 12.8% 5. Dimitar Iliev - 12.8%
Alfa Property 1 REIT	26 Jun 2006 (03 Jul 2006 Sofia Town Court)	undetermined	1. A1 Alfa Finance HoldingAD – 35% 2. Albena Invest Holding – 30% 3. CF Alfa Index Imoti – 30%	1. A1 Alfa Finance HoldingAD – 96.3%
Forukom REIT	26 Apr 2006 (30 May 2006 Haskovo Region Court)	undetermined	1. Forucom and Company OOD -50% 2. Akva – 3 OOD – 20% 3. CF Benchmark Fund -1 – 13,64% 4. IC Benchmark Fund – 2AD – 16,36%	1. Forucom and Company OOD -50% 2. Akvator gaz EOOD – 30% 3. Akva – 3 OOD – 20%

### Appendix 12.2.3

#### Foreign Shareholders in Investment Intermediaries' Equity as of 31 Dec 2006

BBG–Simex – BulgariaAD	Simex OOD, Czech Republic Brno Brokerage Group, Czech Republic	10.00% 80.00%
Bulfin InvestAD	NeofinanceAD - indirect – Langford Financial Services, USA, possess 40% of the NeofinanceAD	99.756%
TBI InvestAD	TBIF Bulgaria, indirect	100%
CEE SecuritiesAD	Voiko Odlazek Miran Mentzey	33.37% 66.63%
KD Securities EAD	KD Group, Slovenia	100%
Capital Finance OOD	ZeonAD Nivia Trading EOOD, indirect	30.769% 69.231%
Capital Engineer Project OOD	Leo Kristoph EOOD	3.49%
Financial House FINA-SAD	Aflik Bulgaria EAD Aflik Limited, UK Tzvetan Radoev Vasilev	99.968% 0.032%

#### Appendix 12.2.4.

#### Income Statement of the Security Investment Compensation Fund

	31 Dec 2006	31 Dec 2005
	(thousand BGN)	(thousand BGN)
<b>Revenues</b>		
Affiliation fees revenues	1069	593
<b>Expenses</b>		
Expenses for materials	4	1
Expenses for outside services	62	27
Expenses for depreciation	12	1
Expenses for remunerations	88	17
Expenses for social insurance	13	2
Other operating expenses	5	1
<b>Total non-financial expenses</b>	<b>184</b>	<b>49</b>
<b>Operating income</b>	<b>885</b>	<b>544</b>
Income related to investments	46	5
Income from donations	5	
Other expenses of financial operations		
<b>Profit from ordinary activities</b>	<b>936</b>	<b>549</b>
Extraordinary income/(expenses)	0	0
<b>Profit from the current year</b>	<b>936</b>	<b>549</b>

### Appendix 13.2.1.

#### Premium income, paid up indemnities and market share of non-life insurance companies in 2006

Insurers	Premium income			Paid up indemnities			Main balance sheet indicators(thousand BGN)			
	thousand BGN	Market share (%)	growth	thousand BGN	Market share (%)	growth	Equity	Total assets	Technical result	Financial result
DZI - General InsuranceAD	186,679	17.60	0.22%	66,749	18.36	31.72%	33,772	179,060	-6,175	1,056
ZPAD BulstradAD	148,633	14.01	6.28%	73,819	20.31	9.69%	44,293	171,198	1,787	1,604
ZPAD Allianz BalgariaAD	140,885	13.28	6.14%	52,474	14.44	-1.79%	40,742	141,763	13,531	11,102
ZD Bul InsAD	125,014	11.79	9.35%	54,228	14.92	19.80%	26,549	98,642	6,348	3,397
ZK Lev InsAD	67,011	6.32	21.60%	17,725	4.88	50.61%	25,786	69,825	7,328	7,860
ZPD VitoshaAD	66,400	6.26	21.26%	27,762	7.64	10.61%	20,746	77,698	-1,008	-630
Generali InsuranceAD	60,440	5.70	99.10%	14,090	3.88	-7.59%	18,087	36,928	674	239
ZAD ArmeezAD	57,889	5.46	29.38%	15,510	4.27	60.19%	33,478	80,179	-3,284	17,497
ZD Evro InsAD	52,685	4.97	30.64%	15,520	4.27	3.27%	17,012	42,861	4,747	4,237
ZAD Energia	46,544	4.39	-1.01%	2,589	0.71	-5.96%	51,280	70,624	21,042	19,523
ZK Balgarski imotiAD	29,789	2.81	70.54%	6,770	1.86	26.95%	10,211	26,706	439	514
ZAD VictoriaAD	21,052	1.98	45.15%	4,815	1.32	45.95%	10,677	23,674	95	489
AIG Bulgaria ZPD EAD	16,620	1.57	33.27%	3,156	0.87	17.85%	10,608	20,044	2,881	2,180
QBE International Insurance Limited – branch Sofia	10,754	1.01	90.03%	1,213	0.33	-4.64%	-3,059	14,850	1,516	1,265
HDI ZAD	9,981	0.94	21.22%	3,300	0.91	23.41%	7,329	13,134	-317	19
Interamerikan Balgaria ZAD	8,318	0.78	37.06%	1,461	0.40	40.62%	6,411	11,125	-836	-606
Obstinska Zastrahovatelna KompanijaAD	7,397	0.70	60.87%	1,724	0.47	-14.53%	8,936	13,191	-477	76
ZK DSK GrantziaAD	2,383	0.22	250.44%	58	0.02	-	7,118	8,470	-1,127	-1,025
BAEZAD	2,282	0.22	-19.19%	509	0.14	147.09%	12,539	14,312	384	821
UBB – AIG ZPDAD	12	0.00	-	0	0.00	-	5,872	5,890	-123	-68
Cardif Non-Life Insurance - subsidiary Bulgaria	0	0.00	-	0	0.00	-	1,910	2,010		-90
<b>Total:</b>	<b>1,060,768</b>	<b>100.00</b>	<b>15.40%</b>	<b>363,472</b>	<b>100.00</b>	<b>15.24%</b>	<b>390,297</b>	<b>1,122,184</b>	<b>47,425</b>	<b>69,460</b>

## Appendix 13.2.2.

### Premium income, paid up indemnities and market share of life insurance companies in 2006

Insurers	Premium income			Paid up indemnities			Main balance sheet indicators (thousand BGN)			
	thousand BGN	Market share (%)	growth	thousand BGN	Market share (%)	growth	Equity	Total assets	Technical result	Financial result
DZIAD	55,075	29.58	21.13%	34,547	50.76	48.65%	245,079	340,845	-19,615	162,895
ZAD Allianz Bulgaria LifeAD	45,330	24.35	22.96%	5,561	2.02	37.11%	20,605	130,193	4,679	5,215
ZK Generali Life InsuranceAD	17,716	9.52	21.99%	9,766	2.61	5.35%	9,131	18,287	191	100
AIG Life Bulgaria ZADAD	15,980	8.58	4.89%	1,375	0.62	23.32%	8,661	30,404	2,544	2,150
ZK Vitosha LifeAD	15,818	8.50	72.23%	9,196	8.17	109.43%	7,158	14,803	654	538
ZAD Bulstrad-LifeAD	13,472	7.24	41.13%	3,987	5.86	16.61%	8,866	22,205	1,558	1,223
Grawe BulgariaAD	10,516	5.65	36.02%	424	8.17	145.09%	8,409	29,857	4	314
ZHZK DSK GarantziaAD	4,750	2.55	-31.28%	1,779	2.61	-6.05%	7,214	11,891	-1,565	-1,570
Life Insurance Company /ZHZK/ Bulgarski ImotiAD	3,447	1.85	20.57%	1,080	0.62	-6.01%	7,339	11,052	15	88
SIVZK*	2,629	1.41	275.04%	100	0.15	-77.53%	481	2,930	13	7
VZK Dobrudja-M-Life*	812	0.44	-17.73%	230	0.34	111.01%	898	2,366	-28	1
UBB – AIG Life ZDAD	395	0.21		17	0.02		6,609	6,939	11	9
ING Lifeinsurance – subsidiary Sofia	214	0.11		0	0.00		-3,678	1,720	-3,698	-3,676
Jivotozastrahovatelen instituteAD	27	0.01		1	0.00		6,519	6,557	23	19
Cardif Life Insurance - subsidiary Bulgaria	0	0.00	0	0	0.00	0	2,960	3,050	0	-40
<b>Total</b>	<b>186,181</b>	<b>100.00</b>	<b>24.11%</b>	<b>68,063</b>	<b>100.00</b>	<b>38.17%</b>	<b>336,251</b>	<b>633,099</b>	<b>-15,214</b>	<b>167,273</b>

\*Mutual life insurance cooperative society

### Appendix 13.2.3.

Premium income, paid up indemnities and market share of Health insurance companies in 2006

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	Total assets	Technical result	Financial result
Bulgarian Health Insurance Company ZakrilaAD	13,378	59.14	24.91%	8,842	70.19	21.17%	4,598	8,155	-63	84
United Health Insurance Fund DoverieAD	839	3.71	-2.78%	405	3.22	33.66%	2,145	2,553	-22	42
TBI – Health insuranceAD	814	3.60	75.81%	331	2.63	105.59%	1,386	1,903	-343	-276
Health Insurance Joint Stock Company DZIAD	773	3.42	80.61%	178	1.41	111.90%	1,878	2,278	24	-123
Health Insurance Fund Medico – 21AD	2,095	9.26	-13.79%	1,750	13.89	89.19%	2,083	2,842	-19	20
Bulgarian Health Insurance FundAD	261	1.15	30.50%	86	0.68	138.89%	716	1,092	-83	-80
Health Insurance Company Bulgaria ZdraveAD	61	0.27	-63.69%	11	0.09	-52.17%	575	592	15	18
Voluntary Health Insurance Network ZdraveAD	2,329	10.30	33.77%	833	6.61	20.90%	1,804	2,790	303	365
Health Insurance Company NadezhdaAD	810	3.58	148.47%	107	0.85	256.67%	1,641	2,065	143	129
Health Insurance Company PlanetAD	319	1.41	-21.04%	9	0.07	800.00%	552	1,099	-64	45
Health Security Company St. NicolaAD	367	1.62	592.45%	45	0.36	650.00%	688	930	-201	-156
HealthInsurance InstitutAD	56	0.25	5500.00%	0	0.00	0.00%	500	519	-4	1
Health Insurance Company VseotdainostAD	518	2.29	-	0	0.00	-	1,922	2,455	-78	-78
<b>TOTAL:</b>	<b>22,620</b>	<b>100.00</b>	<b>27.17%</b>	<b>12,597</b>	<b>100.00</b>	<b>31.84%</b>	<b>20,488</b>	<b>29,273</b>	<b>-392</b>	<b>-9</b>

### Appendix 13.2.5.

Insurance brokers revenue by types of insurances and market share as of 31 Dec 2006

Type of insurance	Premium income (BGN)	Share	Commissions income (BGN)	Share
<b>Non-life insurance</b>				
Accident	4,904,130	2.01%	1,160,171	2.22%
Sickness	985,876	0.40%	279,430	0.53%
Land vehicles, excl. railway rolling stock	113,830,449	46.75%	27,519,133	52.64%
Railway rolling stock	3,042,969	1.25%	530,314	1.01%
Aircrafts	353,517	0.15%	39,556	0.08%
Vessels	1,235,267	0.51%	147,944	0.28%
Loads in transit	5,045,772	2.07%	951,265	1.82%
Fire and natural perils	18,162,081	7.46%	3,767,177	7.21%
Property damage	32,319,706	13.27%	3,302,576	6.32%
Motor vehicle third party liability	45,911,158	18.86%	11,701,989	22.38%
Third party liability related to the possession and use of aircrafts	175,266	0.07%	40,762	0.08%
Third party liability related to the possession and use of vessels	1,580,136	0.65%	188,892	0.36%
General third party liability	8,629,574	3.54%	1,211,595	2.32%
Credits	2,137,634	0.88%	371,561	0.71%
Suretyship	239,257	0.10%	63,161	0.12%
Various financial losses	3,619,967	1.49%	583,333	1.12%
Legal expenses	12,119	0.00%	1,373	0.00%
Travel assistance	1,278,981	0.53%	419,111	0.80%
Total for non-life insurance	243,463,861	81.93%	52,279,342	87.21%
<b>Lifeinsurance</b>				
Life insurance and annuities	50,398,173	93.87%	6,918,228	90.21%
Marriage and child insurance	117,550	0.22%	85,770	1.12%
Unit linked life insurance	653,153	1.22%	119,179	1.55%
Long-term health insurance	321,816	0.60%	69,347	0.90%
Capital redemption	22	0.00%	7	0.00%
Supplementary insurance	2,201,065	4.10%	476,880	6.22%
Total for life insurance	53,691,778	18.07%	7,669,411	12.79%
<b>TOTAL:</b>	<b>297,155,639</b>	<b>100.00%</b>	<b>59,948,753</b>	<b>100.00%</b>

# Appendix 14.1A

Equity and assets of pension insurance companies. Assets and number of persons insured in supplementary pension insurance funds as of 31 Dec 2006

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	7,131	11,282	282,231	128,001	89,012	499,244	967,043	74,628	159,502	1,201,173
PIC Saglasie PLC	6,317	9,156	86,191	59,433	17,226	162,850	296,690	33,707	33,211	363,608
PIC DSC-Rodina PLC	7,330	7,939	52,106	12,200	31,444	95,750	197,259	11,120	27,631	236,010
PIC Allianz – Bulgaria PLC	12,968	15,765	157,617	70,232	265,024	492,873	493,769	37,211	262,938	793,918
ING PIC PLC	2,832	3,873	69,522	15,025	46,568	131,115	225,789	11,815	27,846	265,450
PIAD CCB - Sila PLC	9,065	9,421	26,150	6,655	7,630	40,435	113,928	8,702	18,542	141,172
PIC Lukoil Garant – Bulgaria PLC	3,906	4,438	26,844	21,109	36,075	84,028	96,333	12,161	31,487	139,981
DZI - PI PLC	5,070	5,243	9,214	1,998	4,889	16,101	51,890	3,499	4,625	60,014
PIC ToplinaAD	4,910	4,975	-	-	-	-	-	-	-	-
TOTAL	59,529	72,092	709,875	314,653	497,868	1,522,396	2,442,701	192,843	565,782	3,201,326

# Appendix 14.1B

## Main shareholders in pension insurance companies as of 31 Dec 2006

Pension insurance company	Shareholders	BULSTAT	Share (%)	Share of indirect possession (%)
PIC Doverie PLC	BZP GroupAD	130131469	73.52	
	ZPAD BulstradAD	000694286	11.45	
PIC Saglasie PLC	ZPD VitoshaAD	0404518650208	14.50	
	Bulgarian Industrial Association	831391124	20.60	
	HimimportAD	000627519	49.28	
PIC DSC-Rodina PLC	CB DSK BankAD	121830616	97.00	
PIC Allianz – Bulgaria PLC	Allianz Bulgaria HoldingAD	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 BankAD	831447150	9.95	99.20
PIC Lukoil Garant – Bulgaria PLC	Lukoil Neftochim BourgasAD	812114069	30.00	
	Lukoil Bulgaria EOOD	121699202	30.00	
	Private Pension Fund Lukoil Garant - Russia	042450562	30.60	
DZI - PI PLC	Interhotel Sandansky – BulgariaAD	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	
PIC ToplinaAD	L M Impex EOOD	122073062	46.40	
	Brikel EAD	123526494	30.00	

### Appendix 14.2.1.

Normatively set indicators for assessment of the results of the pension insurance companies' activity as of end 2005 and 2006

Показател	measure	Average value	
		31 Dec 2005	31 Dec 2006
Capital Adequacy of the pension insurance company	%	94.91	122.42*
Liquidity of the pension insurance company	coefficient	13.50	20.32*
Liquidity of the universal pension fund	coefficient	245.11	175.58
Liquidity of the occupational pension fund	coefficient	208.29	229.06
Liquidity of the voluntary pension fund	coefficient	77.01	33.78
Investment fee of the voluntary pension fund	%	10.01	9.98
Average amount of the entrance fee in a voluntary pension fund	BGN	9.25	9.53
Average amount of the insurance contributions in voluntary pension fund	%	3.92	3.88

### Financial and economic indicators of pension insurance companies and supplementary pension insurance funds as of end 2005 and 2006

Pension Insurance Companies				
Показател		measure	31 Dec 2005	31 Dec 2006
1. Equity analysis				
1.1.	Extent of coverage of equity	%	86.13	109.56*
1.2.	Earnings capacity of equity	%	1.52	12.93*
2. Analysis of the supplementary pension insurance funds activity				
2.1.	Extent of coverage of assets of supplementary pension insurance funds	%	13.34	10.43
2.2.	Earnings capacity of assets of supplementary pension insurance funds	%	1.48	10.64*
2.3.	Growth in assets of supplementary pension insurance funds	%	9.51	41.26
3. Analysis of the incomes and expenses of supplementary pension insurance funds				
3.1.	Efficiency of the pension insurance company's activity	%	107.37	120.42*
3.2.	Fees and deductions per insured person in the supplementary pension insurance fund	лв.	8.11	9.87
3.3.	Expenses from activity per insured person in the supplementary pension insurance fund	лв.	9.98	8.89
3.4.	Fees and deductions per 100 BGN of the supplementary pension insurance fund assets	лв.	2.44	2.32
3.5.	Expenses from activity per 100 BGN of the supplementary pension insurance fund assets	лв.	3.25	2.14
Supplementary pension insurance funds				
1. Assets				
1.1.	Rate of return on the universal supplementary pension insurance fund assets	coefficient	0.08	0.10
1.2.	Rate of return on the occupational supplementary pension insurance fund assets	coefficient	0.08	0.10
1.3.	Rate of return on the universal voluntary pension insurance fund assets	coefficient	0.08	0.10
1.4.	Managed assets per insured person in universal supplementary pension insurance funds	BGN	179.23	269.92
1.5.	Managed assets per insured person in occupational supplementary pension insurance funds	BGN	1,144.64	1350.72
1.6.	Managed assets per insured person in voluntary supplementary pension insurance funds	BGN	798.61	936.38
1.7.	Growth in the assets of universal supplementary pension insurance funds	%	68.07	60.69

1.8.	Growth in the assets of occupational supplementary pension insurance funds	%	24.40	23.34
1.9.	Growth in the assets of voluntary supplementary pension insurance funds	%	28.87	18.38
2. Persons insured in a pension insurance fund				
2.1.	Growth in the number of persons insured in the universal supplementary pension insurance funds	%	11.71	9.07
2.2.	Growth in the number of persons insured in the occupational supplementary pension insurance funds	%	3.58	5.68
2.3.	Growth in the number of persons insured in the voluntary supplementary pension insurance funds	%	2.64	2.87

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.

\* the average value of the indicator includes the value of the indicator for the licensed during 2006 PIC  
ToplinaAD

### Appendix 14.2.2. Structure of supplementary pension funds' investments as of end 2005 and 2006

Investment instruments	Universal pension funds				Occupational pension funds			
	2005		2006		2005		2006	
	Amount (thousand BGN)	Share (%)	Amount (thousand BGN)	Share (%)	Amount (thousand BGN)	Share (%)	Amount (thousand BGN)	Share (%)
Investments	434,045	100.00%	667,475	100.00%	250,195	100.00%	306,239	100.00%
Securities issued or guaranteed by the state	238,117	54.86%	215,295	32.26%	140,099	56.00%	101,427	33.12%
SecuritiesADmitted to be traded on the regulated securities markets	75,389	17.37%	215,786	32.33%	43,116	17.23%	98,067	32.02%
Equities	31,160	7.18%	130,423	19.54%	20,324	8.12%	64,816	21.17%
Corporate bonds	44,229	10.19%	85,363	12.79%	22,792	9.11%	33,251	10.86%
Municipal bonds	3,045	0.70%	2,548	0.38%	2,451	0.98%	1,791	0.58%
Bank deposits	75,049	17.29%	143,605	21.51%	41,242	16.48%	64,180	20.961%
Mortgage bonds	35,049	8.08%	31,509	4.72%	19,794	7.91%	15,336	5.01%
Investment property	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Securities derivatives	989	0.23%	5,349	0.80%	389	0.16%	3,753	1.23%
Investments abroad	6,407	1.48%	53,383	8.00%	3,104	1.24%	21,686	7.08%
Investment instruments	Voluntary pension funds				Supplementary pension insurance funds			
	2005		2006		2005		2006	
	Amount (thousand BGN)	Share (%)	Amount (thousand BGN)	Share (%)	Amount (thousand BGN)	Share (%)	Amount (thousand BGN)	Share (%)
Investments	398,222	100.00%	478,329	100.00%	1,082,462	100.00%	1,452,043	100.00%
Securities issued or guaranteed by the state	181,654	45.62%	103,218	21.58%	559,870	51.72%	419,940	28.92%
SecuritiesADmitted to be traded on the regulated securities markets	66,511	16.70%	164,778	34.45%	185,016	17.09%	478,631	32.96%
Equities	28,694	7.21%	104,003	21.74%	80,179	7.41%	299,242	20.61%
Corporate bonds	37,817	9.50%	60,774	12.71%	104,837	9.69%	179,388	12.35%
Municipal bonds	1,882	0.47%	1,524	0.32%	7,379	0.68%	5,863	0.40%
Bank deposits	92,808	23.31%	109,588	22.91%	209,099	19.32%	317,373	21.86%
Mortgage bonds	45,149	11.34%	33,731	7.05%	99,993	9.24%	80,576	5.55%
Investment property	0	0.00%	0	0.00%	0	0.00	0	0.00%
Securities derivatives	6,149	1.54%	16,969	3.55%	7,526	0.70%	26,071	1.80%
Investments abroad	4,069	1.02%	48,522	10.14%	13,580	1.25%	123,591	8.51%



