

# ANNUAL REPORT 2008

Financial Supervision Commission

## List of Used Acronyms

ABB – Association of Banks in Bulgaria	TSSPC – Tax and Social Security Procedure Code
ABI – Association of Bulgarian Insurers	UPF – Universal Pension Fund
ABIRD – Association of Bulgarian Investor Relations Directors	VPF – Voluntary Pension Fund
AEAV – Act for Establishment of Administrative Violations	VPFOS – Voluntary Pension Fund under Occupational Schemes
ALVHIC – Association of the Licensed Voluntary Health Insurance Companies	
APC – Administrative Procedure Code	
ASIPC – Act on Special Investment Purpose Companies	
BAAMC – Bulgarian Association of Asset Management Companies	
BALII – Bulgarian Association of the Licensed Investment Intermediaries	
BASPIC – Bulgarian Association of Supplementary Pension Insurance Companies	
BIRS – Bulgarian Investor Relation Society	
BNB – Bulgarian National Bank	
BSE – Bulgarian Stock Exchange	
CAM – Coercive Administrative Measure	
CD – Central Depository	
CF – Contractual Fund	
CIS – Collective Investment Schemes	
CPC – Commission for Protection of Competition	
CRA – Credit Rating Agencies	
EC – European Commission	
EC – European Community	
EEA – European Economic Area	
EP – European Parliament	
FIA – Financial Intelligence Agency	
FSC – Financial Supervision Commission	
FSCA – Financial Supervision Commission Act	
GDP – Gross Domestic Product	
GF – Guarantee Fund	
GMS – General Meeting of Shareholders	
GS – Government Securities	
HHI – Herfindahl-Hirschman Index	
HIA – Health Insurance Act	
IABH – Insurance Agency of Bosnia and Herzegovina	
IAU – Internal Audit Unit	
IC – Insurance Code	
IC – Investment Company	
ICF – Investors Compensation Fund	
II – Investment Intermediary	
IMF – International Monetary Fund	
LAS – Law on Amendment and Supplement	
LCI – Law on Credit Institutions	
LMMAFI – Law on Measures against Market Abuse with Financial Instruments	
LPOS – Law on Public Offering of Securities	
MC – Management Company	
MFAI – Markets in Financial Instruments Act	
NBBMI – National Bureau of the Bulgarian Motor Insurers	
OPF – Occupational Pension Fund	
PC – Public Company	
PIC – Pension Insurance Company	
SIC – Social Insurance Code	
SIPC – Special Investment Purpose Company	
SMPI – Supplementary Mandatory Pension Insurance	
SPI – Supplementary Pension Insurance	
SPIF – Supplementary Pension Insurance Fund	
SVPI – Supplementary Voluntary Pension Insurance	

## Useful Links

Bulgarian Stock Exchange – Sofia AD	<a href="http://www.bse-sofia.bg">www.bse-sofia.bg</a>
Central Depository AD	<a href="http://www.cdad.bg">www.cdad.bg</a>
Bulgarian National Bank	<a href="http://www.bnb.bg">www.bnb.bg</a>
Ministry of Finance	<a href="http://www.minfin.bg">www.minfin.bg</a>
Council of Ministers	<a href="http://www.government.bg">www.government.bg</a>
Association of Bulgarian Insurers	<a href="http://www.abz.bg">www.abz.bg</a>
National Social Security Institute	<a href="http://www.noi.bg">www.noi.bg</a>
National Statistical Institute	<a href="http://www.nsi.bg">www.nsi.bg</a>
Privatization Agency	<a href="http://www.priv.government.bg">www.priv.government.bg</a>
Investors Compensation Fund	<a href="http://www.sfund-bg.com">www.sfund-bg.com</a>
Guarantee Fund	<a href="http://www.guaranteefund.bg">www.guaranteefund.bg</a>
Association of Bulgarian Investor Relations Directors	<a href="http://www.abird.info">www.abird.info</a>
Bulgarian Investor Relation Society	<a href="http://www.birsgb.org">www.birsgb.org</a>
Bulgarian Association of Supplementary Pension Insurance Companies	<a href="http://www.assoc.pension.bg">www.assoc.pension.bg</a>
Bulgarian Association of Asset Management Companies	<a href="http://www.baud.bg">www.baud.bg</a>
National Bureau of the Bulgarian Motor Insurers	<a href="http://www.nbbaz.bg">www.nbbaz.bg</a>
Ministry of Labor and Social Policy	<a href="http://www.mlsp.government.bg">www.mlsp.government.bg</a>
Financial Intelligence Agency	<a href="http://www.fia.minfin.bg">www.fia.minfin.bg</a>
Commission for Protection of Competition	<a href="http://www.cpc.bg">www.cpc.bg</a>
European Commission, Directorate General Internal Market	<a href="http://ec.europa.eu/internal_market/index.htm">http://ec.europa.eu/internal_market/index.htm</a>
European Parliament	<a href="http://www.europarl.europa.eu">www.europarl.europa.eu</a>
Committee of European Securities Regulators (CESR)	<a href="http://www.cesr.eu">www.cesr.eu</a>
Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)	<a href="http://www.ceiops.org">www.ceiops.org</a>
Committee of European Banking Supervisors (CEBS)	<a href="http://www.c-ebss.org">www.c-ebss.org</a>
International Organization of Securities Commissions (IOSCO)	<a href="http://www.iosco.org">www.iosco.org</a>
Council of the European Union	<a href="http://ue.eu.int/showPage.aspx?lang=bg&amp;id=1">http://ue.eu.int/showPage.aspx?lang=bg&amp;id=1</a>
European Central Bank	<a href="http://www.ecb.int">www.ecb.int</a>
International Monetary Fund	<a href="http://www.imf.org">www.imf.org</a>

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## Dear Ladies and Gentlemen,

It is my pleasure to present to you the annual report on the activities of the Financial Supervision Commission (FSC) in 2008 – a year during which the global financial crisis affected significantly all participants on the Bulgarian market. The financial system and economy of Bulgaria, as an EU Member State, cannot remain isolated from the global financial processes, but in view of factors such as a sustainable macroframe, favorable tax environment and stable financial system, the effect of the crisis in our country can be relatively limited. The crisis does not mean only losses, it should be viewed also as a new possibility. One of the effects of the crisis will be consolidation in the field of the non-banking intermediation at the level of insurance companies and investment intermediaries.

In these circumstances, FSC's efforts were directed to preservation of the markets integrity and investor confidence. The Commission, in its capacity of a unified authority for regulation and supervision of the non-banking financial sector, continued in 2008 to pursue consistent policy reflected in regulatory, licensing and control activities, the efforts being also directed to active analysis and monitoring of the market situation and market participants.

During the past period multitude of projects were implemented for improvement of the legal framework oriented towards increasing the transparency, confidence and competitiveness on the financial markets. One year after Bulgaria's accession to the EU, the number of notifications in FSC of carrying out activity on its territory under the freedom to provide services or through the establishment of a branch under the freedom of establishment by European insurers, insurance and investment intermediaries and collective investment schemes registered in Member States increased, which in turn demonstrated heightened interest in the provision of services on the Bulgarian market. Respectively, similar structures registered in Bulgaria declared their wish to operate on the European market in line with the „single passport“. An accent was placed on the European dimension in the Commission's activities which continued to maintain active international positions and to participate effectively in the work of the European Committees of which it is a member.

The FSC activity report is presented in two main parts, each covering different aspects of the Commission's operation. The first part outlines the FSC's activity in its function as a regulatory, licensing and supervisory authority of the non-banking financial sector. This part includes the European dimension in the Commission's activities, as well as the information awareness which FSC has ensured to the market participants and the public in general. The policy on human resources management, activities and processes within the framework of international and internal cooperation, the internal audit report, the Inspectorate's report were discussed as well as the improvements in the area of information technologies as an important instrument of enhancement of the Commission's supervisory activity efficiency. The budget execution report gives the financial picture of the FSC's operation in 2008.

The second part of the report submits information on the development of the non-banking financial sector in 2008. Analysis and detailed statistics are presented, reflecting the state of the capital, insurance and health insurance markets as well as of the supplementary pension insurance market.

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

**Apostol Apostolov**







**FINANCIAL SUPERVISION COMMISSION –  
MISSION AND GOALS**







# FINANCIAL SUPERVISION COMMISSION – MISSION AND GOALS

The adopted in 2007 strategy for development of the Financial Supervision Commission outlines the mission, vision, main principles and goals which the state authority for regulation and supervision of the non-banking financial market in the Republic of Bulgaria follows in the exercising of its powers related to the regulation and supervision over the non-banking financial sector.

## MISSION

The FSC's mission is the carrying out of efficient regulation and supervision over the activities of:

- the regulated securities markets, the Central Depository, investment intermediaries, investment and management companies, the natural persons who execute directly transactions in securities and investment advice, public companies and other issuers of securities;
- the insurers, insurance intermediaries and the health insurance companies;
- supplementary social insurance companies and of the managed by them funds with the purpose of protection of the interests of the consumers of non-banking services and ensuring integrity, transparency and trust on the financial markets.

## VISION

The vision of the FSC is to develop itself continuously as a modern supervisory authority and to strengthen its position as a guarantor for enhancement of the confidence in the non-banking financial sector by pursuing regulatory and supervisory policy in consistence with the best practices and the world standards in this field, utilizing in full the advantages of the consolidated supervision. The vision also includes the turning of the Commission into an authority for carrying out of supervision on consolidated basis by the application of integrated practices and procedures.

## MAIN PRINCIPLES

- Following a balanced approach of regulation and supervision, accounting for the benefits and inherent costs, related to the regulations implementation;
- Equal approach in the exercising of the supervisory functions, objectivity and impartiality of the supervision;
- Unification of the supervisory procedures for monitoring and assessment of similar risks in the regulated sectors;
- Transparency of the activity.

## STRATEGIC GOALS

- Exercising of competent supervision, open for constructive interaction with all interested parties;
- Maintenance of environment stimulating the activity of competitive participants on the financial market and promotion of these participants self-regulation development;
- Risk-based regulation and supervision;
- Further development of FSC as a modern institution in the field of regulatory regimes;
- Maintenance of active international positions with the purpose of prompt and efficient introduction and implementation of the European and international standards, participation in the development and amendment of the European regulations and standards and enhancement of the international reputation of the FSC;
- Increasing the trust of the general public in the use of financial products and services by enhancement of the general awareness of them and in particular, its knowledge about the financial products and services;
- Pursuance of efficient and purposeful policy for the human resources use and development;
- Ongoing optimization of the structure, processes, procedures and development of the employed information technologies.





FSC'S ACTIVITIES IN 2008







# FSC'S ACTIVITIES IN 2008

## 1

### REGULATORY ACTIVITY

The amendments which have been made to the legislative framework, regulating the non-banking financial sector, aim to ensure utmost protection of all participants on the market of product and services, offered by the non-banking financial sector, as well as optimization of the legal framework on the basis of analysis of the market, the market participants activities, existing relations and forecasting of the processes and trends in the development of the economy and the markets. Adhering to these principles, in 2008 the Financial Supervision Commission has adopted drafts of new laws, regulating the activity of insurance, investment and social insurance activities, as well as a number of sub-statutory acts which are already part of the legislative framework.

## 1.1

### AMENDMENTS TO THE LEGAL FRAMEWORK

In July 2008 the Financial Supervision Commission considered and adopted a draft of Law on Amendment and Supplement to the Social Insurance Code (LAS of SIC). LAS of SIC has further developed and improved the regulation of the supplementary pension insurance. The proposed amendments target at promoting the competition between the pension insurance companies in the interest of the persons insured in the managed pension funds. With the LAS of SIC a possibility has been introduced of investment choice for the insured persons in the supplementary voluntary pension insurance funds. For the purpose, it has been envisaged the pension insurance company to be able to set up in each voluntary pension fund, up to three investment portfolios with different risk profile – aggressive, balanced and conservative, while the setting up of a balanced portfolio is obligatory. Every insured person will be able to choose on his/her own one or more investment portfolios in one fund, according to the investment policy of which the funds on his/her individual account are to be managed.

LAS of SIC also settles the payment phase in case of pension insurance in supplementary voluntary pension insurance fund. It has been envisaged the individual account to be closed at the moment of granting the life pension, the whole or part of the accumulated pension being carried to the technical reserves. The types of pensions from the supplementary voluntary pension insurance fund have been explicitly listed. The rights attached to various products, the risks which are assumed in the payment phase and their covering by formation of the relevant reserves have been regulated in detail also.

In 2008 representatives of the FSC participated in an interagency working group for elaboration of a draft of Law on Registration, Clearing and Settlement of transactions with dematerialized financial instruments, whose work would continue in 2009, as well. The goal of the draft of law is to draw up independently separated and detailed legal regulation of the activity of registration, clearing and settlement of transactions with dematerialized financial instruments, which is to ensure higher extent of investor protection, to create conditions for development of a fair, transparent and efficient market in financial instruments, as well as to remove the obstacles in relation to the cross-border movement of capitals, with a view to achievement of a single market in the field of financial services and maintenance of the stability and public confidence in the financial market.

The Bulgarian legal regulation in relation to the post-trading infrastructure lags behind the dynamic capital market development and the elaborated and implemented regulations concerning the single market, thus being on the one hand a hindrance to our full integration in the European market of financial services, and on the other, to the offering on the market of financial instruments, other than securities. By reason of it, the necessity arises on legal level the respective system to be created to reflect the concluded transactions with financial instruments on the market, to settle the responsibilities of the separate units in the chain of the performed activities, the risks which are assumed, as well as their management.

The Draft Law revises and further develops the acting legislation. Some imperfections found in the practice are removed, while accounting for the experience gained in the legal regulations implementation, and for the existing hindrances to the cross-border trade, to the offering of all financial instruments as listed in Art. 3 of the Markets in Financial Instruments Act (MFIA) on a regulated market in Bulgaria, as well as to the free competition by the opening of the market for settlement and clearing systems, other than that applied currently.

The Law transposes Directive 98/26/EC of the European Parliament and of the Council of 19 May, 1998 on settlement finality in payment and securities settlement systems with regard to the settlement of transactions with financial instruments.

The Draft of Law is in a working phase and its adoption by the Parliament is envisaged to be in 2009.

The FSC's representatives also took part in the work of task force 4 on Company Law to the European Affairs Council with the Council of Ministers, whose task was the transposing of Directive 2007/36/EC of the European Parliament and of the Council from 11 July, 2007 on the exercising of certain rights of shareholders of companies admitted to trading on a regulated market, whereby amendments were introduced in the Law on Public Offering of Securities (LPOS). As a result of the implementation of the Directive's provisions in the Bulgarian legislation, the possibility for shareholders in public companies to exercise their voting right in the company's general meeting is guaranteed to a larger extent. The major means for achieving these objectives are: 1) facilitation of the exercising of a voting right in a Bulgarian public company's general meeting by its shareholders non-residents (cross-border voting); 2) providing a possibility for the companies and their shareholders to hold the general meeting and respectively to participate in the general meeting by using electronic means and correspondence. Further requirements have also been introduced to the content of the invitation for a general meeting, with a view to the utmost accurate and exhaustive notification to the shareholders of their right to participate in the general meeting. The possibility to vote by using the procedure figure of the proxy, while observing certain rules which will guarantee the accurate reproduction of the shareholder's will is made easier.

In accordance with the established practice in other Member States, these rules to apply to a wider circle of entities (in some states to all commercial companies), the Republic of Bulgaria has availed itself of the opportunity provided by the Directive and has implemented its provisions in relation to all public companies.

The draft law was submitted for consideration in the Parliament and its adoption is forthcoming in 2009.<sup>2</sup>

Representatives of the FSC participated in the work of a task force on the elaboration of a draft of the Law on Amendment and Supplement of the Law on Credit Institutions (LAS of LCI), whereby the provisions of Directive 2007/44/EO of 5 Sept., 2007 have been introduced in the Law on Credit Institutions, in the Insurance Code (with § 39 of the Transitional and Final Provisions of the draft law) with regard to acquisition of a qualifying holding in insurers and reinsurers, in the Markets in Financial Instruments Act (with § 40 of the Transitional and Final Provisions of the draft law) with regard to the investment companies and in the Law on Public Offering of Securities (with § 41 of the Transitional and Final Provisions of the draft-law) in relation to the management companies.

The directive's requirements have been implemented comprehensively in all three statutory acts, the most important of which is the enumeration of the criteria on the basis of which the supervisory authority decides on the qualifying holding and in the absence of which, it is authorized to oppose to the acquisition, and namely: 1) the reputation of the person acquiring a qualifying holding; 2) the reputation and experience of any person who will be in charge of the company's operation as a result of the acquisition; 3) the financial stability of the person, acquiring a qualifying holding; 4) whether after the acquisition the company will be able to comply with the requirements of the relevant European legislation and whether the exercising of effective supervision over it will be possible (in particular, if after the acquisition it becomes part of a group); 5) if there is a ground to suspect that the acquisition is connected with money laundering or terrorist financing.

The procedure which the supervisory authority has to follow when making an assessment of the acquisition has been laid down in detail, with specifying of the time-limits within which the assessment has to be made, and the time-limits within which additional documents may be requested.

The rules have been laid down which the supervisory authority has to apply in regard to the exchange of information with the competent authorities from the Republic of Bulgaria and the other EU Member States, with a view to obtaining more detailed information necessary for the correct assessment of the acquisition applied for.

<sup>2</sup> The draft law was adopted by the Parliament and promulgated in SG, iss. 23 from 27 March, 2009, in effect as of 27 March, 2009.



With the Transitional and Final Provisions of the LAS to LCI, amendments have also been made to the Financial Supervision Commission Act (FSCA) in connection with fulfillment of the ECOFIN recommendation concerning inclusion of the European dimension in the mandates of the Member States' supervisory authorities and elimination of the obstacle to the FSC's joining the Multilateral Memorandum of the International Organization of Securities Commissions (IOSCO) by introduction of a possibility FSC to gather from the banks information about the assets and operations on bank accounts, related to the execution of transactions with securities.

The draft law is submitted for review in the Parliament and its adoption is envisaged to be in March 2009.<sup>3</sup>

## 1.2

### AMENDMENTS TO THE SUB-STATUTORY ACTS

#### AMENDMENTS TO THE SUB-STATUTORY ACTS REGULATING THE INVESTMENT ACTIVITY

The regulatory activity of the Financial Supervision Commission in 2008 was especially intensive in respect to the elaboration and adoption of sub-statutory acts. During the year FSC adopted a number of ordinances in the field of the investment activity, where by means of the amendments to the sub-statutory acts, updating and unification of the acting Bulgarian legislation with the *acquis communautaire* was achieved. Contributing to the creation of non-contradictory legal regulations, the amendments will have a positive influence for the more efficient work of the Commission, as well as easier and more efficient application of the regulations by the supervised persons. Within this meaning the following statutory acts have been passed:

- **Ordinance on Amendment and Supplement to Ordinance N° 15 from 5 May, 2004** on keeping and storing of the registers by the Financial Supervision Commission and the circumstances subject to entry<sup>4</sup>. The amendments to the ordinance have been necessitated in connection with the amendments to the LPOS and MFIA.

- **Ordinance on Amendment and Supplement to Ordinance N° 16 from 7 July, 2004** on the conditions and procedure for execution of margin purchases, short sales and lending of securities<sup>5</sup>. The ordinance provides for the possibility the investment intermediaries to extend loans to their clients for execution of margin purchases not only with securities, but also with any financial instruments. Condition for execution of the order for margin purchase is the provision of initial collateral to the amount of not less than 200 % from the margin loan value. Amendments have been introduced in relation to the criteria which must be satisfied by the financial instruments which may be used as collateral in margin purchases and short sales, as well as with which short sales may be executed. With a view to ensuring the orderly functioning of the margin trading and the execution of short sales, it has been envisaged in the depository institution where the relevant financial instruments are registered, to be opened and kept separate accounts on which to be registered the financial instruments, provided as collateral on the margin purchases and short sales. A requirement has been set forth the investment intermediary to open and maintain separate cash accounts in a credit institution for clients' cash in relation to the margin purchases, or the short sales. The margin purchases and short sales may be executed both by professional and retail clients in compliance with the general requirement the investment intermediaries to make assessment for appropriate service according to Art. 28 of the MFIA when executing this type of transactions for account of their clients.

The ordinance also regulates the setting up by the Central Depository of a system for intermediation in lending of financial instruments, with the purpose of securing the settlement of short sales, the lending and returning back of borrowed financial instruments under the conditions and the procedure of the ordinance.

- **Ordinance on Amendment and Supplement to Ordinance N° 22 from 29 July, 2005** on the conditions and procedure for entry and deletion of public companies, other issuers of securities and issues of securities in the register of the Financial Supervision Commission<sup>6</sup>. The ordinance aims at achieving consistency with the provisions of the LPOS. The amendments undertaken also define the content of the minimum information which has to be submitted in the cases of exemption from

<sup>3</sup> The draft law was passed by the Parliament and promulgated in SG, iss.24 from 31 March, 2009, in force as of 31 March, 2009.

<sup>4</sup> Am. and suppl., prom. in SG, iss. 63 from 15 July, 2008 and iss. 68 from 1 August, 2008

<sup>5</sup> Am. and suppl., prom. in SG, iss. 45 from 13 May, 2008, in effect from 14 August, 2008

<sup>6</sup> Am. and suppl., prom. in SG, iss. 37 from 8 April, 2008.

the requirement to publish a prospectus. The ordinance also renders in detail part of the provisions of the LPOS concerning the conditions and procedure for deletion of a public company in case of executed public offering for purchase of the shares according the provision of Art. 157a of the LPOS.

■ **Ordinance on Amendment and Supplement to Ordinance N° 23 from 8 Feb., 2006** on the terms and procedure for client assets valuation<sup>7</sup>. It extends the scope of the client assets which are subject to assessment under the ordinance. These are financial instruments and other assets which the investment intermediary keeps, administrates or manages for the account of its clients in connection with the provided by it services under Art. 5, para 2 and 3 of the MFIA, including the interests, dividends and other such payments, with the exception of deposits within the meaning of § 1, item 1 of the Additional Provisions of the Law on Bank Deposit Guarantee, with the investment intermediaries - banks. Simultaneously, according the adopted under the ordinance rules of valuation, the market value of shares, admitted to trading on a regulated market, is determined by the closing price of the regulated market, on the last day of the month for which the valuation is made, or at the day on which the decision under Art. 77b, para 1 of the LPOS is pronounced. These rules of valuation also relate to the bonds and other financial instruments admitted to trading on a regulated market.

An obligation of the investment intermediaries has also been regulated to make valuation of the financial instruments on the basis of adopted by them rules, which shall contain at least the requirements envisaged under the ordinance. A requirement has been further set forth, according which the method of the financial instruments valuation must be applied consistently.

■ **Ordinance of Amendment and Supplement to Ordinance N° 25 from 22 March, 2006** on the requirements for the activities of investment companies and common funds (contractual funds)<sup>8</sup>. The ordinance transposes Directive 2007/16/EO from 19 March, 2007 and provides explanations with regard to some definitions in Directive 85/611/EEC, which concern the requirements to the assets in which the collective investment schemes may invest cash, raised through the offering of their units. Additional criteria have been introduced in connection with the financial instruments which are specified as „appropriate assets“ for the collective investment schemes, whose purpose is to ensure compliance with major provisions in Directive 85/611/EEC, such as the principle of risk diversification and the possibility at any time to calculate accurately the net asset value, with a view to the scheme's obligation to redeem its units upon request of their holders.

■ **Ordinance on Amendment and Supplement to Ordinance N° 35 from 17 Oct., 2006** on the capital adequacy and the liquidity of investment intermediaries<sup>9</sup>. On the one hand, the amendments made aim at complying the ordinance with the provisions of the effectuated from 1 November, 2007 Markets in Financial Instruments Act. On the other hand, the amendments are made with a view to the gained practical experience in the application of the ordinance provisions, for further specifying of terms which the practice has shown to have ambiguous interpretation.

■ **Ordinance on Amendment and Supplement to Ordinance N° 38 from 25 July, 2007** on the requirements to the activities of investment intermediaries<sup>10</sup>. With the amendments to the ordinance it is allowed in certain circumstances the investment intermediary not to carry out verification whether the financial instruments, subject of the sale, are available. It is also regulated the obligation of the depository institution of the financial instruments and of the regulated market on which orders are executed for sale of financial instruments that are not available on the seller's account at the moment of the sale, to create and maintain mechanisms, systems and procedures for management of the risks associated with the clearing and settlement of these transactions, including by the setting up of a guarantee system for their securing.

■ **Ordinance N° 40 from 27 Feb., 2008** on the admission of securities to trading on an official market<sup>11</sup>. This ordinance regulates the conditions which the securities must satisfy to be admitted to and to be traded on an official market, organized by a regulated market which is located or functions on the territory of the Republic of Bulgaria, as well as the procedure and way of their admission. It also transposes in full the provisions of Directive 2001/34/EC on the admission of securities to official stock exchange listing and on the information to be published on those securities.

The ordinance sets forth the concrete requirements for the admission of shares and bonds to trading on an official market, including also for the possibility the securities to be admitted to trading even without some of the stated in the ordinance

<sup>7</sup> Am. and suppl., prom. in SG, iss. 32 from 25 March, 2008

<sup>8</sup> Am. and suppl., prom. in SG, iss. 29 from 18 March, 2008, in effect as of 23 July, 2008

<sup>9</sup> Am and suppl., prom. in SG, iss. 68 from 1 August, 2008

<sup>10</sup> Am. and suppl., prom. in SG, iss. 60 from 4 July, 2008, in force as of 5 Sept., 2008

<sup>11</sup> Prom., SG, iss. 27 from 11 March, 2008

conditions to be existing, provided that thus the investor interests will not be jeopardized and this will not result in violation of the official market's normal functioning.

The ordinance also settles the procedure and manner for admission to trading on an official market, providing for the competent authority of the regulated market to decide on the securities admission, and its decision to be appealed before the arbitration court with the regulated market.

■ **Ordinance N° 41 from 11 June, 2008** on the requirements to the content of the rationale for the share price of a public company, including to the application of valuation methods in the cases of transformation, common enterprise contract and tender offer<sup>12</sup>. The ordinance provisions further develop and regulate in detail the requirements to the content of the rationale of the shares' fair price and to the applicable methods of its formation. The fair price must be determined by the weighting of the results obtained by the application of three valuation methods, namely: the discounted cash flows method, the net asset value method and the market multipliers of analogue companies' method. The ordinance regulates the specific models which may be used when applying each method, a possibility being also envisaged for use of other models, if this is justified by the company's specific characteristics, and if the fair price is determined more realistically by them. The ordinance envisages in the cases where the company's shares are traded actively, to be taken into account also the market price of the company's shares determined as a closing price, or other analogous indicator. Regulated are also the requirements to the content of the rationale for the share price in a public company, the main function of which, in its capacity of an information disclosing document is to assist the shareholders to take information-based decision as to how to vote at proposed corporate events - transformation, common enterprise or tender offer.

The **Directives**, transposed in the legislative framework, regulating the **investment activity**, are the following:

■ **Directive 2007/16/EC of the Commission of the European Communities of 19 March, 2007 implementing Council Directive 85/611/EEC on coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions:**

- date of coming into effect: 23 July, 2008;
- the provisions of Directive 2007/16/EC are transposed in Ordinance N° 25 from 22 March, 2006 on the requirements for the activities of investment companies and contractual funds;

■ **Directive 2001/34/EC of the European Parliament and the Council of 28 May, 2001 on the admission of securities to official stock exchange listing and on information to be published on those securities:**

- date of coming into effect: 11 March, 2008;
- the provisions of Directive 2001/34/EC are transposed in Ordinance N° 40 from 27 Feb., 2008 on admission of securities to trading on an official market;

■ **Directive 2007/36/EC of the European Parliament and of the Council of 11 July, 2007 on exercising of certain rights of shareholders admitted to trading on a regulated market:**

- date of coming into effect: 27 March, 2009;
- the provisions of Directive 2007/36/EC are transposed in the Law on Public Offering of Securities;

■ **Directive 2007/44/EC of the European Parliament and of the Council of 5 Sept., 2007 amending Council Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards the procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector:**

- date of coming into effect: 31 March, 2009;
- the provisions of Directive 2007/44/EC are transposed in the Insurance Code, Markets in Financial Instruments Act and the Law on Public Offering of Securities;

■ **Directive 98/26/EC of the European Parliament and of the Council of 19 May, 1998 on settlement finality in payment and securities settlement systems regarding the settlement of transactions with financial instruments:**

- date of coming into effect: the draft law is in a working phase and its passing is forthcoming in 2009;
- the provisions of Directive 98/26/EC are transposed in the Law on Registration, Clearing and Settlement of Transactions with Dematerialized Financial Instruments.

<sup>12</sup> Am. and suppl., prom. in SG, iss. 59 from 1 July, 2008, am., iss. 65 from 22 July, 2008

## AMENDMENTS TO THE SUB-STATUTORY AND ADMINISTRATIVE ACTS REGULATING THE INSURANCE AND THE VOLUNTARY HEALTH INSURANCE

In 2008 FSC adopted two sub-statutory acts relating to the activities of the insurance and health insurance companies, as well as three directions on the interpretation and implementation of the Insurance Code:

■ **Ordinance on Amendment and Supplement to Ordinance N° 30 from 19 July, 2006** on the requirements for accounting, form and contents of the financial statements, statistics, reports and supplements of insurers and health insurance companies<sup>13</sup> (OAS to Ordinance N° 30). The amendments to the ordinance were dictated by the amendments to the Insurance Code, adopted with the Law on Amendment and Supplement of the Insurance Code<sup>14</sup> with the purpose of transposing Directive 2005/68/EO on reinsurance. OAS to Ordinance N° 30 has also introduced additional supervisory statistics for the insurers. The Bulgarian insurers which carry out activity in other Member States of the European Economic Area (EEA) under the right of establishment or freedom to provide services are obligated thereby to provide information for that part of their activity. The information includes: 1) number of concluded contracts by type of insurances which are concluded under the freedom to provide services, or under the right of establishment; 2) premium income, paid indemnities, commissions and detailed information on the contracts for obligatory civil liability insurance of motorists, concluded in other Member States. The information included in these statistics is necessary for fulfillment of the FSC's obligations for provision of summarized statistical information to the supervisory authorities of the other EEA Member States in relation to the activities carried out by the Bulgarian insurers in those states. The scope of some of the existing statistics submitted by the insurers has been also extended by OAS to Ordinance N° 30.

■ **Ordinance on Amendment and Supplement to Ordinance N° 31 from 2 August, 2006** on the terms and procedure for holding examination and recognizing the legal capacity of responsible actuary, for recognizing legal capacity acquired outside the Republic of Bulgaria, as well as for the form of actuary certification, the form and content of the actuarial report and the statistics certified by the responsible actuary under the Insurance Code and the Health Insurance Act<sup>15</sup>. The ordinance provides for amendment to Appendix N° 1 and 2 with regard to the form and content of the actuarial report, concerning the health insurance reserves. Furthermore, it regulates the possibility for conducting of an examination and recognition of the legal capacity of responsible actuary to be accomplished not only by FSC, but also by professional organization of the actuaries, to which certain requirements have been introduced. The amendments to the ordinance were dictated by the admission in 2007 of Bulgarian Actuarial Society as a full member of the International Actuarial Organization.

■ **Directions on the application and interpretation of Art. 311i of the Insurance Code, in relation to the contributions, under Art. 311i, para 1, item 1 and 2, of the insurers in the Security Fund**<sup>16</sup>. The directions have been adopted in connection with issues raised by the insurers, about the manner of determination of the amount of the contributions in the Security Fund. The directions gave interpretation on the basis of fixing the contribution to the Security Fund in different specific cases: 1) where a person is insured by one contract; 2) where a person is insured by more than one contract; 3) where by one insurance contract a cover is ensured simultaneously for various risks, inherent in life insurance, as well as on contracts for insurance of the life, health or the body integrity of third persons debtors. The period of charging and collection of the annual contribution for the Security Fund has been also explicitly indicated. The manner of determination of the first contribution therein has been explained and its impact on the premiums under the contracts concluded before the date of effectuation of the Law on Amendment and Supplement to the Insurance Code, whereby the possibility has been introduced for receiving compensations in case of an insurer's bankruptcy.

■ **Directions on the liability for payment of insurance indemnity in case of occurred road traffic accident outside the territory of the Republic of Bulgaria, caused by a motor vehicle with Bulgarian registration, in relation to which the concluded Third Party Liability insurance of motorists was terminated on the ground of Art. 202 of the Insurance Code, but to the policy there is issued a one-year Green Card certificate, valid as on the date of the**

<sup>13</sup> Am. and suppl., prom. in SG, iss. 51 from 3 June, 2008

<sup>14</sup> Prom. in SG, iss. 97 from 23.11.2007

<sup>15</sup> Am., prom. in SG, iss. 51 from 03.06.2008

<sup>16</sup> Adopted by decision under Protocol N° 8 from 12 Feb., 2008 at FSC's meeting

**insurance event occurrence**<sup>17</sup>. The directions were adopted in connection with an inquiry by the National Bureau of the Bulgarian Motor Insurers. They give interpretation that when the insurance contract for the obligatory Third Party Liability insurance of motorists is terminated due to non-payment of deferred installments of the insurance premium and a road traffic accident occurs in a Member State, it has to be accepted that in relation to the motor vehicle there is no concluded obligatory insurance, regardless of whether there is issued a Green Card certificate to it, having a longer period of cover. Interpretation is also given that upon occurrence of an accident in a third country, the only valid time-limit for determination of the insurer's liability is that of the Green Card certificate.

■ **Directions about the liability for payment of insurance indemnity in the cases when in relation to one and the same motor vehicle there are concluded two and more obligatory Third Party Liability insurances of motorists with different insurers**<sup>18</sup>. The directions have been adopted in connection with an inquiry by the National Bureau of the Bulgarian Motor Insurers and provide interpretation that when in relation to one and the same motor vehicle there are concluded and acting more than one obligatory Third Party Liability insurance of motorists, the insurers shall be liable jointly, and the consumer's claim for the whole amount of the indemnity may be addressed to any of them. After indemnification of the damaged person, the relations between the insurer that effected payment and the other insurers may be settled by agreement, or through the court.

## AMENDMENTS TO THE SUB-STATUTORY ACTS REGULATING THE SUPPLEMENTARY PENSION INSURANCE

In 2008 the Commission adopted **amendment to Ordinance N° 34 of 04.10.2006** on the terms and conditions for concluding transactions to reduce the investment risk related to assets of a supplementary pension insurance fund and on the requirements to and limitations on such transactions<sup>19</sup>. The amendments to the ordinance are directed to improvement and unification of the reporting of the hedging transactions, concluded for account of a supplementary pension insurance fund. Minimum content is introduced for the analysis of the influence of the concluded hedging transactions over the risk profile of the fund's portfolio, which is presented at FSC by the pension insurance company.

## 2

### LICENSING ACTIVITY, AUTHORIZATION REGIMES AND NOTIFICATIONS

## 2.1

### LICENSING ACTIVITY, AUTHORIZATION REGIMES AND NOTIFICATIONS IN THE FIELD OF THE INVESTMENT ACTIVITY

## 2.1.1

### INVESTMENT INTERMEDIARIES, SECURITIES BROKERS AND INVESTMENT ADVISERS

#### LICENSING AND AUTHORIZATION ACTIVITY

##### Licenses issued by Commission

In 2008 seven licenses to carry out activity as investment intermediary were issued to the following applicants:

- ROCK RIDGE INVESTMENT EAD;
- LIDER INVEST OOD;
- ASTRA INVESTMENT AD;
- GLOBAL MARKETS OOD;
- BALKAN SECURITIES EOOD;
- ADAMANT CAPITAL PARTNERS AD;
- ABC FINANCE EAD (in process of incorporation).

During the reporting period applications were filed for amendment and supplement of the issued license for carrying out

<sup>17</sup> Adopted by decision under Protocol N° 33 from 23 July, 2008 at FSC's meeting

<sup>18</sup> Adopted by decision under Protocol N° 42 from 23 Sept., 2008 at FSC's meeting

<sup>19</sup> Am. And suppl., prom. In SG iss. 29 from 18 March, 2008

activity as investment intermediary by 3 companies, as a result of which FSC issued **authorization for amendment to the issued license** to the following investment intermediaries:

- BUL TREND BROKERAGE LTD., for performance of services and activities under art. 5, para 2, item 3 and 6, and art. 5, para 3, item 6 and 7 of the MFIA;
- BULBROKERS EAD, for performance of services and activities under art. 5, para 3, item 7 of MFIA; and
- BALKAN ADVISORY COMPANY – IP EAD, for performance of services and activities under art. 5, para 2, item 4 and art. 5, para 3, item 7 of MFIA.

In June, 2008 FSC conducted examinations for acquisition of legal capacity to pursue business as **broker** and as **investment adviser**. The results of the examinations carried out were as follows:

- **25** candidates passed the examination for acquisition of legal capacity to pursue business as a broker;
- **25** candidates passed the examination for acquisition of legal capacity to pursue business as an investment adviser.

During the period under review, applications for recognition of acquired qualification as investment adviser were received in the Commission. After review of the applications, by decision of the FSC the required qualification, certified by issued by a competent foreign authority document, was recognized as satisfying the requirements included in the thematic scope of the examination for acquisition of right to carry out activity as an investment adviser to the following persons:

- Atanas Todorov Angelov;
- Zdravko Kirilov Ivanov;
- Naiden Ivov Chernev;
- Daniel Penov Donchev;
- Andrean Rumenov Balashov;
- Katerina Blagoeva Dramzhieva;
- Simeon Oleg Ivanov;
- Todor Dimitrov Angelov;
- Nikolai Dimitrov Dimitrov;
- Antonia Dimova Ksiruhaki;
- Kiril Yurdanov Georgiev;
- Onnik Arshavir Kyurkchian;
- Petko Nikolaev Mikov;
- Ivo Georgiev Marchokov;
- Ivailo Penchev Penev;
- Vyara Stefanova Ivanova.

### Licenses withdrawn by the Commission

During the reviewed period there were no withdrawn licenses for carrying out activity as investment intermediary.

In 2008 two procedures were opened and terminated for withdrawal of the issued license to carry out activity as investment intermediary to II NABA INVEST AD and II POPULIARNA KASA – 95 AD.

### Received Notifications

During the period, notifications were received in the Commission for **acquisition, directly or indirectly, of 10 and more than 10 per cent of the capital** or from the votes of the II's General Meeting, on the ground of Art. 26 of the MFIA from:

- ELANA FINANCIAL HOLDING AD for acquisition of a qualifying holding in investment intermediary ELANA TRADING AD;
- BULGARIAN INDUSTRY EOOD for acquisition of a qualifying holding in investment intermediary EVER AD;
- HYPO INVESTBANK AG for acquisition of an indirect qualifying holding in investment intermediary BULBROKERS AD;
- DIT HOTELS OOD for acquisition of a qualifying holding in investment intermediary BORA INVEST AD;
- REAL INVEST EOOD for acquisition of a qualifying holding in investment intermediary REAL FINANCE AD;



- HOLDING VARNA AD for acquisition of a qualifying holding in investment intermediary REAL FINANCE AD;
  - CHIMIMPORT INVEST AD for acquisition of a qualifying holding in investment intermediary METRIK AD.
- In 2008 notifications were received for **transfer directly or indirectly of 10 and more than 10 per cent of the capital** or of the votes in the II's General Meeting, on the ground of Art. 26 of MFIA by:
- ELANA HOLDING AD about transfer of a qualifying holding in investment intermediary ELANA TRADING AD;
  - DOVERIE UNITED HOLDING AD about transfer of a qualifying holding in investment intermediary EVER AD;
  - ALFA FINANCE HOLDING AD about reduction of its indirect qualifying holding in investment intermediary BULBROKERS AD;
  - Jordan Georgiev Gavrilov, Magdalena Ilieva Gjosheva and Yanka Petkova Vangelova about transfer of a qualifying holding in investment intermediary BORA INVEST AD;
  - Bozhidar Ivanov Grigorov, EASYPAY AD and Dragomir Nikolov Nikolchev about transfer of a qualifying holding in investment intermediary METRIK AD.

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

In 2008 in relation to the application of the licensing regimes over the activity of the investment intermediaries and the regulated securities market, the Deputy Chairperson in charge of Investment Activity Supervision Division issued:

- **Approvals for election of members of a management body** of investment intermediaries:
  - Rick Juss Gust Janssen was approved for a member of the Board of Directors of II DZI INVEST AD;
  - Vanya Georgieva Vassileva was approved for a member of the Board of Directors of II ELANA TRADING AD;
  - Atanas Ivanov Boychev, Borislav Alexandrov Popov and Yurii Assenov Stanchev were approved as members of the Board of Directors of II BETA CORP AD;
  - Vyacheslav Dmitrievich Koev was approved for Manager of II BULTREND BROKERAGE OOD;
  - Elisaveta Arsenieva Arsenieva was approved for Manager of II SOMONI FINANCIAL BROKERAGE OOD;
  - Hristo Dimitrov Terziev was approved as Manager of II LIDER INVEST OOD;
  - Elitsa Ivanova Ivanova was approved as procurator of II KD SECURITIES EAD;
  - Michael Gilbert Clement Kalens was approved as a member of the Board of Directors of II DZI INVEST AD;
  - Krassimir Zhekov Tahchiev was approved for Manager of II FIRST FINANCIAL BROKERAGE HOUSE OOD;
  - Benyamin Yoshari, Deyan Divyak, Peter Bezlai (Slovenia) and Elitsa Ivanova Ivanova were approved as members of the Board of Directors of II KD SECURITIES EAD;
  - Borislav Dimchev Slavov and Atanas Vassilev Dobrev were approved for members of the Board of Directors of II INVESTMENT INTERMEDIARY MACCAP AD;
  - Vesselin Raichev Morov was approved as a member of the Board of Directors of II NABA INVEST AD;
  - Svetozar Abrashev and Vesselin Zahariev were approved as members of the Board of Directors of II SOFIA INTERNATIONAL SECURITIES AD.

- **Approvals for amendment to the Rules of BSE – Sofia AD:**

- Decision № 27 – SE/07.01.2008;
- Decision № 609 – SE/13.06.2008;
- Decision № 1226 – SE/01.10.2008 – partial approval.

By Decision № 893 – SE/24.07.2008 Ivan Angelov Takev was approved as a member of the Board of Directors of Bulgarian Stock Exchange – Sofia AD.

On the ground of Art.62, para 2 of the Administrative Procedure Code, the following decision was issued for **correction of made apparent factual error:**

- **Decision № 1085 – II from 18 August, 2008** of the FSC– an apparent factual error made was corrected in Decision 799 – II from 16 July, 2008, whereby a license was issued to GLOBAL MARKETS OOD (in process of incorporation) for carrying out investment services and activities as an investment intermediary within the EU, EEA and third countries. An inaccuracy was admitted in the

operating part of the issued decision, where the activities applied for performance in third countries were not individually and explicitly listed, but were indicated together with the activities which the II will carry out within the European Union and the European Economic Area.

## NUMBER OF INVESTMENT INTERMEDIARIES, SECURITIES BROKERS AND INVESTMENT ADVISERS AS OF 31 DECEMBER, 2008

The total number of the investment intermediaries as of 31 December, 2008 was 88, incl. **25 banks** and **63<sup>20</sup> non-banking financial institutions**. The non-banking financial intermediaries were divided in the following two groups according to the issued authorizations:

- 25 IIs were with full license, i.e. they could execute transactions for own account as well as all investment services and activities, listed in Art. 5, para 2 of the MFIA. The required capital in such cases is BGN 1,500,000;
- 38 companies had a partial license, i. e. they may not execute all above stated investment services and activities (excluded from their subject of activity are the investment services and activities under Art. 5, para 2, item 3 and 6 of MFIA – transactions for own account with financial instruments and underwriting of issues of financial instruments and/or offering for initial sale of financial instruments on the conditions of unconditional and irrevocable obligation for subscription/ acquisition of the financial instruments for their own account). The required capital is BGN 250,000.

As of 31 December, 2008 there were **345 brokers and 299 investment advisers** in the register, kept by the Commission, of the natural persons who under a contract directly carry out transactions with securities and investment advice about securities. That number also included **111 persons**, who had simultaneously certificates for both brokers and investment advice.

## NOTIFICATIONS

In 2008 the following **notifications** were received in FSC **from investment intermediaries from Member States**, which intend to pursue activity on the territory of the Republic of Bulgaria under the freedom to provide services or by the establishment of a branch under freedom of establishment:

- 328 notifications by investment intermediaries from Member States, which intend to carry out activity on the territory of the Republic of Bulgaria under freedom to provide services;
- 2 notifications by investment intermediaries from Member States, which intend to carry out activity on the territory of the Republic of Bulgaria by the establishment of a branch under freedom of establishment;
- one notification by an investment intermediary from a Member State, which intends to carry out activity on the territory of the Republic of Bulgaria by using a tied agent, equalized to a branch.

At the same time, FSC received **notifications by investment intermediaries from the Republic of Bulgaria**, intending to pursue business on the territory of the European Union. The Commission sent in total 5 notifications to Member States, from which 4 notification for carrying out of activity under the freedom to provide services:

- BALKAN ADVISORY COMPANY – II EAD – on the territory of Romania;
- DELTASTOCK AD – on the territory of the United Kingdom;
- EVER AD – on the territory of the United Kingdom and Romania;
- VANCHEV FINANCE EOOD – on the territory of the United Kingdom.

Furthermore, a notification was received by an investment intermediary from the Republic of Bulgaria, intending to carry out activity on the territory of the United Kingdom through the establishment of a branch under freedom of establishment (the notification procedure of the company is still not completed).

<sup>20</sup> II KBC SECURITIES, BULGARIAN BRANCH carries out activity in Bulgaria by notification on the side of a Member State and is not included in the number of the investment intermediaries.



## LICENSING AND AUTHORIZATION ACTIVITY

### Licenses Issued by the Commission

The licensing activity of the Commission in the segment of the collective investment schemes was particularly active in 2008 as well, the pace of development in the licensing of MCs and CFs from the previous reporting period being preserved. Nevertheless, a decline was observed in the investment community interest in the offered services of the collective investment schemes, which was as a result of the increasing financial crisis both on the Bulgarian capital market and on the world financial markets.

In 2008 FSC issued authorization to 17 management companies (MC) to organize and manage **23 contractual funds (CF)**, simultaneously approving their prospectuses for public offering of units and entering them in the register kept by the Commission under Art. 30 of FSCA. Detailed information on the organization and management of the new contractual funds is given in **Appendix 2.1.2A**. The tendency continued to be MCs to organize and manage several contractual funds each, the objective in most cases being to establish at least one each of the three main CFs (conservative, balanced and aggressive), which were to offer a complete range of investment products. During the period under review there were not issued licenses to carry out activity as an investment company.

Regardless that the last year passed under the impact of the financial markets crisis, the interest in the organization of contractual funds continued, which on its turn led to the formation of **new management companies** and their licensing by FSC. A new license for carrying out activity as a management company during the reporting period was issued to 9 new companies:

- OVERON FINANCE AD;
- MANAGEMENT COMPANY MUNICIPAL BANK ASSET MANAGEMENT EAD;
- SAEDINENIE ASSET MANAGEMENT AD;
- BULDEV ASSET MANAGEMENT AD;
- ULTIMA CAPITAL MANAGEMENT EAD;
- CAPITAL MARKETS ASSET MANAGEMENT AD;
- ASTRA ASSET MANAGEMENT AD;
- NEWWAY ASSET MANAGEMENT AD;
- OPTIMA ASSET MANAGEMENT AD.

### Licenses Withdrawn by the Commission

During the period under review **FSC withdrew the license** for carrying out activity as a management company of TITAN ASSET MANAGEMENT EAD.

The managed by MC PIONEER INVESTMENTS AUSTRIA GmbH contractual fund PIONEER FUNDS AUSTRIA – SELECT EUROPE STOCKS was deleted from the register of public companies and other issuers of securities under Art. 30, para 1, item 3 of FSCA.

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

With the purpose of protection of the investor interests, retaining their confidence in CIS and establishment of compliance with the statutory requirements, the law has regulated the issue of preliminary authorization, confirmation or approval by the FSC, respectively by the Deputy Chairperson in charge of Investment Activity Supervision Division, for the performance of certain actions by the regulated entities. In this relation during the reporting period the Deputy Chairperson in charge of Investment Activity Supervision Commission issued:

- **13 approvals for amendments to the Articles of Association of 10 investment companies;**
- **11 approvals of amendments to the Rules of portfolio valuation and determination of the net asset value of 10 investment companies;**

- **81 approvals of amendments to the Rules of portfolio valuation and determination of the net asset value of 68 CFs;**
- **82 approvals of amendments to the rules of 60 CFs;**
- **Approval of the risk assessment and management rules of 4 ICs;**
- **31 approvals of the risk assessment and management rules of 30 CFs.**

Detailed information on the above stated individual administrative acts is given in **Appendix 2.1.2B**.

In the period, a procedure was terminated of extension of the license to carry out activity as a management company of MC INVEST FUND MANAGEMENT AD.

In 2008 authorizations were issued in relation to received notifications for acquisition, directly or indirectly, of a qualifying holding in MC, on the ground of Art. 210, para. 5 in relation to Art. 26, para 1 of MFIA to:

- ELANA FINANCIAL HOLDING AD for acquisition of a qualifying holding in management company ELANA FUND MANAGEMENT AD;
- Stefan Hristov Stefanov, Plamen Georgiev Patev and Nigohos Krikorov Kanaryan to acquire each 42,000 shares, or 12 per cent of the capital of management company STANDARD ASSET MANAGEMENT AD, whereby the persons will own in total respectively 28.2 %, 28.2 % and 15.6 % from the capital of the MC;
- HYPO INVESTBANK AG for acquisition of an indirect qualifying holding in management company ALFA ASSET MANAGEMENT AD;
- Ivan Alexandrov Ivanov for acquisition of a qualifying holding in management company OVERON FINANCE AD.

A request of FAIRPLAY INTERNATIONAL JSC was received in the Commission to acquire a qualifying holding in management company TITAN ASSET MANAGEMENT EAD. The applicant was informed that after the pronouncement of FSC's Decision № 208-MC from 20 February, 2008 for withdrawal of the issued to TITAN ASSET MANAGEMENT EAD license, there was no ground for consideration of the filed notification.

During the past year authorizations were issued in relation to received notifications for transfer of possessed direct or indirect qualifying holding in MC on the ground of Art. 210, para 5 with reference to Art. 26, para 2 of MFIA to:

- Andrey Boyanov Zahariev, Stoyan Stanimirov Prodanov and Ivailo Vladimirov Nikolov for transfer of 42,000 shares each, or 12 percent each of the capital of management company STANDARD ASSET MANAGEMENT AD;
- Vassil Georgiev Stoimenov and Vassil Stanimirov Mirchev for transfer of a qualifying holding in the capital of management company OVERON FINANCE AD;
- ALFA FINANCE HOLDING AD for transfer of a qualifying holding in the capital of management company ALFA ASSET MANAGEMENT AD.

In 2008 the Commission's Deputy Chairperson in charge of Investment Activity Supervision Division issued approvals to:

- MC RAIFFEISEN ASSET MANAGEMENT (BULGARIA) EAD for changes in the contract for depository services concluded between the company, acting on its own behalf and for the account of the organized and managed by it CF RAIFFEISEN (BULGARIA) BALANCED DOLLAR FUND, and the depository bank EUROBANK EFG BULGARIA AD;
- MC BENCHMARK ASSET MANAGEMENT AD for change in the contract for depository services concluded between RAIFFEISEN (BULGARIA) EAD and MC BENCHMARK ASSET MANAGEMENT AD, acting for the account of CF BENCHMARK FUND-5 CEE, CF BENCHMARK FUND-4 ENERGY, CF BENCHMARK FUND-3 REAL ESTATE SECTOR and CF BENCHMARK FUND-1 SHARES AND BONDS;
- MC TBI ASSET MANAGEMENT EAD for changes in the contract for depository services concluded between the company, acting on its behalf and for account of the organized and managed by it CF TBI COMFORT, CF TBI HARMONY, CF TBI DYNAMIC and the depository bank ECONOMIC AND INVESTMENT BANK AD;
- MC STANDARD ASSET MANAGEMENT AD for change in the contract for depository services, concluded between ALLIANZ BANK BULGARIA AD and MC STANDARD ASSET MANAGEMENT AD, acting for the account of CF STANDARD INVESTMENT HIGH-YIELD FUND;

- MC STANDARD ASSET MANAGEMENT AD for change in the contract or depository services, concluded between CB UNICREDIT BULBANK AD and MC STANDARD ASSET MANAGEMENT AD, acting for the account of CF STANDARD INVESTMENT INTERNATIONAL FUND;
- MC TBI ASSET MANAGEMENT EAD for change in the contract for depository services concluded between CB ECONOMIC AND INVESTMENT BANK AD and MC TBI ASSET MANAGEMENT EAD, acting on its behalf and for account of CF TBI COMFORT, CF TBI DYNAMIC and CF TBI HARMONY.

The total number of the **reviewed in FSC advertising materials** during the period was 26. From the reviewed advertising materials for CFs, submitted at FSC by the MC managing them, the Deputy Chairperson in charge of Investment Activity Supervision Division, issued **temporary prohibition** for:

- the publication and dissemination of the advertising material presented at FSC by MC BENCHMARK ASSET MANAGEMENT AD, concerning the two contractual funds BENCHMARK FUND-4 ENERGY and BENCHMARK FUND-5 CEE;
- the dissemination of the advertising material submitted at FSC by MC STANDARD ASSET MANAGEMENT AD for radio publicity in the electronic media – radio CLASSIK FM and radio JAZZ FM of MC STANDARD ASSET MANAGEMENT AD;
- the dissemination of the advertising material submitted by MC BALKAN CAPITAL MANAGEMENT at FSC;
- the distribution of the presented at FSC by MC ZAGORA FINACORP ASSET MANAGEMENT AD advertising material for contractual fund ZAGORA FINACORP BALANCED FUND;
- the publication and distribution of the advertising material submitted at FSC by MC UBB ASSET MANAGEMENT AD.

## NUMBER OF COLLECTIVE INVESTMENT SCHEMES AND MANAGEMENT COMPANIES AS OF 31 DECEMBER, 2008

The overall number of the licensed **investment companies** as of the end of 2008 remained 11. Two of them were of closed-end type (former privatization funds, that transformed their activity into IC) and 9 were of open-end type.

With the new 23 contractual funds the total number of the **contractual funds** as of 31 December 2008 grew up to **83**.

With the nine newly incorporated companies during the period under review the total number of the **licensed MCs** at the end of December, 2008 became **38**. The number of the offered in Bulgaria **foreign CIS** increased to **93**.

## NOTIFICATIONS

During the period, in the FSC were received notifications by the following CIS from Member States, which intend to pursue business on the territory of the Republic of Bulgaria:

- MC PIONEER ASSET MANAGEMENT S.A., Luxembourg, in connection with the public offering of units of the two sub-funds from the LUXEMBOURG FUND UMBRELLA PIONEER FUNDS;
- MC SOCIETE GENERALE ASSET MANAGEMENT S.A., in connection with the public offering of the units of 11 sub-funds of SGAM FUND, Luxembourg;
- MC RAIFFEISEN CAPITAL MANAGEMENT, Austria, for public offering of the units of 4 CF;
- MC PIRAEUS ASSET MANAGEMENT – MUTUAL FUND MANAGEMENT COMPANY S.A, Greece, for public offering of the units of 6 CF;
- MC KBC ASSET MANAGEMENT S.A., Belgium, for public offering of the units of one investment company of open-end type.

In 2008, 1 notification was received at FSC from local management company (DSK ASSET MANAGEMENT AD), intending to pursue business on the territory of the European Union, and in particular, on the territory of Hungary.

## LICENSING AND AUTHORIZATION ACTIVITY

## Prospectus for Public Offering of Securities

During the reporting period FSC approved prospectuses for **initial public offering of shares** of **28** newly established and already traded on BSE companies. **16 prospectuses** were also approved **for admission to trading** on a regulated market of an issue of shares<sup>21</sup>. Also confirmed by the Commission were **26 prospectuses for admission to trading** on a regulated market of issues of **corporate bonds**, there being no issues of municipal and mortgage bonds entered for the year. **Refusals for approval** were issued in regard to the filed prospectuses for public offering of securities of **5** companies. Detailed information about the approved prospectuses may be found in **Appendix 2.1.3A**.

Licenses were issued to **9** companies to carry out activity as a **special investment purpose company** and simultaneously with that their prospectuses were approved for public offering of shares in connection with the initial obligatory increase in the capital. During the reviewed period the Commission pronounced **2 refusals for the issuing of a license** to carry out activity as a special investment purpose company.

Furthermore, FSC issued 7 approvals of supplements to the seven confirmed prospectuses of MECOM AD, AGROFINANCE REIT, ZHELEZOPATNA INFRASTRUKTURA – HOLDING COMPANY AD, ULPINA SPV, EKSPAT BETA REIT, BALKANTOURIST ELIT AD and DIT PROPERTY REIT and issued **3 refusals** for the issuing of approval for three supplements to a prospectus for public offering of ULPINA SPV.

During the period the Commission took decisions about:

- **issue of approval for amendments to the Articles of Association of 33 SIPC** (information about the companies may be found in **Appendix 2.1.2B**);
- **issue of approval for replacement of the servicing company** of BALKAN AND SEA PROPERTIES REIT – INDUSTRIAL COMMERCE EOOD with a new company – HOLDING VARNA A AD;
- **issue of approval** to REAL ESTATE SOFIA REIT **for replacement of the depository bank** BANK PIRAEUS BULGARIA AD with CB INVESTBANK AD;
- **issue of approval** to AGRO FINANCE REIT **for replacement of the servicing company** TBI CONSULTING EOOD with PROFINET EOOD;
- **issue of approval** to AKTIV PROPERTIES REIT **for replacement of 3 servicing companies** ODITORSKA KANTORA UZUNOVA EOOD, ELTA CONSULT AD and ATREND EOOD with new servicing company AKTIV SERVICES EOOD;
- **issue of approval** to SERDIKA PROPERTIES REIT **for partial replacement of servicing company** ALFA DEVELOPMENTS MANAGEMENT EOOD with a new servicing company ALFA PROPERTY MANAGEMENT EAD;
- **issue of approval** to AGROENERGY REIT **for replacement of the depository bank** RAIFFEISEN (BULGARIA) EAD with EUROBANK EFG BULGARIA AD;
- **issue of approval** to TURIN PROPERTY REIT **for replacement of servicing company** ELANA PROPERTY MANAGEMENT AD with RESTA SERVICES AND MANAGEMENT OOD;
- **issue of approval** to Dobrinka Dimitrova Vicheva as a **liquidator** of HYUNDAI FINANCE SPV.

On the ground of Art. 62, para 2 of the Administrative Procedure Code, the following decisions were issued **for correction of made obvious factual errors**:

- **Decision № 86 - E from 16 January, 2008** of FSC concerning subsequent issue of securities issued by AGRICULTURAL LAND OPPORTUNITY FUND MEL INVEST REIT - as a result of the correction, the written down in the operative part of

<sup>21</sup> With the amendments from 12 Oct., 2007, introduced in ORDINANCE №2 of 17 Sept., 2003 (on the prospectuses to be published when securities are offered to the public or admitted to trading on a regulated market and on disclosure of information by the public companies and the other securities issuers), a secondary public offering is realized by approval of a prospectus for admission of securities to trading on a regulated market.

the same decision „issue at the amount of BGN 7,027,150, divided in 7,027,150 ordinary, registered, dematerialized voting shares, with nominal value of BGN 1 (one) each“, has to be read „issue at the amount of BGN 7,017,150, divided in 7,017,150 ordinary, registered, dematerialized voting shares, with nominal value of BGN 1 (one) each“;

■ **Decision № 118 - E from 23 January, 2008** of FSC – as a result of the amendment, the written down in the operative part of Decision № 118 - E from 23 Jan., 2008, „according decision of the General Shareholder' Meeting of the company, held on 29 June, 2007“, has to be read „according decision of the company's Board of Directors, held on 6 Dec., 2007“.

### Tender Offers for Purchase of Shares

During the reviewed period FSC **pronounced the issue of 17 temporary prohibitions** for the publishing of the tender offers for:

- INTERCOM GROUP OOD for the purchase through II BULEX INVEST AD of shares in YAVOR AD;
- KBC BANK LIMITED, Belgium, for the purchase through II BULBROKERS AD of shares in ECONOMIC AND INVESTMENT BANK AD;
- RADITA OOD for the purchase through investment intermediary FK EVER AD of shares of POLYANITSA AD (3 temporary prohibitions);
- EUROPEAN HOTEL ENTERPRISES AD and INTERNATIONAL LODGING OF BULGARIA AD for the purchase through II EFG SECURITIES BULGARIA EAD of shares of SOFIA HOTEL BALKAN AD;
- BULGARIA INVESTMENT GROUP EOOD for the purchase through II STATUS INVEST AD of shares of STATUS PROPERTIES REIT;
- AROMA AD for the purchase through II BULBROKERS AD of shares of ASTERA COSMETICS AD (the procedure is not concluded);
- SIGMA CONSULTING OOD for the buying through SOFIA INTERNATIONAL SECURITIES AD of shares of CIGARETTE FACTORY - PLOVDIV AD;
- BUSINESS CENTER IZGREV EOOD for the purchase through CENTRAL COOPERATIVE BANK AD of shares of SLANTSE STARA ZAGORA TABAK AD;
- MEL HOLDING AD for purchase through II BULBROKERS EAD of shares of SVINEVADSTVO STAMBOLOVO AD;
- MEL HOLDING AD for the purchase through II BULBROKERS EAD of shares of MESOKOMBINAT BURGAS AD;
- TEHMASH OOD for the purchase through II EURO FINANCE AD of shares of ZINO AD;
- Tancho Dimitrov Mihaylov for the purchase through II EURO FINANCE AD of shares of INO AD;
- Markar Tateos Shirinyan for the purchase through DEALING FINANCIAL COMPANY of shares of METRON AD;
- PFHC ESTABLISHMENT, town of Vaduz, Principality of Liechtenstein, for the purchase through II FIRST FINANCIAL BROKERAGE HOUSE OOD of shares of BALKANTOURIST ELIT AD;
- FAIRPLAY INTERNATIONAL JSC for the purchase through II FOCAL POINT INVESTMENTS AD of shares of FAIRPLAY RESIDENTIAL PROPERTIES AD.

By 31 Dec., 2008 FSC issued one **final prohibition** for the publishing of a tender offer of:

- RADITA OOD for the purchase through II FK EVER AD of shares of POLYANITSA AD.

After review of the received documents and of the registered tender offers, respectively the corrected tender offers, the Commission took decision **not to impose final prohibition for the publishing of 16 tender offers and in practice the tender offers were allowed to be published** of:

- KBC BANK LIMITED, Belgium, for the purchase through II BULBROKERS AD of shares of ECONOMIC AND INVESTMENT BANK AD;
- INTERCOM GROUP OOD for the purchase through II BULEX INVEST AD of shares of YAVOR AD;
- EUROPEAN HOTEL ENTERPRISES AD and INTERNATIONAL LODGING OF BULGARIA AD for the purchase through II EFG SECURITIES EAD of shares of SOFIA HOTEL BALKAN AD;
- RADITA OOD for the purchase through investment intermediary FK EVER AD of shares of POLYANITSA AD (2 decisions for non-imposition of final prohibition);

- BULGARIA INVESTMENT GROUP EOOD for the purchase through II STATUS INVEST EAD of shares of STATUS PROPERTIES REIT;
- MEL HOLDING AD for the purchase through II BULBROKERS EAD of shares of MESOKOMBINAT BURGAS AD;
- SIGMA CONSULTING OOD for the purchase through SOFIA INTERNATIONAL SECURITIES AD of shares of CIGARETTE FACTORY – PLOVDIV AD (2 decisions for non-imposition of final prohibition);
- MEL HOLDING AD for the buying through II BULBROKERS EAD of shares of SVINEVADSTVO STAMBOLOVO AD;
- Tancho Dimitrov Mihaylov for the purchase through II EURO FINANCE AD of shares of INO AD;
- TEHMASH OOD for the purchase through II EURO FINANCE AD of shares of ZINO AD;
- Markar Tateos Shirinyan for the purchase through DEALING FINANCIAL COMPANY AD of shares of METRON AD;
- PFHC ESTABLISHMENT, town of Vaduz, Principality of Liechtenstein, for the purchase through II FIRST FINANCIAL BROKERAGE HOUSE OOD of shares of BALKANTOURIST ELIT AD;
- HOLDING VARNA AD for the purchase through II CENTRAL COOPERATIVE BANK AD of shares of SV. SV. KONSTANTIN I ELENA HOLDING AD;
- FAIRPLAY INTERNATIONAL AD for the purchase through II FOCAL POINT INVESTMENTS AD of shares of FAIRPLAY RESIDENTIAL PROPERTIES AD.

During the reporting period an initiated procedure was terminated in relation to received tender offer by BUSINESS CENTER IZGREV EOOD for buying of shares of SLANTSE STARA ZAGORA TABAK AD through CENTRAL COOPERATIVE BANK AD. In the course of the year, 2 applications were also reviewed under Art. 157a of the LPOS concerning compulsory purchasing of the shares from the other shareholders of ECONOMIC AND INVESTMENT BANK AD and CIGARETTE FACTORY – PLOVDIV AD.

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

In 2008, **37 issues of shares in process of issuing, 54 subsequent issues of shares, 26 issues of corporate bonds and 23 issues of units** were filed in the register maintained by FSC.

During the reporting period **38 subsequent issues of shares** were entered, issued as a result of **increase in the capital**. For the same period **22 issues of securities** were **deleted** from the public register.

Detailed information on the entered and deleted securities issues is given in **Appendix 2.1.3B**.

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

In the period under review **24<sup>22</sup> companies** were **filed in** and **13 public companies and issuers deleted** from the register of the public companies and other issuers of securities, kept by FSC under Art. 30, para 1, item 3 of the FSCA. In 2008 the decision whereby NAVIGATION MARITIME BULGARE EAD was entered as a public company in the maintained by FSC register, was canceled. Detailed information on the filed in and deleted companies is presented in **Appendix 2.1.3C**.

In 2008 FSC **withdrew one license** for carrying out the activity as a special investment purpose company of HYUNDAI FINANCE SPV. One procedure was opened and terminated regarding the withdrawal of the issued license to carry out activity as a special investment purpose company to ULPINA SPV and a procedure was also terminated for withdrawal of the issued license for pursuing the business of a special investment purpose company of STATUS PROPERTIES REIT.

### Transformation of Public Companies

During the period under review the FSC's Deputy Chairperson in charge of Investment Activity Supervision Division, issued **two approvals for transformation by merger** to:

- BTC MOBILE EOOD into BULGARIAN TELECOMMUNICATION COMPANY AD according a merger contract, signed between the two companies as of 18 June, 2008;
- BULGARIAN DRILLING COMPANY EOOD, GEOPHYSICAL RESEARCH EOOD, PETRO GAS ANTIKA EOOD and CHIMIMPORT

<sup>22</sup> This number does not include the companies which obtained license to carry out activity as SIPC in 2008, for which by the end of the reporting period there was no decision issued for entry as a public company in the register kept by FSC.

OIL EAD in OIL AND GAS EXPLORATION AND PRODUCTION AD, according a contract of merger, signed between the companies on 28 Nov., 2008.

#### Filing of Professional Investors in the Register Kept by FSC

In 2008 there were no persons entered in the register of the professional investors.

#### NUMBER OF PUBLIC COMPANIES, SPECIAL INVESTMENT PURPOSE COMPANIES AND OTHER ISSUERS OF SECURITIES AS OF 31 DECEMBER, 2008

On 31 December, 2008 the total number of the filed in the register under Art. 30, para 1, item 3 of LPOS **public companies and other issuers of securities** was **391**. The number of the licensed **special investment purpose companies** at the end of the reviewed period was already **69**, from which 9 were for securitization of receivables, and 60 - for real estate securitization.

#### NOTIFICATIONS OF PROSPECTUSES UNDER ART. 18 OF THE DIRECTIVE ON PROSPECTUSES

In 2008 notifications of prospectuses under Art. 18 of the Prospectus Directive were received in FSC from:

- SOCIETE GENERALE – notification of prospectus;
- JOHNSON & JOHNSON – notification of prospectus;
- SOCIETE GENERALE – 2 supplements to prospectus;
- HEWLETT-PACKARD COMPANY – supplement to prospectus.

During the period no notifications by local public companies and issuers willing to pursue business on the EU territory were received at FSC.



### LICENSING AND AUTHORIZATION ACTIVITY

#### Licenses Issued by the Commission

In 2008 the Financial Supervision Commission did not issue any new licenses for carrying out of insurance activity. FSC issued a license to pursue reinsurance activity to GP REINSURANCE EAD, whereby the first professional reinsurer stepped on the Bulgarian market.

In the field of the voluntary health insurance in 2008 an increase in the number of the applicants for the issue of license was registered, compared with the preceding years. FSC issued five new licenses to:

- MUNICIPAL HEALTH INSURANCE FUND AD;
- HEALTH INSURANCE FUND PRIME HEALTH AD;
- HEALTH INSURANCE FUND EUROPA AD;
- HEALTH INSURANCE FUND VICE MEDICA AD;
- HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD.

During the reporting period one **examination for insurance brokers** was carried out, for which **9** candidates for acquiring of professional qualification sat, and **7** from them passed the examination. One examination was also conducted for **recognition of legal capacity of a responsible actuary**, to which **15 actuaries** were admitted. From them **9** took the examination, full capacity being recognized to **4**, and to the others – partial capacity.

**4 new auditors** were filed in the Commission's register during the period.

#### Additional Licenses Issued by FSC

During the period the Commission issued 2 licenses for a new type of insurance to ZK DSK GARANTZIA AD – for insurance Miscellaneous Financial Loss, and to ZAD VICTORIA – for insurance Railway Rolling Stock, as well as one authorization to HEALTH INSURANCE INSTITUTE AD to offer a new health insurance package Dental Medicine.

#### Individual Administrative Acts Issued by the FSC's Deputy Chairperson in Charge of Insurance Supervision

In 2008 the following decisions of the FSC's Deputy Chairperson in charge of Insurance Supervision Division were issued, applying authorization and approval regimes under the Insurance Code and its implementing instruments:

- decisions for **entry** in the FSC's register of **49** new **insurance brokers**;
- decisions for **withdrawal** of the registration of **8 insurance brokers**;
- **113** decisions for approval of **members of management and control bodies and of heads of internal control units** of insurers and health insurance companies (70 approvals of members of management and control bodies of insurers, 35 approvals for members of management and control bodies of health insurance companies and 6 approvals of heads of internal control units);
- decision for **refusal of approval** of **2** persons as **members of management and control bodies of insurers** and of **one** person as **head of internal control unit**.

#### NUMBER OF INSURERS, INSURANCE BROKERS, INSURANCE AGENTS AND HEALTH INSURANCE COMPANIES AS OF 31 DECEMBER, 2008

As of 31 December, 2008 FSC's supervised entities through its specialized division Insurance Supervision were:

- non-life insurers – **20** companies;
- life insurers – **17** insurers, incl. 2 mutual insurance cooperatives;
- health insurance companies – **20** companies.

At the end of 2008 **activity** of insurance intermediation was carried out by **275 insurance brokers**.



In the course of the year 19,291 insurance agents were filed in the **electronic register of the registered agents**, whereby their total number at the year-end reached **60,194**, including 798 agents carrying out intermediation activity in favor of the branches of insurers from Member States. The insurance agents - **legal entities** were **4,006**, **sole traders 3,101** and **natural persons 53,087**.

## NOTIFICATIONS

During the reporting period in the Commission were **received**:

- **75** notifications by **insurers from Member States** for pursuing business on the territory of the Republic of Bulgaria, while using their right of freedom to provide services, thus their total number came to **239**;
- **511** notifications by **insurance intermediaries from Member States** for pursuing business on the territory of the Republic of Bulgaria, under the freedom to provide services, whereby their total number came to **928**;
- **4** notifications from **Bulgarian insurers** in connection with the right of freedom to provide services on the territory of other Member States, whereby their total number reached 7. These were: IC EURO INS AD – for all Member States; DZI-GENERAL INSURANCE AD – for Romania; ZAD DZI – for Romania; AIG BULGARIA ZD EAD – for Romania and Greece; IC BULSTRAD PLC – for Romania and Greece; ZAD ARMEEZ – for Belgium, France, Germany, Italy, the Netherlands, Denmark, the United Kingdom, Greece, Portugal, Spain, Hungary, the Czech Republic and Romania; and INTERAMERICAN BULGARIA ZAED – for Belgium, the Netherlands and Greece.
- Notifications in connection with the right of freedom to provide services of insurance intermediation on the territory of other Member States were not received from **Bulgarian insurance brokers** in 2008, respectively their overall number was preserved as **4**, namely:
  - IPS SERVICES OOD – for the United Kingdom;
  - MARINS INTERNATIONAL EOOD – for all EU Member States;
  - INSTRADE EOOD – for France, Greece, Lithuania, Austria and Romania;
  - CAPMAN BROKER OOD – for the United Kingdom, Spain, Malta, the Netherlands, Germany, Austria, Greece, Belgium, the Czech Republic and Ireland.

**4 insurers from Member States** availed themselves of the right of establishment through their branches on the territory of the Republic of Bulgaria, thus their overall number reached 8, namely:

- CARDIFF – NON-LIFE INSURANCE, BULGARIA BRANCH;
- CARDIFF – LIFE INSURANCE, BULGARIA BRANCH;
- ZAD ING – BRANCH SOFIA;
- QBE INTERNATIONAL INSURANCE (EUROPE) LIMITED – SOFIA BRANCH;
- AIG EUROPE S.A., FRANCE;
- COFACE AUSTRIA KREDITVERSICHERUNG AG, AUSTRIA;
- AXERIA PREVOYANCE, FRANCE;
- AXERIA IARD, FRANCE.

### LICENSING AND AUTHORIZATION ACTIVITY

During the reporting period FSC issued one new license to PENSION INSURANCE INSTITUTE AD for carrying out activity of supplementary pension insurance.

Within his competence the Deputy Chairman in charge of Social Insurance Supervision Division issued during the period the following **3 authorizations for management of supplementary pension insurance funds**:

- Decision for the issue of authorization to PENSION INSURANCE INSTITUTE AD for management of UNIVERSAL PENSION FUND PENSION INSURANCE INSTITUTE;
- Decision for the issue of authorization to PENSION INSURANCE INSTITUTE AD for management of OCCUPATIONAL PENSION FUND PENSION INSURANCE INSTITUTE;
- Decision for the issue of authorization to PENSION INSURANCE INSTITUTE AD for management of VOLUNTARY PENSION FUND PENSION INSURANCE INSTITUTE.

Furthermore, the following 3 decisions were taken for granting or refusal to grant authorizations for **changes in the shareholders** of a pension insurance company:

- Decision whereby DERAMCO FINANCIALS-BULGARIA EOOD was not granted authorization to acquire a shareholding in PIC FUTURE JSC;
- Decision whereby ONARTA CONSULTS-BULGARIA EOOD was not granted authorization to acquire a shareholding in PIC FUTURE JSC;
- Decision whereby TBIH FINANCIAL SERVICES GROUP N.V., the Netherlands, was granted authorization to acquire from IC BULSTRAD PLC directly 12.29 per cent of the capital of PIC DOVERIE AD.

During the period under review the FSC's Deputy Chairperson in charge of Social Insurance Supervision Division took **8** decisions for **approval of amendments and supplements to rules of organization and operation** of supplementary pension insurance funds, where in the first quarter they were **2** in number, in the second quarter – **2**, and **4** in the period from 1 October, 2008 to 31 Dec., 2008.

In 2008 **one** decision was taken for approval of amendments and supplements to **rules of valuation of the assets and liabilities** of a pension insurance company and of the supplementary pension insurance funds managed by it.

### NUMBER OF PENSION INSURANCE COMPANIES AND SUPPLEMENTARY PENSION INSURANCE FUNDS AS OF 31 DECEMBER, 2008

At the end of 2008 activity of supplementary pension insurance was carried out by ten licensed pension insurance companies. They all had established and managed both types of supplementary obligatory pension insurance funds (universal and occupational), as well as a fund for supplementary voluntary pension insurance. Two pension insurance companies also managed voluntary pension funds under occupational schemes. Therefore, the licensed 10 pension insurance companies managed in total **32 pension funds** – 10 universal, 10 occupational, 10 voluntary and two voluntary pension funds under occupational schemes.

### NOTIFICATIONS

In the period under review a notification by the pension regulator of the United Kingdom was received in the Commission, announcing the intention of RIO TINTO INTERNATIONAL PENSION FUND to assume the management of an occupational scheme of a Bulgarian undertaking – pension insurer. Excerpts from the Bulgarian social and labor legislation, relevant to the pension insurance under occupational schemes, as well as a model form of registration application were sent through the supervisory authority of the United Kingdom to the foreign pension insurance

institution. At the present time same is not filed in the register of occupational schemes maintained by FSC. During the year there was not any notification received in FSC of the intention of a licensed by it pension insurance company to manage an occupational scheme of an undertaking-pension insurer from other EU Member State.

## 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 supervised entities within the non-banking financial sector.

The off-site control is expressed in review of the statutorily required documents filed by the supervised persons with the Commission. If it finds out any deficiencies or irregularities in the submitted documents, FSC demands from the supervised persons to remove or correct them. The Commission also carries out control by means of on-site inspections, which may be planned or thematic, as well as in relation to signals and complaints received in connection with the supervised persons' activities.

### 3.1 SUPERVISORY ACTIVITY IN THE FIELD OF INVESTMENT ACTIVITY

The supervision over the investment activity in FSC is exercised by Supervisory Activity Directorate with Investment Activity Supervision Division. The directorate's activity is carried out by two departments – Investment Intermediaries and Securities Markets, and Securities Issuers.

The exercised by the directorate supervision is expressed in carrying out specialized supervision in relation to the application of and compliance with the requirements of the Law on Public Offering of Securities, the Markets in Financial Instruments Act, Act on the Special Investment Purpose Companies, Law on Measures against Market Abuse with Financial Instruments, Law on Supplementary Supervision of Financial Conglomerates and their implementing instruments by the regulated securities markets, the Central Depository, investment intermediaries, brokers and investment advisors, the public companies and other issuers of securities, special investment purpose companies, investment and management companies.

#### 3.1.1 INVESTMENT INTERMEDIARIES, CENTRAL DEPOSITORY AND REGULATED MARKETS

The supervision of the investment intermediaries during the reporting period was carried out by examination and analysis of the reports on capital adequacy and liquidity, the balance sheets and the IIs incomes statements received on a monthly basis in the FSC. That allowed the investment intermediaries' current financial situation to be followed. Where any deficiencies and irregularities were established between the entries on the balance sheet, the income statement and the report on capital adequacy and liquidity, it was demanded by a letter from the respective II to eliminate the errors, filing the corrected documents. Whenever any violations of the statutory requirements for capital adequacy and liquidity were established, additional on-site inspections of the relevant investment intermediaries' operation were conducted and upon their confirmation, acts for establishment of administrative violation (AEAV) were drawn up, or undertaking of specific measures was recommended.

In 2008 FSC concluded **51 inspections** of investment intermediaries, from which **21** were **planned**, **7** were **thematic** and **23** – **documental**. From the total number of inspections, **28** inspections were conducted on site, and **22** – **off-site**.

The inspections conclude with the drawing up of ascertaining protocols, and in the cases of violation of the statutory acts – by the drawing up of AEAV. As a result of the exercised by the Commission supervisory activity, **69 AEAV** were drawn up to investment intermediaries. The most frequently met **violations** in the investment intermediaries' field of activity during the year were the following:

- violation of the requirements of **Art. 34, para 1**, prepos. one of the **MFIA**, the investment intermediary to segregate its financial instruments and cash from those of its clients – 12 acts;

- violation of the requirements of **Art. 40, para 2**, prepos. one from **MFIA**, the investment intermediary to provide to the Deputy Chairperson twice annually – as of 30 June and 31 December; within ten days after the indicated dates, a list of the persons that possess directly or indirectly a qualifying holding, as well as data on the possessed by them votes in the general meeting – 17 acts;
- violation of the requirements of **Art. 29, para. 5** of **Ordinance N° 38**, the investment intermediary to take the necessary actions to ensure that the deposited according para 1 of the same article cash of clients are kept on individual accounts, or a client account, separately from the cash of the investment intermediary – 10 acts;
- violation of the requirements of **Art. 35, para 2** of **Ordinance N° 38**, the investment intermediary to check at the depository institution whether the financial instruments to which the sell order relates, are available on the client sub-account, whether they are blocked and whether there is a pledge established on them, or distraint imposed – 5 acts;
- violation of the requirements of **Art. 19, para 1** of **Ordinance N° 35**, the book equity amount not to be less than the minimum amount of the initial capital under para 4 of the same ordinance, according the scope of the issued license - 7 acts.

During the year no coercive administrative measures (CAM) were imposed on any of the investment intermediaries.

In total 59 penalty warrants were issued for committed offences of: 1) Art. 6 and Art. 40 of **Ordinance 1** on the requirements for the activities of investment intermediaries; 2) Art. 2, para 29 and Art. 85 of **Ordinance 38** on the requirements for the activities of investment intermediaries; 3) Art. 14 of **Ordinance 7** on the requirements which shall be met by the natural persons who under contract directly execute transactions in securities and provide investment advice with regard to securities, as well as the procedure for obtaining and forfeiting the right to exercise such activity; 4) Art. 12; Art. 13; Art. 18; Art. 76 and Art. 150 of **Ordinance 35** on the capital adequacy and liquidity of investment intermediaries.

In 2008, **66 complaints** against penalty warrants were received and completed in the Commission and **1 complaint** against an individual administrative act of the FSC's Deputy Chairperson in charge of Investment Activity Supervision Division.

## 3.1.2

### PUBLIC COMPANIES AND OTHER ISSUERS OF SECURITIES, SPECIAL INVESTMENT PURPOSE COMPANIES, COLLECTIVE INVESTMENT SCHEMES AND MANAGEMENT COMPANIES

In 2008 Securities Issuers Department exercised specialized supervision by carrying out off-site supervision and on-site inspections in relation to the activity of overall 606 supervised entities - 391 public companies and issuers, 70 SIPC (including one company which had been declared in liquidation and was with withdrawn license, but continued to be a public company until the termination of the process of liquidation), 38 management companies, 11 investment companies and 83 contractual funds and 13 foreign collective investment schemes (according data as of 31 Dec., 2008).

#### OFF-SITE SUPERVISION

The off-site control which FSC exercises involves examination of the documents received from the companies in the Commission, and ongoing monitoring of the information disclosed publicly by the supervised persons. The process of entry of the circumstances and the changes therein in the registers kept by FSC is connected with review and analysis of the submitted documents. The supervision carried out by the experts from the department involves review of all documents received in FSC, assessment on the experts' side of the documents completeness and undertaking subsequent actions to enter the relevant circumstances in the registers kept by FSC.

Subject to preliminary examination are also the received in the Commission applications for entry of any change in the circumstances relating to the companies, notifications of securities price-sensitive information, notifications of changes in the shareholding under Art. 145 of the LPOS, notifications of dividend, as well as many other documents. In 2008 about **4,200** documents were filed on paper with FSC, which were reviewed and processed by the experts of the department and written down in relevant directions with the purpose of giving publicity to the respective circumstances. Further **10,900** documents were reviewed and processed, sent to FSC through the E-Register system. During the reporting period, on the basis of the above mentioned documents, entry in the FSC's registers was made and respectively inspection conducted of **5,008** annual and quarterly reports, consolidated such, monthly reports, supplements thereto, as well as notifications of the current stage of bankruptcy and liquidation procedure of the companies in 2008, **2,628** being **examinations** of the submitted reports

and the supplements, with regard to the completeness and the consistency of the supplied information.

In addition, about **14,200** further entries were made of the issue value and redemption price of the contractual funds and open-end investment companies.

All received at FSC materials in connection with the convocation and holding of the General Meetings of Shareholders (GMS) of the public companies – invitations for convening of GMS, their declaring in the Commercial Register, materials, reasoned reports, minutes from GMS, taking of lawful decisions by GMS, are examined by the experts in the department. For the period under review **1,078** such thematic documentary inspections were made and after their conducting the information from them was entered in the register of the public companies and other issuers of securities, kept by FSC.

In connection with filed in FSC applications for offsetting or reimbursement of amounts paid in excess, experts from the department reviewed the available documents and prepared positions with opinion for the issue of an individual administrative act (decision of the FSC's Chairman) for **15** companies.

**28** documentary **inspections** were carried out in relation to the issue of decision by the Deputy Chairperson for **approval of programmes** with measures for bringing the assets in compliance with normative requirements of MC for organized and managed by it CFs.

In relation to exercising of the supervisory functions with regard to disclosure of price-sensitive information concerning securities, there is a process established in the department for ongoing monitoring of the publicly disclosed by the supervised entities information („ad hoc“ information). This process includes a daily review of the published in the media, including the electronic media, information from and for the public companies and the other issuers of securities. A documentary inspection is carried out on the basis of the available in FSC documents about the disclosure of the already announced information in compliance with the requirements of the LPOS and Ordinance N° 2. If data exist for possible legal offences, letters are sent to the respective persons, whereby additional information and documents are demanded and documentary thematic inspection is conducted. During the reporting period **147** such inspections were carried out, where no offences were found out. Periodically, (every two weeks), the department prepares a memorandum to the FSC Chairman, through the Deputy Chairperson, in charge of Investment Activity Supervision Division, on the accomplished by the directorate actions in relation to the established process of ongoing monitoring.

**65** thematic inspections were conducted in 2008 in connection with the requirement of Art. 145 of the LPOS concerning disclosure of shareholding in the capital of a public company, other issuers of securities and SIPC's. The inspections were based on the information received from Central Depository AD and the notifications presented under Art. 145 of LPOS.

In relation to exercising of off-site control, besides the above stated inspections, **65** more thematic inspections were conducted of the supervised by the department persons. Relevant measures were taken according each specific case.

In the course of the year **224** other documentary inspections were carried out which in their substance were thematic and were conducted on site in the FSC on the basis of a general order of the Deputy Chairperson, in charge of Investment Activity Supervision Division (Order N° 35/18 Feb., 2008). **24** from them were initiated by received complaints and warnings, and **89** were with reference to inquiries of supervised entities, shareholders in the companies, unit-holders in CIS, citizens or state authorities. Moreover, when reviewing the submitted at FSC documents, if any doubts of legal offences arose, the department addressed certain cases and conducted **111 inspections**. In the above mentioned 224 inspections usually documents, clarifications or explanations were additionally required from the relevant supervised person, further check-ups were made at the Central Depository, the Revenue Agency, Ministry of Interior and other state bodies with the purpose of clarifying the factual situation (during the inspections in the cases addressed by FSC, additional documents were demanded in connection with Art. 114 of the LPOS, holding of GMS, data in the reports, etc.). Usually the inspections were closed with memorandums to the Deputy Chairperson in charge of Investment Activity Supervision Division, whereby she was informed about the findings of the inspections carried out and the undertaking of relevant actions – engagement of administrative penal responsibility, undertaking concrete actions with the purpose of protecting the shareholders interest. The inspections where no violations were established were completed only with the gathering of evidentiary material. The relevant persons were informed by letters of the results of inspections carried out on the basis of a warning or a complaint.

## ON-SITE INSPECTIONS

During the period under review overall 46 on-site inspections were opened and concluded by the place of the companies' seat, including 3 thematic inspections, from which:

- **24** were planned inspections of SIPC's and their servicing companies;
- **12** were planned inspections of management companies and the managed by them CFs and ICs;
- **4** extraordinary thematic inspections of MCs and 5 inspections of the managed by them CFs and ICs, 2 of them being carried out jointly with officials from Market Analysis Department;
- **1** counter inspection of a company which was not an entity supervised by FSC.

The inspections completed with the drawing up of ascertaining protocols. Joint inspections with other institutions were not conducted.

## COERCIVE ADMINISTRATIVE MEASURES, ACTS FOR ESTABLISHMENT OF ADMINISTRATIVE VIOLATIONS AND PENALTY WARRANTS

Upon established breaches of the FSCA, LPOS, ASIPC, MFIA and the sub-statutory acts of their implementation, the offenders are invited by a letter in the FSC for clarifying the factual situation and engagement of administrative penal responsibility. If they fail to appear, acts are drawn up to the same for establishment of an administrative violation under the provisions of Art. 40 of the Administrative Violations and Sanctions Act (AVSA) in the absence of the offender. These acts are sent to be served, by a letter to the respective municipality.

Detailed information on the drawn up 132 AEA according the above mentioned procedure in 2008 may be found in **Appendix 3.1.2**. Among the most frequently violated provisions were:

- **Art 31 of Ordinance 2** – non-submitted or submitted with delay at FSC and to the general public quarterly and annual financial statements about the activities by public companies and other issuers of securities – 37 acts;
- **Art. 221, para 6** in relation to **Art. 212, para 1, item 1** of LPOS – non-compliance with applied CAM – 30 acts;
- **Art. 145 of LPOS** – failure to disclose a shareholding in the capital of a public company, other issuer of securities and SIPC – 10 acts;
- **Art. 114, para. 1, item 1, letter „b”** of LPOS in relation to **Art. 114, para 5, item 3** of LPOS – disposal of assets by the management bodies of a public company without the express authorization by the company's GMS – 9 acts.

Simultaneously, during the year, with the purpose of prevention and termination of administrative violations, FSC **opened 578 procedures** of application of **CAM, terminated 428 and applied 120**. The other 30 opened procedures were completed in January 2009, where 26 were terminated and 4 were applied. In summary, the data on the number of opened and terminated CAM were as follows:

Procedure	Imposed CAM
Obligates the company to PRESENT a financial statement (quarterly / annual)	7
Obligates the company to remove DEFICIENCIES in the financial statement (quarterly / annual)	50
Obligates the members of the company's MB to propose to the GMS, NOT TO SUBJECT TO VOTING a certain item on the agenda, TO SUPPLEMENT THE REASONED REPORT	9
Obligates the management body of the company TO CONVENE GMS, to BRING THE ARTICLES OF ASSOCIATION IN COMPLIANCE WITH THE LEGAL REQUIRMENTS, to APPOINT an Investor Relations Director, etc.	25
Obligates the person, managing and representing the company, within five days of receiving the decision, to take actions for registration of the company in the unified data provision system - E-Register	29
<b>TOTAL:</b>	<b>120</b>

During the year, on the ground of Art. 162, para 2, item 3 of the Taxation and Social Security Procedure Code (TSSPC), in relation to Art. 27, para 7, sentence 2 of FSCA, Art. 15, para 1, item 15 of FSCA and Art. 24, para 1 of the Administrative



Procedure Code (APC), new **24** administrative procedures were opened for the issue of an individual administrative act on establishment of a public state receivable – a fee under item 1.4., letter “a” from the Tariff – an appendix to Art. 27, para 2 of the FSCA. For the same period **28** such procedures were terminated and **42** decisions were issued for establishment of a public state receivable (respectively opened in 2007 and 2008). In relation to companies, which failed to fulfill the decisions on establishment of a public state receivable and did not pay the fees due to FSC, **29 files** were sent to the State Receivables Agency for enforcement collection.

In 2008 in the field of collective investment schemes and management companies **1 penalty warrant** was issued for committed offence of Art. 54 from Ordinance 25 on the requirements for the activities of investment companies and contractual funds. For the period **one complaint** was received against a penalty warrant of the Deputy Chairperson in charge of Investment Activity Supervision Division, while in the same time there were no complaints against an individual administrative act.

In the field of public companies, special investment purpose companies and the other issuers of securities **76 penalty warrants** were issued, whereby penalties were imposed for offences under: 1) Art. 72, Art. 100y, Art. 100n, Art. 110, Art. 114, Art. 117, Art. 115, Art. 145, Art. 148, Art. 149, Art. 221 of the **LPOS**; 2) Art. 10, Art. 11, para 12 and Art. 16 of **MFIA**; and 3) under Art. 31 of **Ordinance 2** on the prospectuses to be published when securities are offered to the public or admitted to trading on a regulated market and on disclosure of information by the public companies and the other issuers of securities. During the year **25 complaints** were received against penalty warrants and **1 complaint** against an individual administrative act of the Deputy Chairperson in charge of Investment Activity Supervision Division. The complaint was filed by Alinka Paralyuzova, in her capacity of a receiver of the declared in bankruptcy public company PROCESSING TECHNOLOGIES AD, against Decision N° 638-PC/20.06.2008. According Art. 91, para 1 of the APC, the Deputy Chairperson reconsidered the issued by her administrative act and partially amended it.

Besides the above stated inspections, within the reviewed period, Investment Activity Supervision Division also conducted a number of inspections over compliance with the provisions of the Law against Market Abuse with Financial Instruments, Markets in Financial Instruments Act, Law on Public Offering of Securities and the Financial Supervision Commission Act, in relation to the prohibitions for **unfair trade with securities, market manipulation, inside information and insiders**. As a result of the inspections, acts were drawn up for establishment of the following established offences:

- use by a person of inside information, obtained as a result of such person's participation in the capital or the votes in the issuer's general meeting, for acquisition or transfer of financial instruments – for violating **Art. 8, para 1, prepos. 2** in relation to **Art. 4, para 1** of **MFIA, 2 AEAV** were drawn up to the persons;
- use of inside information which was not publicly disclosed, relating directly or indirectly to one or more issuers of financial instruments, or to one or more financial instruments, where its disclosure to the public may exert substantial influence on the price of these financial instruments, or on the price of related derivative financial instruments – for violating **Art.10 para 1** in relation to **Art. 8, para 1** in relation to **Art.4 para 1** of **MFIA, one AEAV** was drawn up to the persons;
- manipulation of the market in financial instruments through actions and transactions, mentioned under **Art. 6, para 1, item 1 of MFIA** – for violating **Art. 11** in relation to **Art. 6, para 1, item 1 of MFIA, 2 AEAN** were drawn up to the persons;
- violation of the obligation by the persons who perform managerial functions in an issuer, to notify in writing FSC of the concluded for their own account transactions to amount over BGN 5,000 within one calendar year with shares issued by the issuer, within 5 business days after the transaction's conclusion – for violating **Art. 16, para 1, sentence 1, prepos. 1** in relation to **Art. 16, para 3 of MFIA, 12 AEAN** were drawn up to the persons;
- violation of the obligation by the persons, closely related to those who perform managerial functions in an issuer, to notify in writing FSC of the concluded for their account transactions to amount over BGN 5,000 within one calendar year with shares issued by the issuer, within 5 business days after the transaction's conclusion – for violation of **Art. 16, para 1, sentence 1, prepos. 2** in relation to **Art. 16, para 3 of MFIA, 57 AEAV** were drawn up to the persons;
- failure by the investment intermediary to fulfill the obligation to act honestly, fairly and as a professional in accordance with the best interests of its clients and to inform them of the risks from the transactions with financial instruments – for violating **Art. 27, para 2 of MFIA, 3 AEAV** were drawn up to the persons;
- obstructing the Financial Supervision Commission, its bodies or duly authorized officials from its administration in the

exercising of supervisory powers, assigned to them by this or other law – for violating **Art. 32, para 1 of FSCA**, one **AEAV** was drawn up to the persons;

- failure by an investment intermediary to fulfill the obligation to file all orders of its clients, including the identical orders, in a special register in the succession of their receiving, and to execute them while observing this succession – for violating **Art.72, para 1 of LPOS**, **2 AEA** were drawn up to the persons.

## 3.2

### SUPERVISORY ACTIVITY IN THE FIELD OF INSURANCE AND VOLUNTARY HEALTH INSURANCE

The supervisory activity which FSC exercises over the insurance market is control over the activity of the insurers and health insurance companies for compliance with the provisions of the Insurance Code and the Health Insurance Act, as well as the instruments of their application.

The supervision is carried out off-site and by on-site inspections of the following supervised persons:

Supervised persons	2005	2006	2007	2008
Number of insurers	31	36	37	37
Number of reinsurers	-	-	-	1
Guarantee Fund	1	1	1	1
Number of health insurance companies	12	13	15	20
Number of brokers	182	215	235	275
Number of agents		over 31,000	49,802	69,093
<b>TOTAL:</b>	<b>226</b>	<b>31,265</b>	<b>50,090</b>	<b>69,426</b>
Number of <b>branches</b> of insurers from other Member State	1	4	4	8

In connection with the activity of supplementary supervision of insurance groups, the Commission through Insurance Supervision Division participated in the work of the Committees for coordination of the following European insurance groups: ALLIANZ GROUP, KBC GROUP (controlling ZAD DZI and DZI NON-LIFE INSURANCE AD), GRAZER WECHSELSEITIGE FERZIHHERUNG (controlling GRAWE BULGARIA LIFE INSURANCE AD and GRAWE GENERAL INSURANCE EAD), UNIQA, EUREKO (controlling INTERAMERICAN ZEAD and INTERAMERICAN LIFE INSURANCE EAD), VIENNA INSURANCE GROUP (controlling ZAD BULSTRAD AD, ZAD BULSTRAD LIFE AD, ZK BULGARSKI IMOTI AD and ZHZK BULGARSKI IMOTI AD), GENERALI and GRUPAMA (controlling ZK DSK GARANTZIA AD and ZHZK DSK GARANTZIA AD).

In April, 2008 working meetings were held with representatives of the insurance – supervisory authority of Austria. Information, data and opinions were exchanged about the activity of the Austrian insurers (through subsidiaries) on the territory of the Republic of Bulgaria, as the participation of Austrian insurers on the Bulgarian insurance market was predominant. The annual holding of such meetings is already an established practice and an example for good and effective interaction between the insurance-supervisory authorities of Bulgaria and Austria.

#### OFF-SITE CONTROL

The off-site supervision is based on annual and periodic reports of the insurers, health insurance companies, the Guarantee Fund and the insurance brokers, as well as on required additional information for certain spheres of their activities. Through the off-site supervision full analysis is made of the activity and the results thereof for all supervised persons. As a consequence of the exercised off-site supervision, actions are undertaken for conducting of on-site inspections, imposition of coercive administrative measures, the issue of acts for established violations, or prescriptions are given for bringing the activity in line with the requirements. In 2008 on the basis of annual and periodic financial statements, statistics and required additional information, over **2,000 inspections** were conducted by documents.



The following table shows the development of major indicators for the supervisory activity and the results thereof in the last four years – complaints by users of insurance services, drawn up acts for established administrative violations, issued penalty warrants (PW) and appealed against PW:

	2005	2006	2007	2008
Received complaints	781	565	460	814
Issued AEA V	65	71	208	390
Issued PW	31	40	93	302
Amount of PW	n/a	n/a	266,400	1,675,880
Instituted legal proceedings	n/a	20	49	177

## Off-site Supervision and Measures Related to Obligatory Third Party Liability Insurance of Motorists

Due to the especially big public significance and the considerable influence of the obligatory Third Party Liability insurance of motorists over the insurance market, an approach of off-site supervision has been adopted, being expressed in yearly approval of the method of formation of the reserve for incurred but unsubmitted claims on the insurance. In 2008 these reserves were approved of all 16 insurers having the right to offer the obligatory insurance. The procedure for approval of the reserve for incurred but unsubmitted claims at the end of 2007 and on an ongoing basis in 2008 aimed to guarantee adequacy of the technical reserves on Third Party Liability insurance of motorists, for payment of future liabilities of the insurers under the concluded insurance contracts. The procedure includes the applying of a methodology which accounts for the following objectively existing preconditions:

- the extended territorial cover, after January 1<sup>st</sup>, 2007, of Third Party Liability insurance of motorists, which spans over the territory of the European Economic Area, the cover being provided by the insurer against the payment of one insurance premium for the period of the contract's validity;
- the dropping off of the necessity to purchase Green Card insurance when moving on the territory of the European Economic Area;
- the dropping off of the border control for Green Card Certificate when traveling in the countries of the European Economic Area after 1<sup>st</sup> August, 2007 which on the one hand has facilitated the traveling of Bulgarian citizens abroad, but on the other has created difficulty for the exercising of control by the insurance companies over the declared by their clients circumstances that the motor vehicle will not be used on the territory of other Member State;
- the facilitated traveling on the territory of other Member States with dropped out additional expense for a Green Card Certificate which, in its turn, is likely to result in changes in the gathered by year 2007 statistical data on the number of the traveling abroad motor vehicles and respectively, the caused by them road traffic accidents;
- the impossibility for most companies to use their own statistical data, because of absence of sufficiently reliable statistics of their own about the number and amount of the submitted claims for a period not shorter than five full years, which is to account for the inclusion of Green Card insurance in Third Party Liability insurance of motorists in the extended territorial cover for the European Economic Area.

The methodology includes the application of at least three methods, one of which is obligatory and is based on summarized market data on the amount of the submitted and paid claims on Third Party Liability insurance of motorists and Green Card insurance, separately data on the claims concerning material and non-material damages, as well as on the frequency of the events and the average amount of the claims on that insurance for the preceding seven financial years. Approved was the method giving highest value of the reserve amount, except in the cases when the insurer proved that there were substantial deviations in the obtained result.

At the end of 2008 the preparation began for the elaboration of new methodology for approval of the reserve for incurred but unsubmitted claims for 2008. The use of 12 mandatory methods was considered by which every insurer to make calculation of the amount of the reserve, separately for claims related to material and non-material damages. With this methodology the insurers have to analyze the results obtained in each used method, to determine a range of similar values

of the results from the separate methods and to form reserves by the method which gives highest value among those with similar results. If there are substantial deviations in the obtained by this method result for the estimated value of the incurred but unsubmitted claims, it is possible the choosing of another, more appropriate method to be justified. Also, with regard to the amount of the formed reserve on that insurance at the end of 2008, the possibility was examined and discussed for the setting of two minimum levels: 1) according to the result of the insurance; and 2) according the market share of the relevant insurer in the total for the market reserve amount at 31 Dec., 2008. The effect was assessed where the market share of each insurer was defined as *the insurer's percent in the number of the insured motor vehicles by years* of event weighted with *the amount of the total for the market reserve by years of event*.

As a result of the consistent and active supervisory measures related to the preliminary approval of the method for formation of the reserve for incurred but unsubmitted claims on obligatory Third Party Liability insurance of motorists, for the past 5 years with an increase in the premium income of approximately two folds (by 218 %), the amount of the reserve had increased forestallingly more than 14 folds (1,410 %) (see the following table):

(in BGN thousand)	2003	2004	2005	2006	2007	2008
Premium income from Third Party Liability insurance of motorists	115,520	135,045	205,280	220,764	299,235	368,415
Amount of the reserve for incurred but unsubmitted claims on the said insurance	14,486	26,275	57,842	82,174	133,106	218,774

### Off-site Supervision and Measures Related to the Insurers' Solvency

As a result of the inspections carried out by documents in 2008, in regard to 8 insurers a deviation was established from the normative requirements for minimum amount of the own funds. As a result of the applied supervisory measures, plans were prepared and presented for correction of the deviations, which were approved by the Deputy Chairperson in charge of Insurance Supervision Division, and fulfilled within 2008.

### Off-site Supervision Related to Offered Insurance Products

In 2008 a study was conducted on the cover of the risks from inundation and earthquake, provided by the insurers. The study was carried out with a view to achievement of the following main objectives:

- to establish what the procedure was, respectively the conditions and the possible combinations for ensuring cover of those risks on the insurance market;
- to establish within what range the premiums and factors, connected with their determination, varied with the different insurers as well as what the average amount of the premium for the market was.

### Additional Measures for Off-site Supervision Related to the Financial Crisis

In connection with the financial crisis and for early addressing of the eventual effects of it, a proactive approach has been adopted for oversight of some aspects of the insurers' activities, which may prove to be actually affected by the crisis development. The insurers have been obligated to submit, with the annual and periodic statistics and reports, also additional information which is to ensure possibility for timely, current and precise assessment of the inherent risks and their impact on the solvency. These measures expressed themselves in the following:

- the non-life insurers were required to submit monthly information on the insurance amounts by types of insurances Credit, Suretyship and Miscellaneous Financial Loss. On the basis of this information, compared to the information on the premiums, technical reserves and indemnities, when applying the relevant coefficients, it is monitored for early appearance of unfavorable deviations in the development of those insurances and the possibility is assessed for the insurers to remain solvent while applying further scenarios of development;
- the insurers were required to submit further information on the amount of their own funds and the solvency margin for a shorter period;
- in connection with the established tendencies in the regulated securities markets development, control for excess of the

own funds over the solvency margin of insurers was carried out on a quarterly basis. Different scenarios were considered of change in the investment amount in case of unfavorable market development, in order to define what eventual loss may be covered with the free own funds of every insurer, without it resulting in violation of the requirements for solvency;

- detailed information was required from the insurers about the direct and indirect exposures to investments in certain high-risk financial instruments. Upon analyzing these exposures, it was found out that they were insignificant and could not exert material influence over the solvency of the relevant insurers.

### Measures for Additional Off-site Supervision of the Health Insurance Companies

In 2008 detailed information was required from the voluntary health insurance companies about the offered health insurance packages, including the covered under them goods and services and the respective limits, the general conditions concerning the health insurance packages, the acting tariffs and technical plans by types of health insurance packages and a list of the medical institutions with which they had concluded contracts. The purpose of that supervisory measure was to analyze the practices and relations between the health insurance companies and the medical institutions, to get a thorough understanding of their relations and to what extent they could not prejudice the rights of the consumers of services in voluntary health insurance.

### Off-site Supervision and Measures Related to the Insurance Intermediaries

In the inspections conducted of the provided by the insurance brokers documents, incorrect completion of the model forms, failure to file the report and statistics in the form of an electronic document signed with an electronic signature, non-observance of the period and time-limit of reporting and other violations and errors were found out. With the purpose of giving clarity with regard to the proper reporting of the insurance brokers' activities to the Commission, directions and explanations on completion of the reports and statistics were sent to all registered insurance brokers (248 in number at the end of second quarter of 2008).

In the exercising of off-site supervision over the insurance brokers' activities, Insurance Supervision Division conducts also monitoring of the implementation of the *acquis communautaire*, controlling the fulfillment of the provisions in relation to the pursuance of intermediation activity on the territory of other Member States under the freedom to provide services. As a result of that activity, an act was drawn up for establishment of an administrative violation to an insurance broker, who intermediated for insurance of risks, located on the territory of the European Community, by insurers having a registered office outside of the Community, which had no right to pursue business on its territory.

## ON-SITE INSPECTIONS

In 2008, **43 on-site inspections** were conducted in the offices of insurers, health insurance companies, insurance intermediaries and of persons having no right to pursue the business of an insurance broker or a health insurance company.

### Inspections of Insurers

Within the scope of **8 inspections**, carried out of insurers, the following were included:

- inspection of the overall status of the insurer, including: (1) assessment of the insurance portfolio on the basis of the data for all concluded policies, the premium income charged on them and the adequacy of the formed unearned premium reserve; (2) assessment of the expenses and other operating income; (3) assessment of the liabilities and the process of lodging and settlement of claims, on the basis of all laid in and paid claims for a period not shorter than five years; (4) assessment of the assets; (5) assessment of the adequacy of the reserve formed for submitted but unpaid claims and incurred but unsubmitted claims; (6) assessment of the companies' policies and the measures related to ensuring the organizational and financial stability; (7) assessment of the performance and the timely updating of the scheme of operations;
- verification and assessment of the amount of the formed technical reserves and the financial situation, targeted at establishing the trustworthiness of the data presented with the periodic reports and statistics, as well as finding out whether the formed technical reserves are adequate to meet future liabilities for payment of indemnities;
- inspection of activities which could affect the insurer's organizational and financial stability.

In connection with the inspections carried out, AEAU were drawn up and served, coercive administrative measures were imposed and prescriptions given.

### Participation in a joint inspection of an European insurance group

In 2008 FSC through Insurance Supervision Division took part in organized by the Bank of Holland joint all-European inspection that turned out to be a successful example for European cooperation within the insurance colleges. 8 European states were included in the inspection (Belgium, Bulgaria, the Czech Republic, Hungary, Luxembourg, the Netherlands, Poland and Slovakia), and it covered the business rules, compliance policy and the policy for financial and economic crimes of an insurance group, whose parent undertaking is established in the Netherlands. In the conduct of the inspection, with the purpose of ensuring a possibility for effective exchange of information between the separate participants, an Internet based application was created and used, developed specially by the Bank of Holland and guaranteeing information security. The application was tested by a representative of the Insurance Supervision Division and by representatives of the Czech Republic, the Netherlands and Slovakia, and in 2009 it is forthcoming to be presented to the Committee of the European Insurance and Occupational Pensions Supervisors (CEIOPS) and to its Insurance Groups Supervision Committee. It is planned this application, or another similar one, to be implemented in 2010 in all European states, participating in separate insurance colleges, whereby to be satisfied the European requirements for guaranteeing the information security.

After the conclusion of the inspection of the Dutch insurance group, the Coordination Committee engaged with its supervision, adopted a decision for a second inspection in 2009. Its objective will be to check up the measures undertaken by the company in relation to prescriptions made on the compliance policy and to carry out inspection in other fields and policies of the company. With the purpose of successful carrying out of the future new inspection, an European Project Group was set up, in which representatives of Hungary, the Netherlands and Bulgaria (FSC through Insurance Supervision Division) participate. The group has for an object to prepare all required for the inspection documents and to provide the necessary for the participants information. At the same time it is engaged with the organization of the initial meeting of the individual supervisory authorities' representatives, at which the inspected area will be introduced to the participants and they will be acquainted with the separate documents.

### Inspections of the Health Insurance Companies

**3 inspections** were carried out of health insurance companies with the following subject:

- inspection of the overall activities of the health insurance company;
- inspection of a certain aspect of the activity and its accounting.

In the procedures of conduction and concluding the inspections AEAU were drawn up and served, a procedure for imposition of coercive administrative measure was opened and obligatory prescriptions were given.

### Inspections of Insurance Intermediaries

Subject of the **30 inspections**, carried out of insurance intermediaries were:

- the tariffs offered for the obligatory Third Party Liability insurance of motorists and their observance;
- the correct accounting of the premium income on all types of offered insurances;
- assignment of insurance intermediation activities to other persons, that have no right to carry out such activity;
- the pursuance of business as insurance agent for more than one insurer.

As a result of the inspections carried out, ascertaining protocols were drawn up in the cases where violations were not found out. In the cases of offence of legal regulations, AEAU were drawn up and delivered.

### Inspections of Other Persons that are not Supervised by FSC

**3 inspections** were carried out of companies on suspicion that they pursued business without having obtained the necessary authorization by the Financial Supervision Commission. Acts for establishment of administrative violations were drawn up.

In the course of 2008, in total **390** acts for establishment of administrative violations were drawn up by Insurance Supervision Division to supervised entities, from which **265** to **insurance companies**, **34** to **health insurance companies**, **82** to **insurance intermediaries**, **3** to **actuaries**, **2** to the **Guarantee Fund** and **4** to **other persons**. Detailed information on the drawn up AEAV, divided in types of violations, is given in **Appendix 3.2**.

In 2008 the FSC's Deputy Chairperson in charge of Insurance Supervision Division, issued **302 penal warrants** for BGN **1,675,880**, as follows:

Supervised Persons	Penal Warrants (number)	Amount (BGN)
Insurance companies	248	1,424,480
Health insurance companies	13	41,000
Guarantee Fund	1	2,000
Insurance brokers	34	145,400
Insurance agents	5	58,000
Legal entity	1	5,000
<b>TOTAL:</b>	<b>302</b>	<b>1,675,880</b>

**16 procedures** for imposition of **coercive administrative measures** were opened in 2008. Four procedures were terminated by reason of fulfillment of the prescriptions in the procedure for the imposition of CAM itself. **12 decisions** were issued for imposition of CAM, from which **9** to **insurers**, **1** to a **health insurance company**, **1** to the **Guarantee Fund** and **1** to a **liquidator**.

## 3.3

### SUPERVISORY ACTIVITY IN THE FIELD OF SUPPLEMENTARY PENSION INSURANCE

The supervisory activity over the lawful carrying out of the activity of the pension insurance companies and the managed by them supplementary pension insurance funds (SPIF), with the purpose of protecting the insured person's interests and guaranteeing the market integrity, is exercised by Control Activity Directorate with Social Insurance Supervision Division by conducting off-site control and on-site inspections. In regard to the lawful carrying out of the activity, inspections are also conducted in the custodian banks of the supplementary pension insurance funds.

#### OFF-SITE CONTROL

The off-site control is exercised by officials from Off-site Control Department with Control Activity Directorate, on the basis of the financial statements and the information on the activities of 10 PICs, 29 supplementary pension insurance funds and 8 custodian banks with the following periodicity of presentation:

- daily – for the activities of the SPIFs and the custodian banks;
- monthly, quarterly and annually – for the activity of PICs and SPIFs.

During the inspections conducted of the activity of PICs and SPIFs, **27 offences** of statutory provisions were established, for which **15 AEAV** of the SIC and its implementing instruments were drawn up.

The off-site control is carried out along three main lines – daily control, periodic control and monitoring of the information and advertising activity of PICs.

#### Daily Control

In 2008 daily check ups and analyses were carried out of the information received about the activities of SPIFs and the custodian banks as regards the lawfulness of the concluded transactions with the pension funds' assets, the ratio of investments in the separate types of financial instruments towards the pension funds' assets, the way of making the asset valuation and their proper recording in the PICs and in the registers of the custodian banks. Control was also exercised with regard to change in the net asset value, the correct deduction of the investment fee in the supplementary obligatory pension insurance funds (SOPIF) and the correct determination of the number of units, corresponding to the received and

withdrawn amounts, and the value of one unit, as well as the announcement of information on the value per one unit according to the procedure and within the time-limits provided under Ordinance N° 9 of the FSC. The results of the inspections accomplished of the activity of SPIFs and the custodian banks were systematized in weekly reports, in consistence with the approved Methods for off-site control and on-site inspections of the activities of PICs and the managed by them SPIFs and the custodian banks under the SIC. Summarized information from the reports was presented to the FSC's Deputy Chairman in charge of Social Insurance Supervision Division.

As a result of the exercised daily control, **18 offences** of statutory provisions were established during the year, for which 9 AEAV of the SIC were drawn up. The more material offences of the SIC were connected with investment of SPIFs cash in securities, issued by related to the company person; failure by PIC to exert due diligence in the investment of SPIFs cash; failure to bring the SPIFs assets in compliance with the quantitative limits for these assets within a 3-month term under the SIC, and investment of the SPIFs cash on a bank deposit at a bank with a credit rating under the minimum required.

### Periodic Control

During 2008, **116 inspections** were conducted of the presented monthly, quarterly and annual financial statements and statistics about the activities of each of the ten licensed PICs and **332 inspections** of the filed monthly, quarterly and annual financial statements and statistics about the activities of the managed by the pension companies SPIFs. The levels of the normatively set indicators were established for each PIC, such as capital adequacy, liquidity, etc, through which the lawful carrying out of the activities of PIC is monitored. Simultaneously, the common financial indicators were also analyzed, connected with the capital, assets, income and expenses of PIC, the assets, participants and the rate of return of the pension funds.

The results of the accomplished inspections and analyses were reflected respectively in monthly, quarterly and annual analytical reports, the form and minimum content of which were defined in the above mentioned methods. Summarized information from the reports was presented to the FSC's Deputy Chairman, in charge of Social Insurance Supervision Division.

As a result of the exercised periodic control, **8 offence** of statutory provisions were established during the year, for which **5 AEAV** of the SIC and its implementing instruments were drawn up. The found out offences of the SIC were connected with investment of SPIFs cash in shares owned also by PIC, and conclusion of a preliminary contract by PIC, which is in contradiction with the provisions of the SIC. Also established were violations of the acts of SIC application, namely problems in the SPIF's liquidity and failure to submit statistics and reports within the regulated term.

### Monitoring of the Information and Advertising Activity of PICs

During the period, monthly inspections of the PICs web sites were conducted over compliance with the provisions of the SIC and the Requirements to the content of the advertising and written information materials of the pension funds and of the pension insurance companies under Art. 123i, para 2 and Art. 180, para 2, item 1 and item 2 of SIC, approved by Decision N° 236-PIC/28.03.2006 of the FSC Deputy Chairperson in charge of Social Insurance Supervision Division. In consistence with a FSC's letter, all PICs published on their web sites the annual reports of their activity and the activity of the managed by them pension funds, information on the proposal of the management body about profit distribution, or for cover of the loss from the previous year, and information on the decision of the general meeting of shareholders on the manner of profit distribution, or for cover of the loss for the preceding year. In the end of the first quarter of 2008 all companies, except one, published on their web sites within the term set by law, information about the volume and structure of the investments by types of assets and securities issuers for each managed pension fund as at 31 Dec., 2007. **1 AEAV with 1 violation** was drawn up for the established offence. The discrepancies, found out during the inspections, of the published on the web sites information with the approved requirements for them, were corrected within the set time-limits.

## ON-SITE INSPECTIONS

In connection with the exercised operating control over compliance with the provisions of the SIC and the acting sub-statutory normative acts, and also of the Law on the Measures against Money Laundering and the Rules of Implementation thereof, the experts from operating Control Department with Supervisory Activity Directorate completed in total **15 on-**

**site inspections.** From them **9** were full **planned** inspections and **3** were **thematic** in pension insurance companies and the managed by them supplementary pension insurance funds. Also conducted were 3 inspections in custodian banks jointly with the Bank Supervision Department of the Bulgarian National Bank with regard to the lawful performance of their custodian activity for the supplementary pension insurance funds.

### Full Inspections

The activities were inspected of all nine pension insurance companies and the managed by them supplementary pension insurance funds that pursued business at the beginning of 2008. **22 offences** were found out, from which 15 of the SIC, 6 offences of Ordinance N<sup>o</sup> 3<sup>23</sup> of FSC and one of Ordinance N<sup>o</sup> 9<sup>24</sup> of FSC, for which **15 AEAV** were drawn up. More substantial established offences of the statutory provisions were related to the rights for switching of participation by the socially insured persons and observance of the Rules of the supplementary pension insurance funds, managed by the pension insurance companies.

**179 recommendations** were given for improvement of the organization of the companies' work, the most numerous of them being the recommendations related to the investment activity and the limiting of the operating risk.

### Thematic Inspections

**3 thematic inspections** were also completed to establish compliance with the provisions of Ordinance N<sup>o</sup> 3 of FSC, where **6 AEAV** were drawn up for found out **8 offences** of the statutory provisions concerning the supplementary pension insurance. There were some omissions and irregularities found, for the removal of which **5 recommendations** were given to PICs.

### Inspections of Custodian Banks

Inspections were conducted jointly with the Bank Supervision Department of the Bulgarian National Bank in 3 custodian banks of supplementary pension insurance funds. 2 offences were established of Ordinance N<sup>o</sup> 36 of the BNB<sup>25</sup> and 9 recommendations given for improvement of the banks' activities.

From the on-site inspections carried out at PICs and from the filed with FSC annual activity reports of the trustee councils of the funds for SOPI and of the consultative councils of the funds for SVPI, the following conclusions can be made:

- there are difficulties with the councils' formation in the envisaged in the legal regulations membership. It is obvious that the councils' formation depends on the appointment of representatives of the nationally represented organizations of the workers and employees and of the employers. Due to the fact that they do not appoint their representatives, or those appointed by them are not present at the councils' meetings, the same cannot function in compliance with the statutory regulations;
- the councils work formally and do not fulfill their function for exercising public control over the activities of the pension insurance companies, related to the management of the respective supplementary obligatory pension insurance fund;
- none of the acting councils reviewed complaints, warnings or applications from insured persons.

## COERCIVE ADMINISTRATIVE MEASURES, ACTS FOR ESTABLISHMENT OF ADMINISTRATIVE VIOLATION AND PENAL WARRANTS

In 2008 in the course of the carrying out of off-site control and on-site inspections over compliance with the provisions of the SIC and the acting sub-statutory acts, **57 offences** were found out of the statutory provisions, for which in total **36 AEAV** were drawn up. On the basis of the drawn up acts, **35 penal warrants** were issued during the reporting period (23 came into effect, and 12 were appealed before the court), as well as two resolutions for termination. The total amount of the imposed by the penal warrants

<sup>23</sup> Ordinance N<sup>o</sup> 3 of 24.09.2003 on the procedure and way for switching of participation and for transfer of the accumulated cash of the insured person from one supplementary pension insurance fund to other relevant fund, managed by another pension insurance company

<sup>24</sup> Ordinance N<sup>o</sup> 9 of 19.11.2003 on the way and procedure for valuation of the assets and liabilities of the supplementary pension insurance funds and of the pension insurance company, of the fund's net asset value, for calculation and announcement of the value per one unit and for the requirements for the maintenance of the individual accounts.

<sup>25</sup> Ordinance N<sup>o</sup> 36 from 22.01.2004 of BNB on Custodian Banks under the Social Security Code



finances and pecuniary sanctions was BGN 212,000.

From those 36 AEAV, **22 acts** were for establishment of administrative violations of the provisions of the SIC, whereby 41 from the perpetrated 57 violations were ascertained. The following AEAV were drawn up:

- **5 AEAV** for 9 offences of **Art. 121, para 6** – PIC did not carry out activity in compliance with the Rules of organization and operation of the pension funds;
- **1 AEAV** for **1 offence** of **Art. 121d, para 1** – a PIC granted loans;
- **1 AEAV** for **1 offence** of **Art. 123c, para 7** – a PIC failed to forward a notification about a concluded contract with an investment adviser;
- **1 AEAV** for **1 offence** of **Art. 123d, para 3** – the pension insurance intermediaries did not observe in their activity the principle of voluntariness;
- **1 AEAV** for **1 offence** of **Art. 123d, para 7** – a PIC failed to notify of a concluded contract with a pension insurance intermediary;
- **1 AEAV** for **1 offence** of **Art. 123i, para 1, item 2** – a PIC included in its advertisement false or misleading data;
- **1 AEAV** for **3 offences** of **Art. 126** – PICs did not manage the pension fund's cash with due diligence;
- **1 AEAV** for **3 offences** of **Art. 144, para 2** – a PIC failed to inform the insured persons of amendments and supplements to the Rules of the organization and operation of the pension fund, through publication in two central daily newspapers;
- **1 AEAV** for **2 offences** of the regulated right under **Art. 171, para 2** – the insured person to be able to switch his/her participation in a SOPIF after the expiration of one year from conclusion of the contract for pension insurance in the Fund;
- **2 AEAV** for **4 violations** of **Art. 176, para 1, item 5** – a PIC invested cash of a VOPIF on bank deposits at banks with a credit rating in contradiction with the statutory requirements;
- **4 AEAV** for **7 offences** of **Art. 177, para 1, item 2** – a PIC invests cash of a VOPIF in securities issued by related to it entities;
- **2 AEAV** for **5 offences** of **Art. 177, para 1, item 2** in relation to **Art. 249** – a PIC invests cash of a VOPIF in securities issued by related to it entities;
- **1 AEAV** for **3 offences** of **Art. 251a** – a PIC fails to bring the assets of a VOPIF in line with the statutory requirements and the quantitative limits of these assets set out in the Rules of the relevant Funds.

**8 AEAV** were drawn up for offences of provisions of **Ordinance № 3** on the procedure and way for switching of participation and for transfer of the accumulated cash of insured person from one supplementary pension insurance fund to other relevant fund, managed by another pension insurance company, whereby the following 8 from the committed 57 offences were established:

- **1 AEAV** for **1 offence** of **Art. 1a** – special privileges were offered upon and on the occasion of switching of participation;
- **1 AEAV** for **1 offence** of **Art. 6, para 2** – a PIC refused to consider an application by an insured person on grounds, other than those laid down in the Ordinance;
- **6 AEAV** for **6 offences** of **Art. 7, para 1** – offer and conclusion of pension insurance contracts within a time-limit outside of that statutorily set.

**1 AEAV** was drawn up for offences of provisions of **Ordinance № 9** on the terms and procedures for valuation of the assets and liabilities of the supplementary pension insurance funds and pension insurance companies, the fund's net asset value, on calculation and announcement of the value per a unit as well as on the requirements for maintaining of the individual accounts, under **Art. 17a** (i.e. violation of PIC's obligation to present at the FSC the changed accounting policy within a 7-day period of its approval).

**1 AEAV** was drawn up for breach of the provisions of **Ordinance № 10** on the requirements for the composition and structure of the own capital (capital base) of a pension insurance company and for the minimal liquid funds of the company and of the managed by it supplementary pension insurance funds, under **Art. 7, para 2** (i.e. violation of obligation of a SPIF to have at all times liquid funds at amount as fixed in the Ordinance).

**2 AEAV** were issued for **4 offences** of **Ordinance № 12** on the terms and procedure for determining the minimum rate of



return resulting from the management of supplementary obligatory pension insurance funds, on covering the difference up to the minimum rate of return as well as on the formation and utilization of the reserves for guaranteeing the minimum rate of return, under **Art. 9** – failure to submit information on formed reserve for guaranteeing the minimum rate of return within the time-limit set in the Ordinance.

In 2008 CAMs were not applied towards pension insurance companies and there were no complaints received against the decisions of the FSC's Deputy Chairperson in charge of Social Insurance Supervision Division.

## 4

### EUROPEAN DIMENSION IN THE FSC'S ACTIVITY

#### 4.1

#### COMITOLOGY

With a view to Bulgaria's membership in the European Union, the cooperation with the European supervisory authorities within the built up comitology process is of particular importance for the work of the Financial Supervision Commission. Aiming at introduction of an efficient mechanism for cohesion of the financial supervisory practices, the Lamfalussy Process was launched on European level in 2001. In its capacity of a regulatory and supervisory authority, FSC participates in the activities of II<sup>nd</sup> level committees (regulatory function) and III<sup>rd</sup> level (advisory function). During the past year the Commission took an active part in the work of all committees of which it was a member, as well as in the task forces with them, through its representatives.

The committees on II<sup>nd</sup> level are the **European Securities Committee (ESC)** and the **European Insurance and Occupational Pensions Committee (EIOPC)**. FSC's representatives attended and took part in the work of the two committees during the year. The Commission also took part in the 62<sup>nd</sup> meeting of the ESC members, which was held in Brussels on 14 November, 2008, at which the discussion was finalized on the amendment on II<sup>nd</sup> level of Regulation (EC) 809/2004 as regards the prospectuses and the implementation of the Transparency Directive 2004/109/EC.

Within the III<sup>rd</sup> level committees, FSC participated in the process of elaboration of common practices and standards, as well as in the subsequent examination of their implementation by the member states. FSC is a full member of the Committee of European Securities Regulators (CESR) and of the Committee of the European Insurance and Occupational Pensions Supervisors (CEIOPS).

The **Committee of the European Securities Regulators (CESR)** is an independent committee, established by Decision of the EC (2001/527/EC), with a main task to improve the coordination between the European national regulatory authorities, as well as to serve as advisory body to the EC in the field of capital markets. The Committee is engaged also in drawing up of draft measures, which are the basis for elaboration of the directives in that field, as well as the ensuring of consistency in the implementation of the *acquis communautaire*. The decisions within CESR are not legally binding on its members, and with the approval of the new statutes of the Committee on 10 September, 2008, the voting of the larger part of the decisions by a qualified majority was introduced. This change will contribute to enhancement of the efficiency of taking decisions and measures by the Committee and was supported by FSC. During the past year the Commission took active part in all plenary and unofficial meetings of CESR on the level of Chairmen, as well as the regular meetings of the task forces with the Committee. In 2008 FSC's representatives participated regularly in the work of 7 task forces.

The **Committee of the European Insurance and Occupational Pensions Supervisors (CEIOPS)** was established by Decision of the EC (2004/6/EC) and is an advisory body to the EC, which is committed to drawing up of standards, recommendations and directions with the purpose of increasing the cooperation between the national authorities and coherence of the supervisory practices in that field. In 2008 the Committee's activity was orientated mostly to provision of proposals to the European Commission in connection with the implementation measures for Solvency II Framework Directive, whose draft is in a process of agreement with the EU institutions. Representatives of Insurance Supervision Division and Social Insurance Supervision Division took part in the work of 9 task forces and committees with CEIOPS, by presentation of information, expression of positions and opinions and participation in different task forces. The Insurance Supervision Division organized the preparation of the Bulgarian insurance industry for participation in the Fourth Quantitative Impact Study (exercise) for the Draft Solvency II's introduction. Presentation of the exercise was organized in the form of a seminar, more

than 30 representatives of insurers attending it. 5 insurers took part in the exercise itself – 3 non-life insurance companies and 2 life insurance companies. The Division organized the insurers' attendance and the submission of the required to be completed forms, giving the necessary methodical explanations. The data of the insurers that participated were summarized and along with the prepared report for Bulgaria were presented to be included in the CEIOPS report.

## 4.2 PARTICIPATION OF FSC IN NEW EUROPEAN INITIATIVES

During the past year experts from FSC took an active part in the work of the task forces with the third level committees (CESR and CEIOPS), in which the proposals for the creation of or amendment to key European legislative acts were considered. The main accent in the committee's work was placed on **the draft of Regulation, settling the activity of credit rating agencies, the amendments to Directive 85/611/EEC** on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and **Directive 98/26/EC on settlement finality in payment and securities settlement systems**. At advanced stage is also the process of adoption of the Framework Directive in the field of insurance Solvency II.

### ■ Regulation, settling the activity of credit rating agencies

On EU level, the opinion is prevalent that during the crisis the credit rating agencies (CRA) did not manage to reflect in time the worsening of the market conditions in the awarded by them ratings. That resulted in the necessity of **implementation of common regulatory framework which is to guarantee the credit ratings' quality**. The proposed text of the Regulation treats issues related to the supervision over CRAs, the avoidance of conflict of interests, enhancement of the transparency in the work of the agencies and the creation of internal rules which are to guarantee the professionalism and correctness of the CRA employees. Through its representative in the task force on financial services to the EU Council, FSC took an active part in the Regulation elaboration. The Regulation targets to ensure high quality of the credit ratings, used within the Community, and thus to promote the smooth functioning of the single market, and the increasing of the level of investor and consumer protection.

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

After its adoption in 1985, Directive 85/611/EEC has been amended many times, but nevertheless, after a thorough analysis, it has been found out that at the present time the provisions of the Directive restrict the entities, which manage the undertakings for collective investment and do not allow them to avail themselves to the full extent of the possibilities for development. Amendments to the Directive were proposed along two lines. The first part of the amendments is directed to the **optimization of the hitherto acting mechanisms (the single passport, the notification procedure, short-form prospectus)**. The second group of amendments is directed to the creation of **new rules, which are to provide the undertakings for collective investment with a possibility of using to full extent the benefits of the single market** (the rules of funds merger and assets consolidation). The EC presented its proposal for amendment to Directive 85/611/EEC on 16 July, 2008. The final adoption of the texts by the EP and the Council is expected in 2009.

### ■ Directive 98/26/EC on settlement finality of payment and securities settlement systems

**The Directive provides for the regime with which the finality of the transfer orders and the netting in the settlement systems is guaranteed, as well as the enforceability of the collateral security**. As early as in 2006 the EC made an analysis of the Directive and drew the conclusion that it functions well as a whole. It, however, is pointed out in the EC report that some changes can be made in the area of settlement in the payment systems and in the securities settlement systems, and the conclusion to be drawn that there is necessity of clarifying and simplification of Directive 98/26/EC. In recent years a change in the market conditions has been observed, which consists mostly in the increasing number of links between the settlement systems, which at the time of elaboration of Directive 98/26/EC worked almost entirely on a national level and independently from one another. That change is one of the consequences from Directive 2004/39/EC (MiFID), as

well as from the European Code of Conduct as regards clearing and settlement. With the purpose of adaptation to that development, the amendments to the Directive 98/26/EC clarify the terms interoperable system and responsibility of the system operator.

#### ■ Solvency II Directive

The draft of the Directive, which was launched as back as in 2002, is of key importance for the insurance sector. **The new Directive will codify the provisions of fourteen up to now active directives in the field of life insurance, non-life insurance and reinsurance.** The main areas in which the draft envisages amendments are related to the solvency of the insurance undertakings, their internal organization, their relations with the shareholders and the other participants on the financial markets, as well as to the organization and exercising of the supervision over the insurance sector. The project aims at deepening the integration of the European insurance market, improvement of the protection of the insured persons, increasing the competitiveness of the European insurers and reinsurers and introduction of the principles of better regulation. The new system of regulations also introduces risk-based legal requirements to the capital adequacy of the insurance companies, combined with clear rules of risk management and strict internal control. The new Directive will also lead to enhancement of the transparency in the work of insurers, through the implementation of further rules of public disclosure of information on the activity. **It is expected the Solvency II Directive to be finally approved in April 2009.**

#### ■ The de Larosière Group

The current financial crisis has exposed some of the weaknesses in the EU regulatory framework which still to a large extent remains fragmented, notwithstanding the substantial progress achieved in the integration of the financial markets and the formation of multitude of cross-border companies. **With a view to making reforms in the sphere of the financial regulation in Europe, at the end of 2008 the so called High Level Expert Group was created, chaired by Mr. Jacques de Larosière.** The aim of the Group is to prepare a proposal for improvement of the European supervisory practices in all sectors from viewpoint of their integration and the enhancement of their efficiency. More specifically, the de Larosière Group has to analyze the following issues:

- what is the best way to organize the financial supervision in the European Union, so that to guarantee to the utmost the financial stability of the institutions, the orderly functioning of the markets and the protection of shareholders, insured persons and investors;
- how to improve the cooperation between the supervisory authorities, and in particular, to develop early warning systems and common principles of crisis management;
- how to improve the cooperation between the supervisory authorities in the EU and those of the other world economic powers, so that to achieve financial stability on global scale.

It is expected the Group's report to result in improvement of the architecture of the European system of cooperation between the national supervisory authorities, with the purpose of achieving optimum coherence of the practices, implementation of the *acquis communautaire* and guaranteeing the financial stability and the protection of consumers of financial services in the EU.

Enhancement of public confidence in the use of financial products and services and ensuring the protection of consumers of such services is one of the strategic goals of the Financial Supervision Commission. That goal has become of even greater significance in the conditions of the increased financial crisis which necessitated the implementation of additional measure for consumer protection. A step towards achieving these goals is the further development of the strategy for ensuring an **access to up-to-date information** on the non-banking financial sector and the market participants, as well as **extending the public knowledge** and informedness. These measures are of preventive nature in relation to protection of the interests of non-banking financial services consumers and promote the efficiency and transparency of financial services markets.

## 5.1 INFORMATION AWARENESS PROVIDED BY FSC

### 5.1.1 ACCESS TO FINANCIAL INFORMATION

The pursuance of the FSC's information policy is based in whole on the principles of publicity, transparency and equal treatment. In 2008 the Commission continued strictly to follow the established practice for efficient and timely distribution of public information about the markets of non-banking financial services, the market entities and the authority's activity in its function of a supervisory and regulatory body.

In 2008 FSC renovated the vision and functionality of its **web site**. The large volume of information accumulated on the web site for six years since the Commission's establishment in 2003, as well as the contemporary requirements for easy access, necessitated the information restructuring and the development of a new web site. Useful financial information is posted daily on the web site, which is used both by consumers of financial services, and of the supervised entities themselves. The web site contains detailed information on all aspects of the Commission's activities, divided in various headings and by markets. Actual news is published about the decisions made by the Commission, as well as summarized statistical data about the three types of markets – capital, insurance and pension-insurance market. Besides 3-monthly, 6-monthly and annual reports for the three segments of the non-banking sphere, the heading **Statistics** has been also complemented with additional summarized data in the field of insurance and voluntary health insurance. Heading **Events** presents all initiatives of the Commission related to educational programmes, seminars, round tables, conferences, discussions, meetings with the business, as well as other public activities. There are presentations and pictures attached to each concrete event.

Enriched was also heading **Questions and Answers**, whose focus is oriented mainly to the consumers of financial services. In that heading concrete cases may be seen and answers to questions be found in the sphere of insurance, investments and supplementary pension insurance.

During the period, under heading EU Information 160 warnings were published to the investment community related to unauthorized activities of EU companies.

Detailed information on the supervised persons – status, contact information, periodic reports, distributed dividends, imposed pecuniary sanctions, etc. is provided through the **public register**, accessible both on the premises of the Commission, and through the web site – Electronic Register and Case File-index (**ERiK**) and **News from e-Register**.

For consumer convenience, FSC continued to maintain and update the **electronic portal for submission of the information on obligatory Third Party Liability insurance of motorists**. A possibility is provided through the portal for verification of the existence or non-existence of Third Party Liability insurance of motorists by entry of the motor vehicle's registration number.

On **tel. 0900 32 300** the citizens may receive information on the market participants, on the products and services, as well as consultations on specific cases. For the purpose, specialists qualified to reply to questions in the field of the capital, insurance and the social security market work at the established Call Center. The citizens may contact for assistance and information FSC not only over the phone, but also at electronic address [hotline@fsc.bg](mailto:hotline@fsc.bg) or at the authority's premises. In 2008 over 3,000 calls were registered in the Call Center, and 520 questions were asked by the electronic mail, most of them being in the field of the capital market and insurance. Quite a big number of inquiries were made from abroad, to which the Call Center answered in relation to the status of

our supervised persons.

**FSC issues three publications** – two printed – an Annual Report and an Official Monthly Bulletin and one electronic bulletin. The electronic bulletin was launched as an initiative at the beginning of 2008. It is a monthly bulletin which in synthesized form summarizes the supervisory authority's activity. The bulletin is distributed in electronic way and is posted on the FSC web site under heading **Publications**. In 2008 the Annual Report was published for the next consecutive year, whose content covered an overall survey of the non-banking sector; the decisions taken during the year; the adopted statutory and sub-statutory acts, as well as comments on the most significant events in the field of non-banking financial services. The licensing and supervisory activity over the three markets and FSC's participation in the European initiatives are the accent of the year-book, as well as the provision of current information about the participants in the non-banking financial sector. The other traditional printed publication is the Official Monthly Bulletin, which documents all aspects of the Commission's activity for the past month.

In addition to its publications and web site, the important aspects of the FSC's activities reach the general public and the participants on the non-banking financial market also **through the media**. FSC pursues communication policy which is based on the principles of transparency and openness, it provides in time information to the media, organizes twice monthly briefings and annually – several pressconferences, related to publicly significant aspects from the authority's activity. The Commission disseminates, with the media assistance, recommendations to the consumers of financial services and useful information for the participants on the markets.

## 5.1.2

### EDUCATIONAL POLICY OF FSC

In 2008 FSC continued its consistent policy targeted at enhancement of the financial culture of the general public in relation to the non-bank sector. The authority was once again an initiator of a number of educational events, intended for various social groups and tailored to their specific needs.

Among the priority target groups towards which FSC has focused its efforts for heightening the financial knowledge, are the students. Besides providing an opportunity to deepen their knowledge, the programmes developed by FSC support the young people in their future career orientation.

The sixth issue for school students of the **educational programme Development of the Non-banking Financial Sector in Bulgaria**, which is already a tradition, took place in the first week of July, 2008. The main purposes of the program relate to enhancement of the financial culture among the young people and strengthening of the image of FSC as a socially responsible institution, as well as building sustained interest towards the financial sphere among students. In this way the basis was created for more active interaction between the young people, the state administration and the business.

In the 2008 programme realized with the cooperation and support of the Ministry of Education and Science and Foundation Atanas Burov, participated 20 school students and 5 teachers from 20 secondary schools for vocational training in economics throughout the country. Experts from FSC and the business presented to the participants the features of the various types of financial markets, where besides theoretically, the participants acquainted themselves with the market specifics also by visits to the stock exchange, an investment intermediary, an insurance company, a health and pension insurance company.

As a result of the great interest to the educational programme, FSC developed also a **one-day educational modules**. As complement to the curriculum they aim to support the practical training of students, related to the structure and development of the capital market in Bulgaria. Within 2008 the Commission welcomed 2 classes of students. The first training was held in March, 2008 with students from 12<sup>th</sup> grade of Vocational High School of Light Industry and Economics Atanas Burov – Gorna Oriahovitsa. The second training on the issues of the capital market was carried out in October with students from 12<sup>th</sup> grade of Commercial High School – Burgas.

In 2008 FSC and the industry organizations in the field of the capital market, insurance and pension insurance continued their cooperation and a number of meetings, discussions and seminars took place on topics and issues related to the development of these markets. Every last Thursday of the month the tradition continued **meetings of the investment community**, hosted by FSC to be organized. At them the market participants are provided the opportunity to discuss in non-formal settings the issues of the day, emerging developments and problems, related to the capital market.

Of substantial importance for FSC is to maintain and develop the cooperation established throughout the years with the

bodies assisting the Commission in the realization of the protection of consumers of financial services, as well as with the groups having significant social influence and access to the general public. FSC kept the tradition to organize meetings with representatives of the law enforcement bodies, where new developments in the non-banking financial sector are discussed, as well measures aiming at reduction and prevention of illegal actions in the financial sphere.

In May, 2008 FSC organized a two-day **seminar for representatives of the Ministry of Interior** on the topic of Actual Problems Related to the Exercising of FSC's Supervisory Functions in the Field of the Capital Market and Supplementary Pension Insurance. The seminar was attended by experts from the economic departments of the District Police Directorates from all over the country. The event was in connection with fulfillment of the program for improvement of the cooperation between FSC and the other institutions related to the operation of the non-banking financial sector.

Another professional group with whom FSC works actively is that of the journalists. The objective reflection of the increasingly complex financial sector presupposes thorough knowledge of the market processes and new products. The organization of educational initiatives is a suitable form through which journalists can inform themselves of the new market developments. In connection with heightening the interest and awareness of non-bank financial services consumers, the Public Relations Department organized a **seminar for journalists**. Due to the increased interest in the reflection of the supplementary pension insurance and the impact of the world financial crisis on the pension funds operation, on 11 November, 2008 a new meeting – discussion was held on the topic of Pension Insurance in the Private Pension Funds, Mechanism of Investing the Funds and Determination of the Rate of Return.

In 2008 the Public Relations Department organized **two meetings of the communications specialists**, working in the financial sphere, and the financial journalists. The first was held on 12 March, 2008, and the second – on 17 May, 2008. Co-organizers of the initiative were the Bulgarian National Bank and the Bank Deposit Guarantee Fund. The main objective of that meeting was to build up useful professional contacts and thus to assist the more efficient communication and successful interaction.

## 5.2

### COMPLAINTS AGAINST AND INQUIRIES ABOUT THE SUPERVISED PERSONS. ACTIONS TAKEN BY FSC

In 2008, **209** complaints and inquiries from citizens and institutions were received and answered in regard to specific investment intermediaries. Furthermore, documentary inspections were conducted in connection with **89** in number applications, warnings, complaints, letters and inquiries, concerning the public companies, other securities issuers, special investment purpose companies, management companies, investment companies and contractual funds. The persons that gave the warnings were informed about the result of the inspections.

In 2008 the total number of the received in FSC **complaints** against supervised persons in the field of insurance activity were **814**. From them 411 were against non-life insurers, 61 – against life insurers, 276 – against health insurance companies, 33 – against insurers in liquidation or in bankruptcy, 1 – against an insurance broker, 9 – against the Guarantee Fund and 23 others. The growth of the filed complaints in 2008 compared with 2007 was 77 %, in 2007 the complaints being 460 (367 against non-life insurers, 26 against life insurers, 6 against health insurance companies, 42 against in insurers in liquidation or bankruptcy and 19 others). All complaints were reviewed. Their content was directed mostly to bringing up issues and expression of disagreement with the determined by the insurer amount of the indemnity, refusal to pay indemnity, or non-pronouncement by the insurer within the set time-limit.

During the past year overall **174 complaints, 62 warnings** and **34 inquiries** were registered on problems relating to the supplementary pension insurance.

The main groups of grievances, stated in the insured persons' complaints were about:

- transfer of funds without the knowledge and consent of the persons;
- simultaneously signed applications and pension insurance contracts;
- reduction of the amounts on the accounts of the persons insured in SPF;
- absence of guarantees for the insured persons' funds, similar to the guarantees with bank deposits;
- non-compliance with the procedure of switching of participation.



After carrying out examinations in relation to the complaints, a reply concerning the grievances made was sent to each person within the statutorily set term.

The major problems raised in the warnings were about:

- non-acceptance of applications for switching of participation;
- pronounced refusals to applications for switching of participation;
- violations of the Requirements to the advertising and written materials of the pension funds and of the pension insurance companies.

Inspections were carried out in relation to the received warnings and according their results, relevant actions were taken. Regarding the inquiries made, replies to PICs were prepared.

With reference to the received in Social Insurance Supervision Division complaints and warnings, the Control Activity Directorate informs the following institutions:

- the bodies of the Prosecutor's Office (in case of suspicion for committed crimes);
- Commission for Protection of Competition (in case of suspicions for breaches of the Competition Protection Act);
- Commission for Personal Data Protection (in case of suspicions for breach of the Personal Data Protection Act).

In connection with findings that mayors of populated places perform notary attestations without the presence of the insured persons, a letter was sent to the Ministry of Justice for the undertaking of appropriate actions.

## 6

## INTERNATIONAL COOPERATION AND COOPERATION WITH LOCAL INSTITUTIONS

### 6.1

### MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS AND RELATIONS WITH INTERNATIONAL FINANCIAL INSTITUTIONS

With a view to the globalization of the financial markets and the current crisis conditions, the cooperation within international organizations and relations with international financial institutions are of special importance for Bulgaria. The Financial Supervision Commission seeks to participate actively in international initiatives aimed at creating optimum conditions for coming out of the crisis and equivalent terms of normative treatment of the non-bank financial services on a global scale.

FSC participates in multitude of international organizations of the supervisory authorities in the non-banking financial sector.

The Commission is an active member of the **International Organization of Securities Commissions - IOSCO**. FSC takes part in the work of IOSCO as a member of the Emerging Markets Committee and the European Regional Committee.

During the past year FSC's representatives participated regularly at the held meetings of the Organization.

In 2008 FSC participated actively also in the work and organized forums in its capacity of a full members of the **International Association of Insurance Supervisors - IAIS**. In October, 2008 the 15<sup>th</sup> annual conference of the Association was held, at which an accent was placed on the subject-themes of enhanced cooperation and transparency in the conditions of a crisis, the impact of the future solvency standards on the insurance companies (the development of the draft of Solvency II), as well as the issues related to the need of intersectoral coherence and application of generally accepted international standards.

The Commission is a member-founder of the **International Organization of Pension Supervisors – IOPS**. In 2008 FSC's representatives participated in the meetings of the Technical Committee in April and October and the Annual General Meeting of IOPS, whose main goal is to work for the improvement of the quality and efficiency of the supervision over the private pension systems. The impact of the financial crisis over the private pension funds, the supervisory measures related to the crisis, as well as the prepared by the Organization guidelines and directions were discusses at the Technical Committee's meetings. Major accent during the year was placed on the drawing up of guidelines for the exercising of a risk-based supervision over the private pension schemes.

Since 2007 the Commission is a member of the Institut **Francophone de Régulation Financière**. The Institute is a non-profit organization, whose mission is to establish and increase the cooperation between the regulatory authorities participating in it. Its main purpose is to organize professional training and to provide possibilities for exchange of experience with regard to the financial markets regulation, which was a priority of the Commission in 2008, too.

As an institution responsible for the technical aspects of the state policy in the field of the non-banking financial sector, FSC is a partner on Bulgarian side to a number of international financial institutions. The Commission participates actively in the formulation of the Bulgarian position in the negotiations with the **International Monetary Fund (IMF) and the World Bank**. The cooperation with these organizations is connected to a large extent with the exchange of information and experience in relation to their function to observe and analyze the development and functioning of the capital, insurance and supplementary pension insurance markets. The information is exchanged by replying to multitude of concrete inquiries, completion of standard forms and various thematic questionnaires, with or without preliminarily established content and periodicity.

In 2008 the Commission participated in the updating of the data about Bulgaria under the **Financial Sector Assessment Program (FSAP)**. In this connection representatives of the IMF and the **World Bank** were received on a working visit in FSC, which was held from 23 June to 4 July 2008 and was focused on the topics of supervision of the securities market, the mutual and pension-insurance funds.

In the period 8-18 December, 2008 representatives of the **World Bank** visited Bulgaria with the purpose of carrying out of a survey on the **protection of consumers in the field of financial services** and preparation of a report on the state of consumer protection in the field of financial services. The report will be made public in 2009. The mission was focused on the protection of consumers in the field of bank services, securities, insurance and pension insurance, including the non-bank credit institutions. The experts of the international institution held a number of meetings with representatives of the Bulgarian National Bank, Ministry of Finance, the Financial Supervision Commission as well as with non-governmental organizations in the sphere of consumer protection. Meetings were held with the FSC Chairman, Mr. Apostol Apostolov, the Deputy Chairpersons of the three Divisions – Mrs. Ralitsa Agayn-Guri, Mrs. Dimana Rankova and Mr. Bisser Petkov, as well as a number of experts.

## 6.2 INTERNATIONAL PROJECTS AND INITIATIVES

In 2008 a number of initiatives were carried out with the purpose of extending the qualification of the FSC's employees, exchange of experience and good practices with foreign supervisory authorities and strengthening of the Commission's administrative capacity. FSC's activity in the field of grant financing of such events resulted in the preparation and completion of multitude of projects with donor financing, which are administered successfully. The Commission continued to pursue projects financed under European Union programmes in the field of securities, insurance and pension insurance. During the year FSC completed successfully a Twinning Light Project with the Insurance Agency of Bosnia and Herzegovina (IABH), where **for the first time a Bulgarian institution worked in its quality of a Member-State-partner to the project**.

### ■ **Twinning light project BA06 IBOT 07TL Support to the Insurance Agency of Bosnia and Herzegovina (IABH), financed under CARDS 2006 programme of the European Union**

After approval of the draft proposal, the candidature of FSC was elected to be a Member-State-partner on behalf of the Beneficiary IABH. On 20 December, 2007 the twinning contract containing the agreed work plan was signed. The project started to be fulfilled on 30 March, 2008 and was successfully completed on 17 October, 2008.

The main objectives of the project were related to the development of a single insurance market in Bosnia and Herzegovina by ensuring an effective and transparent supervision of the insurance activity, monitoring, coordination and arbitrage, as well as transparent exchange of information and reports.

More specifically, the Twinning light project BA06 IB OT 07 TL provided assistance to IABH in the following fields:

- **preparation of regulations/ guidelines for the statistical services of the IABH;**
- **review of the supervision provisions**, requirements, regulations, legislation and procedures of the Bosnia and Herzegovina Federation and the Republic of Serbia, as well as presentation of recommendations for their harmonization with the European Legislation;
- **development of model forms of reports and guidelines for the IABH**, in order to facilitate the responsibilities for reporting to the European Union and other international bodies;



- **drawing up a training plan for the personnel of IABH** on the basis of the tasks of the agency and conducting of the selected training. The training plan included joint trainings for the supervisory authorities in Bosnia and Herzegovina in the field of supervision and licensing, ensuring a coordination role of the IABH in the application of a single approach to the supervision and licensing.

**In the period 1-4 July, 2008 a working visit was organized to FSC for the representatives of the three supervisory agencies in Bosnia and Herzegovina**, during which the experts from the Commission presented the structure and functions of the supervisory authority, as well as a number of specific topics in the insurance supervision (legislative activity, organization of the activity for collection and summarizing of the statistical information, work within the task forces with CEIOPS, etc.).

**On 29 September, 2008 in the city of Sarajevo, Bosnia and Herzegovina, a regional conference was held on the topic Insurance Markets in Southeast and Central Europe and Their Regulation.** The conference was organized by FSC and IABH within the Twinning Light Project. The purpose of that initiative was to present to the participants from Bosnia and Herzegovina the main aspects of the insurance supervision and regulation in the states from Southeast and Central Europe. At the same time it turned into a regional forum for discussion of the most topical changes and challenges in the field of insurance markets and their regulation, with the purpose to promote strong communication channels and to give regional and international perspective of the IABH. Attending were delegates from the Insurance Agency of the Republic of Serbia and the Insurance Supervisory Agency of Bosnia and Herzegovina Federation, as well as delegates and lecturers from Directorate General Internal Market of the European Commission, the International Insurance Foundation as well as the supervisory authorities of Macedonia, Slovakia, Poland, Hungary and Albania.

**The Project was fulfilled in close cooperation between different units of FSC** – Insurance Supervision Division, International Cooperation and Public Relations Directorate, Information Technologies and Registers Directorate and department Finance and Accounting Activity.

**The total number of the completed activities was 18, and the total number of the participants** in the Project from the Bulgarian side was 26, from which 19 from FSC and 7 from other institutions. The total number of the participants on the side of Bosnia and Herzegovina was 60, and the participants from other countries were 22.

**In connection with the activities under the Project in total 7 reports were drawn up by the Bulgarian experts, and 51 presentations were made, from which 43 by Bulgarian experts, 2 by experts from Bosnia and Herzegovina and 6 by experts from other states.**

- **Project Strengthening of the Financial Supervision Commission Administrative Capacity for the Implementation of the European Law in the Field of Securities, Pension Insurance and Insurance PHARE 2005/017-353.02.01**

**The Project was co-financed under European Union PHARE programme and completed successfully its fulfillment on 30 November, 2008.** It included investment support and provision of equipment and software systems for data archiving, as well as Groupware/Workflow system and a financial management system. The Project for delivery and integration of the equipment was connected with the successfully completed in 2007 Twinning Project PHARE BG/2004/IB/FI/02: Strengthening of the Financial Supervision Commission Administrative Capacity for the Implementation of the European Law in the Field of Securities, Pension Insurance and Insurance.

The common objective of the Project was the preparation of the non-banking financial sector for its accession to the single European market of financial services and reinforcement of a strong and effective regulatory framework in accordance with the European standards.

In January 2008 the first version of the new FSC's data archiving and management system was installed which replaced the existing Archimed system. As a result of the Project **since March 2008 the Commission's employees use the full version of the new system which includes also a module for internal document flow.**

In April 2008 **an electronic Datawarehouse** was installed and a number of trainings for FSC's employees were conducted. With the execution of the Project activities and commissioning of all electronic systems, the Project's fulfillment was successfully completed.

■ **Twinning project BG2007/017-353.02.01 Further Strengthening of the Financial Supervision Commission Administrative Capacity for Effective Implementation of the European Legislation**

The Twinning Project is directed to the institutional strengthening and is **co-financed by the EU Transition Facility**.

In 2008 after a meeting held for selection of a twinning partner **the proposal of the Ministry of Economy and Finance of Italy, State Treasury Directorate**, was chosen. A twinning contract was prepared and presented, and after its approval the launching of the project is forthcoming in 2009.

The major objectives of the Project include the achievement of a fully functioning financial services sector, as well as **reinforcement of the measures for protection against abuse of financial services for the purpose of money laundering**. The Project is directed to further harmonization of the FSC's practices for regulation and supervision with the European such and covers the activities of the three divisions: investment activity supervision, insurance and social insurance supervision.

The activities envisaged under the Project are related to **trainings for the FSC's staff in the area of the securities markets integration, implementation of *acquis communautaire*, as well as the challenges of the Lamfalussy process and the current European initiatives**. In regard to the insurance and social insurance supervision, activities are envisaged which are to strengthen the FSC's expert capacity in the context of the amendments to the legislation at European level (in particular, the development of the draft of Solvency II).

■ **Regional Workshop on Securities, organized by FSC and Toronto Center**

**Between 23 and 27 June, 2008 a Regional Workshop on Securities took place on FSC's initiative in Sofia**. The workshop was held with the support of Toronto Center, the International Financial Corporation (IFC), part of the World Bank Group and the Financial Technology Transfer Agency (ATTF), Luxembourg.

The workshop was directed to the region of South East Europe and considered actual topics concerning **efficient supervision and techniques for precise implementation of the legislation, market manipulation and measures to combat fraud and insider trading**. It provided valuable opportunity for training of the Bulgarian and foreign experts in the field of securities markets supervision under the leading programs of Toronto Center by world renowned experts on capital markets and securities.

**Participants in the program were representatives of the supervisory authorities and stock exchanges of Macedonia, Serbia, Croatia, Romania, Montenegro and Bosnia and Herzegovina**.

The event, hosted by Mr. Apostol Apostolov, FSC's Chairman, was attended by Mr. Eddy Wymeersch, Chairman of the Committee of the European Securities Regulators and of the European Regional Committee of the International Organization of Securities Commissions, Mr. Florian Fichtler, permanent representative of the World Bank in Bulgaria, as well as Mr. Jorge Patino, Executive Director of the Toronto Center.

■ **Training organized by FSC and the Technical Assistance and Information Exchange Unit of the European Commission (TAIEX)**

On 9 December, 2008 in Sofia a seminar was held, organized by FSC and the European Commission in the person of the Technical Assistance and Information Exchange Unit (TAIEX). The seminar was connected with the transposing in the Bulgarian legislation **of Directive 2007/44/EC as regards the procedural rules and evaluation criteria for prudential assessment of acquisitions and increase of holdings in the financial sector**, which has direct relation to the competences of Investment Activity Supervision Division and Insurance Supervision Division, as well as to Legal and Methodology of the Financial Supervision Directorate. The event was attended by overall 30 persons, 18 of them being experts from the FSC and 12 representatives of external institutions – the Bulgarian National Bank, Ministry of Finance, Central Depository and Bulgarian Stock Exchange.

■ **Balkan Round Table on the subject-theme Impact of the EU Membership on the Capital Markets in Southeast Europe**

On 6 June, 2008 FSC hosted a Balkan Round Table on the topic Impact of the EU Membership on the Capital Markets in Southeast Europe. The event took place in Sofia and gathered the chairmen of regulatory and supervisory authorities in the

field of capital markets in Southeast Europe, as well as representatives of the industry.

On Bulgarian side the event was hosted by Mr. Apostol Apostolov, FSC Chairman and Mrs. Dimana Rankova, FSC Deputy Chairperson in charge of Investment Activity Supervision Division. Mr. Carlo Comporti, Secretary General of the Committee of European Securities Regulators took part in the Round Table, as well as representatives of the supervisory and regulatory authorities of Greece, Romania, Croatia and Macedonia, and Mr. Dimitar Ivanovski, Deputy Minister of Finance.

Among the discussed topics were **the impact of the EU membership on the individual capital markets, the process of implementation of *acquis communautaire* in the field of securities, as well as the challenges facing the business in that context.**

#### ■ Working visit to FSC of representatives of the Securities and Exchange Commission of the Republic of Macedonia

In connection with the extension of the cooperation between FSC and the Securities and Exchange Commission of the Republic of Macedonia (SEC), **a working visit to FSC took place in Sofia from 19 to 21 March, 2008.**

The meetings were hosted by Mr. Apostol Aposotlov, FSC's Chairman. The program included a series of presentations by FSC experts on the FSC's structure and functions, the supervision over the public companies and other issuers of securities, management companies and investment funds. The guests were provided with the legal regulations for supervision of collective investment schemes, as well as the role, functions and the requirements to the investment intermediaries.

Special attention was given to FSC's international activity and membership in international organizations. The working visit also included organized visits to the Bulgarian Stock Exchange, Central Depository and investment intermediaries.

## 6.3

### COOPERATION WITH LOCAL INSTITUTIONS

Aiming at enhancing the efficiency of the control and regulation over the financial system in Bulgaria, from its establishment to the present time, FSC maintains and strengthens its cooperation and active interaction with many state authorities and national organizations. This ongoing cooperation involves the conducting of joint inspections, consultations and rendering of expert assistance on concrete cases, exchange of available information, concerning the exercised supervision, formation of interagency task forces, deliberation and agreeing of proposals for amendments to the legal framework regulating the activity of the participants on the financial market, holding of joint seminars, etc.

In 2008 proposals for amendment and supplement to the legislation were discussed and coordinated with the representative organizations of the sectors, the activities of which they concern – Bulgarian Association of the Licensed Investment Intermediaries (BALII), Bulgarian Association of the Asset Management Companies (BAAMC), Bulgarian Stock Exchange – Sofia AD, Bulgarian Investor Relation Society (BIRS), Association of Bulgarian Investor Relations Directors (ABIRD), Association of Bulgarian Insurers (ABI), Association of the Licensed Voluntary Health Insurance Companies (ALVHIC), Bulgarian Association of Supplementary Pension Insurance Companies (BASPIC), etc.

Investment Activity Supervision Division discussed with BAAMC, BIRS, ABIRD and with representatives of the SIPC's the amendments to Ordinance N° 25 on the requirements for the activities of investment companies and contractual funds, Ordinance N° 26 on the requirements to the activities of management companies, the Law on Public Offering of Securities and Act on the Special Investment Purpose Companies. Furthermore, meetings and consultations were held with BALII in connection with the amendment and application of Ordinance N° 38 on the requirements for the activities of investment intermediaries and to Ordinance N°16 on the conditions and procedure for execution of margin purchases, short sales and lending of financial instruments. Exchange of information was also carried out with BSE-Sofia, where clarifications were given for the practical application of the amendments to the legislation concerning the capital market. During the year a working group was also formed in connection with approval of model forms for reports of collective investment schemes and management companies in relation to BAAMC's proposal and amendments to the legal framework. A general model of rules for management of MC risk and general model of rules for personal transactions were agreed with BAAMC. Meetings were also held with the Fund for Compensation of Investors in Securities about the amendments to the submitted by the investment intermediaries information under Art. 77m of LPOS.

In 2008 meetings and consultations also took place with BSE-Sofia and BALII on the introduction of the new trading system

XETRA. The possibility for the establishment of a National Group on market practices in the field of securities was discussed with the Association of Banks in Bulgaria (ABB). Working meetings and seminars were carried out with BIRS and ABIRD in connection with the presentation of the unified system for information provision, the so called E-Register. In relation to the state of the capital market, during the past year the supervised persons were required to submit information in shorter reporting periods than those set out by law.

Experts from Investment Activity Supervision Division took part as lecturers at seminar Disclosure of Information by the Public Companies and Other Issuers of Securities in the Context of the New Amendments to LPOS and Ordinance № 2. They also participated in a seminar – discussion on the topic Communication with the Investment Community during Crisis. Public Companies' Compliance with the Legislation, organized by BIRS.

FSC through Insurance Supervision Division and Investment Activity Supervision Division and in cooperation with BNB elaborated a draft of law for the transposing of Directive 2007/44/EC of the European Parliament and of the Council, amending Council Directive 92/49/EEC and of Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards the procedural rules and evaluation criteria for prudential assessment of acquisitions and increase of holdings in the financial sector. From viewpoint of a legislative procedure, the proposed amendments to the Insurance Code were included in the Transitional and Final Provisions of the Draft Law on Amendment and Supplement to the Law on Credit Institutions. The Draft Law was approved by the Council of Ministers and was presented at the Parliament.

Insurance Supervision Division also took part in the drawing up of a Crisis Action Plan, developed jointly with the Ministry of Finance and BNB.

On the Commission's initiative, through its Insurance Supervision Division, a standing task force was formed on the issues of the obligatory Third Party Liability insurance of motorists, created by decision of the Council on European Affairs, with mandate: 1) coordination of the measures for control over compliance with the requirement for conclusion of Third Party Liability insurance of motorists; 2) analysis and assessment of the regional distribution of the aggregate of uninsured motor vehicles and preparation of proposals for strengthening of the measures in the regions where a high level of driving of uninsured motor vehicles is found; 3) planning and control over the spending of the funds for preventive activities, related to improvement of the state of the road traffic safety. The standing task force agreed Ordinance on the documents and the procedure of their drawing up in case of road traffic accidents and the procedure of notification between the Ministry of Interior, FSC and the Information Center with the Guarantee Fund. Within the group draft of provisions was also elaborated to amend and supplement the Insurance Code, by which a proposal was made for perfection of the regime of the monies that are provided by the Guarantee Fund as investment expenses for equipment and information and communication technologies with the purpose of improvement of the state of the road traffic safety. The agreed texts were included in the text of the draft law for amendment to the Law on Credit Institutions in its part whereby the provisions of the Insurance Code are amended.

Likewise, a discussion was launched with the Ministry of the Interior, the Supreme Cassation Prosecution Office and the insurance community to outline the measures for counteracting motor vehicle theft.

During the year Insurance Supervision Division in coordination with the Ministry of Finance, participated in consultations for implementation of Commission Regulation 1998/2006 on the application of articles 87 and 88 of the Treaty to *de minimis* aid. The necessity of implementing the above stated Regulation arose as a result of the envisaged state contribution for initial funding of the Security Fund, created under Part „Six A“ of the Insurance Code. Under the circumstances thus established and with a view to the possibility state funds to be provided to authorized persons (merchants with claims that are guaranteed by the Security Fund), it was imperative amendments and supplements to be made to the Rules of the structure and operation of the Guarantee Fund in consistence with the above cited Regulation.

During the reviewed period, in connection with the current legislative activity concerning the insurance sector, agreeing of drafts of statutory acts was carried out with ABI, ALVHIC, the Guarantee Fund, the National Bureau of the Bulgarian Motor Insurers and the Institute of the Certified Public Accounts. Furthermore, FSC interacts with the Ministry of Finance in relation to the continuing procedure on coordination of the draft of the Solvency II Framework Agreement which is considered by the EU Council of Ministers.

In connection with the performed by Social Insurance Supervision Division activities and functions, Regulatory Regimes and

Risk Assessment Directorate realized active cooperation and exchange of information in 2008 with the following bodies and organizations:

- National Revenue Agency;
- National Assembly – discussing by correspondence or through participation in the relevant Parliamentary Commissions of current drafts of laws (Public Reserve Fund Act);
- Ministry of Labor and Social Policy – correspondence and exchange of information on: 1) draft of law on amendment and supplement to the SIC; 2) transposing of the European Directives in the field of pension insurance under occupational schemes; 3) the family-inheritance problems related to the supplementary pension insurance and the need of legislative changes along these lines; 4) participation of FSC's experts in interagency task forces (in a standing task force on coordination of the social security systems, as well as in the task forces for electronic data exchange in the field of social security and for the working out of a Correlation Table with Directive 2006/54/EC of the European Parliament and of the Council of 5 July, 2006 on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation; 5) coordination of a report of the Social Protection Committee with the EU regarding a survey made on the topic of Privately Managed Pension Schemes and their Contribution to Adequate and Financially Sustainable Pensions; 6) coordination of proposals in relation to the settlement of pension rights' transfer between the Bulgarian pension system and the pension systems of the institutions of the European Communities;
- Ministry of Finance – discussions with regard to the changed criteria for selection of government securities primary dealers and the necessity of changes in the requirements to the custodian banks under the SIC;
- Ministry of Environment and Water – exchange of information in connection with a licensing procedure;
- NRA – joint participation in the Commission for official distribution of persons who failed to select a supplementary obligatory pension insurance fund, as well as exchange of information in connection with licensing and authorization procedures with its territorial structures;
- BNB – correspondence regarding the legal requirements to the custodian banks under SIC and with reference to agreeing a request from a bank to be included on the list of the custodian banks under SIC;
- Commission for Protection of Competition (CPC) – provision of information and documents in connection with initiated at the Commission procedure concerning a complaint by FSC's supervised entity;
- State Agency for National Security – exchange of information with regard to licensing and authorization procedures;
- BASPIC – cooperation about: 1) joint working groups for discussing conceptual issues and elaboration of texts in the draft law on amendment and supplement to the SIC; 2) discussing the necessity of amendments to the sub-statutory acts issued by FSC, as well as specific drafts of amendment and supplement to the legislative framework (Ordinance № 34 on the terms and conditions for concluding transactions to reduce the investment risk related to assets of supplementary pension insurance funds and on the requirements to and limitations on such transactions, Ordinance № 31 on the terms and procedure for holding examination and recognizing the legal capacity of responsible actuary, for recognizing legal capacity acquired outside the Republic of Bulgaria, as well as for the form of the actuary certification, the form and content of the actuarial report and the statistics certified by the responsible actuary under the Insurance Code and the Health Insurance Act, etc.); 3) consideration of the possible and proper indicators for assessment and presentation of the assumed by the pension insurance companies risks for achievement of a certain level of rate of return in the management of a supplementary pension insurance fund, as well as the prepared on that basis draft of Requirements to the advertising and written information materials of the pension funds and the pension insurance companies under Art. 123i para 2 and Art. 180, para 2, item 1 and item 2 of the SIC; 4) deliberation of draft of Requirements to the minimum content of the investment policy concerning the principles of management of a supplementary voluntary pension insurance fund under occupational schemes;
- Bulgarian Actuarial Society – discussing a draft for amendment and supplement to Ordinance № 31 on the terms and procedure for holding examination and recognizing the legal capacity of responsible actuary, for recognizing legal capacity acquired outside the Republic of Bulgaria, as well as for the form of the actuary certification, the form and content of the actuarial report and the statistics certified by the responsible actuary under the Insurance Code and the Health Insurance Act; cooperation in connection with the holding of an examination for acquirement of legal capacity of a responsible actuary.

FSC initiated and held a meeting with BASPIC with the purpose of making PICs aware of the problems and undertaking actions on their side for termination of evil practices and violations. At the meeting FSC raised for deliberation the following problems:

- undertaking actions for termination of the practice of filing applications for switching of participation without the knowledge and the consent of the insured persons and the established in this relation abuse of their personal data;
- undertaking actions for termination of the exerting of pressure on the insured persons by PIC representatives (officials and pension insurance intermediaries) in order to convince them to file or withdraw already filed applications;
- undertaking actions for termination of the exerting of pressure on, misleading and non-informing the insured persons for the signing of an application for switching of participation simultaneously with the signing of documents for different types of bank services;
- undertaking actions to enhance the knowledge of the insured persons with the purpose of making free and informed choice and discontinuance of the cases in which representatives of PICs offer benefits to the insured persons in order to switch their participation in a SPIF.

In principle, ongoing exchange of information is being carried out with the above stated institutions with the purpose of improving the content and correctness of the information regularly disclosed by the supervised persons, increasing the transparency and the integrity of the capital market as a whole, and hence heightening the confidence in the sector.

For the purposes of the exercised by FSC supervision, information is also being exchanged with BSE-Sofia AD, Central Depository AD, Privatization Agency, BNB, Financial Intelligence Agency (FIA), the Ministry of Interior and the courts. The collaboration with the Ministry of Interior is especially intensive in the field of the obligatory Third Party Liability insurance of motorists. Correspondence is also being exchanged with the Ministry regarding the existence of data for committed violations and crimes in trade with financial instruments. Provision of information and referral to the public prosecution are done in relation to complaints received at FSC and conducted inspections.

Through the signed in 2003 memorandum with BNB, it has become possible to perfect the coordination between FSC and BNB on matters of mutual interest in the field of supervision over the participants on the financial markets, namely exercising of their supervisory functions, perfection of the practice of strict application of the laws, assistance for improvement of the legal framework regulating the activity of the supervised entities, etc.

The memorandum signed the same year with the FIA to the Ministry of Finance, and the instruction thereto envisage the contracting parties to cooperate in gathering, keeping, examination and disclosure of the information which is available to them about financial transactions suspected to be linked to money laundering or terrorist financing.

FSC also signed an agreement for cooperation and exchange of information with the Commission for Protection of Competition. The goals of the agreement are to facilitate the interaction between the parties according their field of activity through exchange of information, setting up of interagency working groups, joint organization of seminars, working meetings and other events.

Considering the necessity for coordination of the activities of FSC and the Ministry of Interior on issues of mutual interest related to the financial supervision and counteraction to organized crime in the field of the economic and financial system, the two institutions have signed an agreement for cooperation and interaction. This agreement facilitates the exchange of information and the processes requiring the carrying out of joint actions.

A very important aspect of the agreements concluded by FSC is the possibility envisaged for conducting of joint inspection by task forces of experts, representing the various organizations.

## 7

### HUMAN RESOURCES POLICY

The Financial Supervision Commission exerts special efforts for the improvement and application of rules and mechanisms for human resources management, aiming to enhance the quality and efficiency of the administrative services.

The mission of human resources management is to identify, develop and retain the most appropriate persons for work in favor of the public interest and heightening the authority's reputation.

The vision targets at modern, competent, transparent and effective management of human resources, which creates

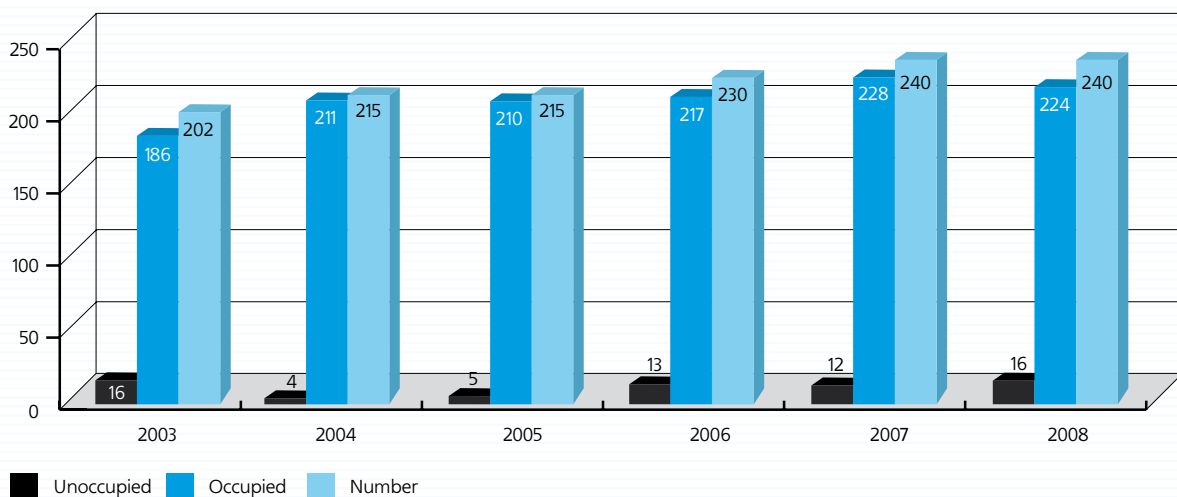


capable, responsible, motivated officials, having the competence and potential required for the successful fulfillment of FSC's goals.

The human resources management at FSC is a continuous and consistent process of selection of the best officials, their training, motivating and growth with the purpose of effective fulfillment of the organizational objectives. The underlying principle in the human resources management is the assumption that the recruitment of the authority's staff should promote the increase of public confidence and the perception of those working at the FSC as qualified officials, capable to deal professionally with imposed on them requirements, to work dedicatedly in favor of the public interest, applying the law strictly and impartially. This process is accompanied with continuous improvement of the working environment and the working conditions, which guarantee secure job position of the employees; good remuneration package, adequate to the achieved performance; training and career growth opportunities and good working environment and human relations. The effective human resources management is based on the understanding that people are the key factor for competitive advantage in any organization. The building of relations based on values such as honesty, justice and trust is a fundamental element of the management culture, directed to the individual, to the team work and task fulfillment. The objective of the effective human resources management is the endeavor to achieve high discipline of performance, operational perfection and competence, focus on the servicing of the citizens and the business and the provision of high quality public services at the lowest possible costs and within the shortest time. For the fulfillment of these objectives, contemporary methods, means and instruments are used from the international and Bulgarian practice in the field of human resources management.

## STRUCTURE OF THE FINANCIAL SUPERVISION COMMISSION

The Commission's structure and functions are set out in the Financial Supervision Commission Act and the special laws regulating the investment, insurance and social insurance activities. Since January 2007 the payroll number of FSC staff, according the adopted Rules of the Structure and Operation, is 240 positions.



The FSC activity as a regulatory and supervisory authority is mainly carried out by the three specialized divisions: Investment Activity Supervision Division, Insurance Supervision Division and Social Insurance Supervision Division. The directorates and departments in them are formed on the functional principle in accordance with the main regulatory functions – licensing, supervision and coercive administrative measures.

There are three directorates structured in Investment Activity Supervision Division – Regulatory Regimes Directorate, Supervisory Activity Directorate and Procedure Representation and Market Analyses Directorate.

Three directorates also function in Insurance Supervision Division – Regulatory Regimes and Customer Protection, Inspections and Financial Supervision, Regulatory Policy and Analyses.

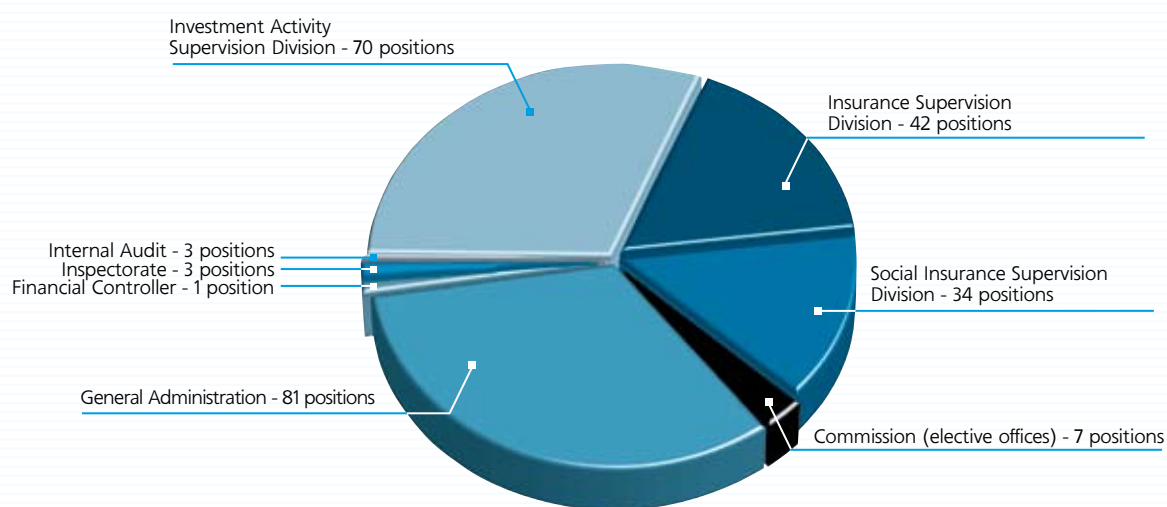
In Social Insurance Supervision Division there are two directorates –the Regulatory Regimes and Risk Assessment Directorate

and the Control Activity Directorate.

An important component of the unified structure is the setting up of a well functioning General Administration, closely related to each of the specialized Divisions and supporting their activity. Six Directorates are established in the FSC General Administration: Legal and Methodology of the Financial Supervision Directorate, General Office Directorate, Human Resources Directorate, Financial and Accounting Activities and Property Administration Directorate, International Cooperation and Public Relations Directorate and Information Technologies and Registers Directorate.

Since its setting up in 2003, the Financial Supervision Commission has established itself as a modern and efficient supervisory authority. The strengthening of the internal integration and the changes in the approaches to the exercising of the supervisory functions contributed to more efficient use of the authority's resources.

## STAFF STRUCTURE BY UNITS

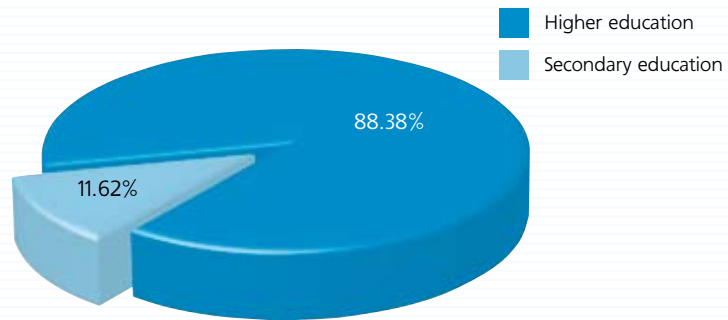


In 2008 the organizational needs of human resources were identified by effective planning and the actions for their satisfying were formulated through the development of respective plans for personnel selection, training and development, labor remuneration, work performance assessment, improvement of labor conditions and improvement of the relations at work. By implementing the personnel selection policy, the FSC activity was supported by valuable experts who are capable of meeting adequately the high criteria of professionalism, team work, personal and organizational development. The employment relations were established after completed personnel selection procedures (mostly in the form of an interview and written solving of cases). Clear and transparent rules were applied in the appointment of candidates.

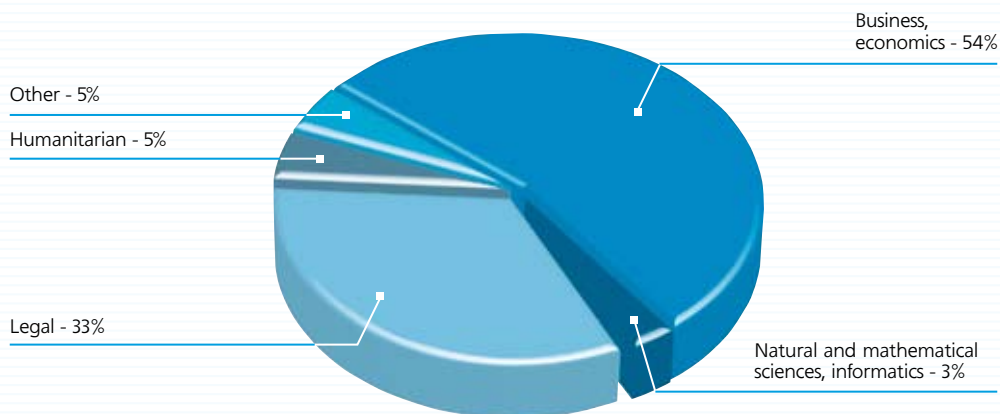


## STRUCTURE OF THE PERSONNEL BY EDUCATION

The classification of experts by level and type of education was consistent with the objectives and tasks accomplished by the Commission – 88.38% of the staff had higher education; 11.62% - secondary. Nearly 10% of the experts with higher education also possessed further qualification – a scientific degree/title, second higher education, etc. The employees having a Master's degree were 91.43% of the total number of the staff with completed higher education.

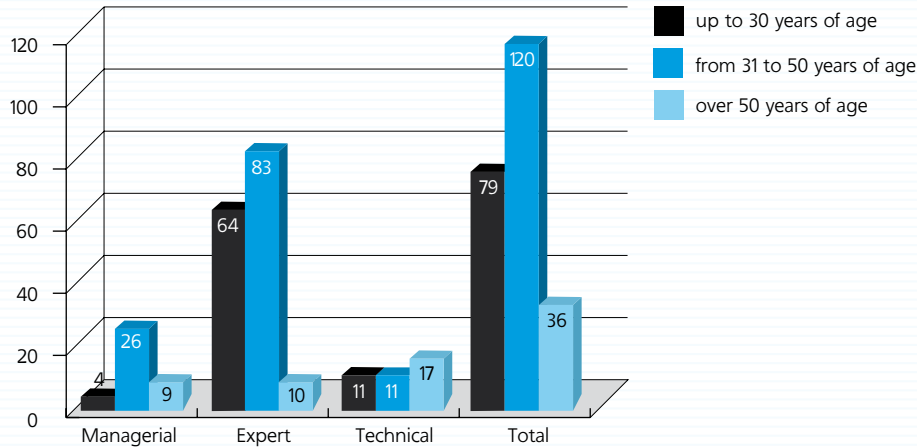


Among the employees possessing higher education - 33% were with education in law, 54% - in economics, 3% - natural and mathematical sciences and informatics, and 10% - other higher education.



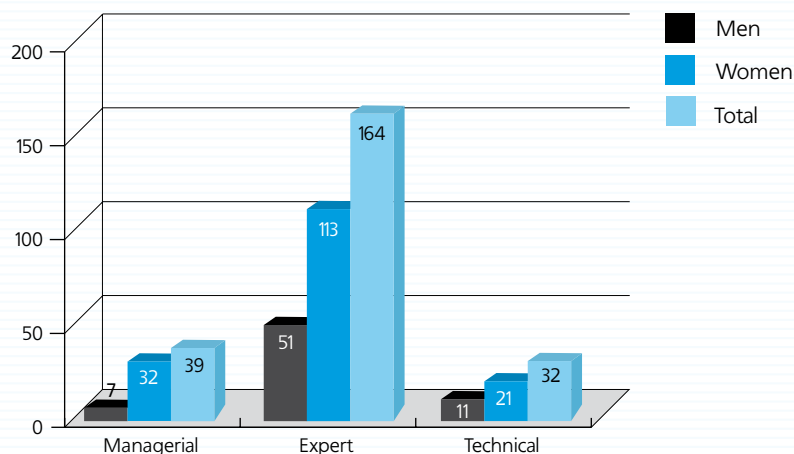
## STRUCTURE OF THE PERSONNEL BY AGE AND POSITION

The average age of the FSC staff is approximately 37 years. The highest is the percent of employees aged 31 to 50 years (51.06%), followed by employees under 30 years of age (33.62%) and employees over the age of 50, who occupy (15.32%) of the total number of employed persons.



The total number of staff in leading positions at FSC is 39. Two thirds of them are within age group from 31 to 50 years (66.67%), followed by managers at the age over 50 (23.08%) and the smallest percentage belongs to young managers up to 30 (10.25%). The age structure and the relative stability of the personnel is a precondition for succession and reproduction of the organizational know-how and skills.

## STRUCTURE OF THE PERSONNEL BY GENDER AND POSITION



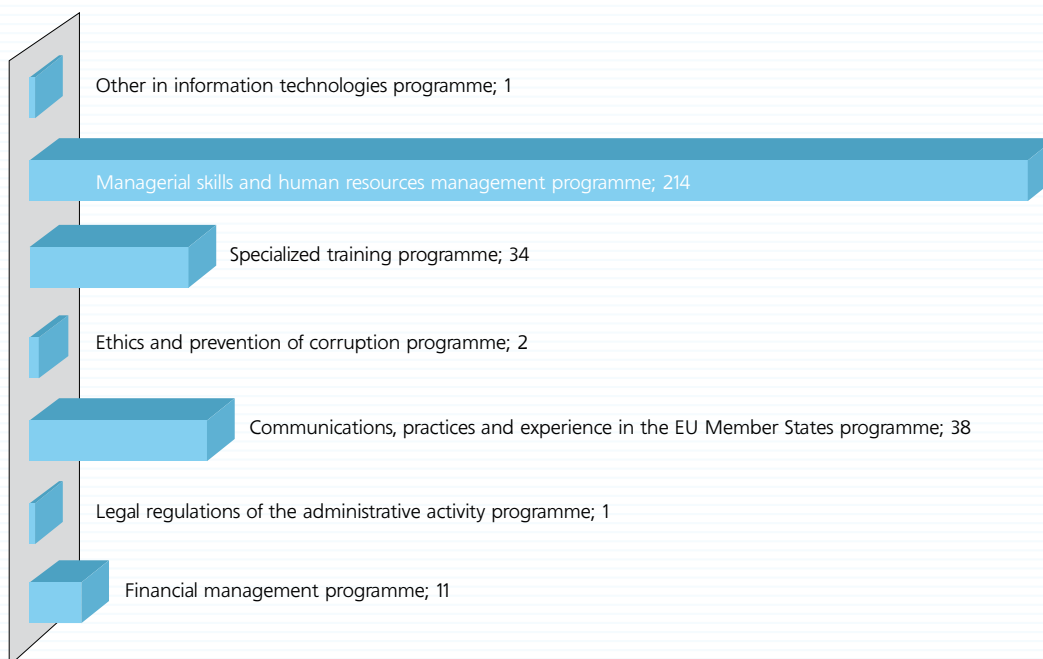
## STAFF TRAINING AND ADVANCEMENT

In 2008, 70% of the planned funds for the employees' specialized training were utilized. **Appendix 7** gives information on the carried out initiatives, used for extension of the professional qualification of the FSC personnel. In view of the educational process needs, FSC developed beneficial partnership relations with a number of national and international institutions, namely – the Institute of Internal Auditors in Bulgaria, the Bulgarian Industrial Association, the National Union of Jurisconsults, the Bulgarian Human Resources Management and Development Association, the Bulgarian Actuarial Society, Publishing House Trud&Pravo, Committee of the European Insurance and Occupational Pensions Supervisors (CEIOPS), the

International Organization of the Securities Commissions (IOSCO), Secretariat of the 3L3 Committees, the Committee of the European Securities Regulators (CESR), the U.S. Securities and Exchange Commission (SEC), International Association of Insurance Supervisors (IAIS), etc.

During the reporting period FSC carried out two trainings jointly with international organizations. Almost all FSC's employees participated in various forms of training and extension of the qualification during the year.

## NUMBER OF PERSONS UNDERGONE TRAINING IN THE RELEVANT FIELD



## ASSESSMENT OF THE PERSONNEL

The system for stimulation of the personnel is focused on the long-term individual working performance, which guarantees that the employees' achievement are acknowledged, that they are appointed to specific positions and they receive remuneration consistent with their contribution and abilities. The results of the assessments are applied for the compensation structure and for the career plan in order the best performing employees to be identified, to be remunerated accordingly and to be appointed to positions, allowing them to bring the most benefit for FSC.

## STRATEGY FOR HUMAN RESOURCES DEVELOPMENT

The Strategy for Human Resources Development is of exceptional importance for the Commission's operation as a modern and efficient supervisory authority. The supervision quality is bound up with the qualities, skills and experience of the employees. Human resources influence every single aspect in the organization, from the employees' growth to the optimum allocation of the leadership abilities.

To attract and retain employees with the qualities required in a long-term plan, FSC will continue to direct its efforts to the formation of climate and culture that will ensure a stimulating working environment, including focused training, possibility employees to face continuously new challenges, acknowledgement and stimulation for exceptional results at work.

## DEVELOPMENT OF THE INFORMATION TECHNOLOGIES FOR THE PURPOSES OF THE SUPERVISION

The information technologies in the Financial Supervision Commission assist to increase the work efficiency of the institution. Their continuous improvement is in the direction of coordination of the activities between the separate directorates and divisions within FSC, the automation of the routine activity carried out by the Commission's experts, of the filing and processing of information, necessary for the supervision exercising.

In 2008 the EU PHARE Program Project titled Strengthening of the Financial Supervision Commission Administrative Capacity for the Implementation of the European Law in the Field of Securities, Pension Insurance and Insurance was successfully fulfilled, the activities being completed for:

- conversion of the whole document turnover in electronic format and building of a system for group work environment organization;
- building of a single Datawarehouse on the basis of all data bases existing in the FSC.

Following the Strategy for the Information Technology Development, FSC continued to develop and integrate its software systems. Also developed was the above stated information system of applications for generation of statistical information with summarized information in different cross-sections, targeted at making more complete and thorough analysis of the activity (Datawarehouse). The single Datawarehouse provided the possibility for unification of the received in FSC financial information from the supervised persons. This unified environment involves the creation of multilateral sections and analyses on the three markets and the entire financial segment.

The public register „e-Register“ was officially launched on 14 Jan., 2008. With its commissioning, the need of filing documents on paper has dropped off, as the forms of „e-Register“, which are signed by a universal electronic signature within the meaning of the Electronic Document and Electronic Signature Document, have the validity of the hitherto filed and hand signed documents.

The reasons that led to the idea for creation and implementation of the information portal are as follows:

- the increase in the trade activity;
- the willingness to provide faster access to the securities market by using the latest developments in the field of the information technologies;
- the FSC endeavor to terminate the attempts for financial abuses through insider trading by its timely detection.

In May 2008 the Commission's new official site was launched. Following the world tendencies in the information technologies and led by the willingness to render higher quality e-services, the experts from the Information Technologies Directorate contributed to the web site acquiring of a new vision and greater functionality and providing more information and statistics on the FSC and the non-banking financial sector's activity. As a result of it, the FSC's official web has registered a large number of visits by various groups of users – supervised persons, representatives of the media and the general public.

As a modern European authority, FSC has provided the possibility to improve the quality of the communication for the participants on the capital market in the fulfillment of their legal obligations for disclosure of information. The Financial Supervision Commission developed a technological procedure for exchange of communications between it and the information intermediaries with the purpose of data entry in the FSC's electronic register.

Pursuant to the Financial Supervision Commission Act, the Commission is a budget supported legal person<sup>26</sup>, with its own budget, which is a part of the state budget of the Republic of Bulgaria<sup>27</sup>. The activity of the Commission for Public Supervision over the Registered Auditors Activities is also financed through the FSC's budget.

The FSC budget is formed from its own revenues and a subsidy from the central budget. In 2008 the realized **own revenues** were at the amount of BGN **5,242,043**, which exceeded the planned revenues for the year by 69 %. The biggest percent in the structure of own revenues (68.59 %) was held by the **state fees**, which are levied under the Tariff of Fees, collected by FSC under Art. 27 of the FSCA. They amounted at BGN **3,595,298**. Another source of own revenues were the proceeds from **finances, penalty interest and indemnities**. For the period under review the proceeds from these on the Commission's account were at the amount of BGN **1,537,998**, which formed 29.34 % of the own revenues. **The other revenues** (2.07 %) in 2008 were from sales of the FSC's periodical issue Bulletin, sales of competition and tender documentation for the carrying out of procedures under the Public Procurement Act and from sold at auction two cars of the institution. Their total amount was BGN **108,747**.

In 2008 **financing from the European Union** at the amount of BGN **391,141** was received under the FSC's budget in connection with a contract concluded with the European Commission for the fulfillment of a Twinning Light Project Support to the Insurance Agency of Bosnia and Herzegovina. That was the first twinning project under which a Bulgarian state institution, as an EU Member State, was a partner in the project fulfillment.

In order to cover the expense section of the budget, during the year the Commission used 58.06 % its own revenues, 4.33 % financing from the European Union and 37.61 % subsidy from the republican budget. The Commission made **expenses** to the total amount of BGN **9,027,440**, including expenses on salaries, remunerations to the personnel and social security contributions, administrative expenses for maintenance of the institution and fulfillment of the Twinning Light Project, annual membership fees in international organizations of the financial supervision authorities and expenses for acquisition of long-term tangible and intangible assets.

The main purpose of the acquired long-term assets was to support the Commission's administrative activity through the provision of information technologies, renovation of the computer and hardware equipment and improvement of the Commission's material base.

The audit activity in FSC is carried out in compliance with the provisions of the Internal Audit in the Public Sector Act, Standards of Internal Audit in the public sector, the Code of Ethics of internal auditors, the Status of the Internal Audit Unit (IAU) in FSC and the methodology issued by the Minister of Finance.

In 2008 the internal audit activity in the Commission was pursued by two internal auditors, including the head of the internal audit. With a view to maintaining an optimum number of internal auditors and fulfillment of the legal requirements, the number of employees in the unit was increased to three internal auditors by Commission's decision from 17 Dec., 2008.

The unit's main functions are related to performance of the activity of internal audit of all structures, activities and processes in the FSC.

During the reporting period audit engagements were accomplished for provision of assurance as follows:

- audit of the financial management and control systems in the FSC for the period from 1 April, 2007 to 29 Feb., 2008;
- audit of the management and disposal of the FSC's property for the period from 1 Jan., 2007 to 31 March, 2008;
- audit of the procedures of sending of FSC's officials on a business trip in Bulgaria and abroad for the period from 1 July, 2007 to 30 June, 2008.

In 2008 the internal auditors accomplished consultation engagements, the more substantial of which were related to:

<sup>26</sup> According Art. 2, para 3 of FSCA

<sup>27</sup> According Art. 28 of FSCA

- assisting the leadership in the conducting of self-assessment, completion of a questionnaire and preparation of a report on the state of the financial management and control systems in FSC for 2007;
- participation in operating meetings in connection with recommendations of the internal audit and with the purpose of defining a general approach in the implementation of preliminary control of the revenues from fees;
- proposals for updating of Ordinance N° 32 from 13 Sept., 2006 on the requirements to the organization and activity of the internal control unit of the insurer and the persons included in an insurance group;
- opinion on sent for coordination by the Ministry of Finance draft of Law on Amendment and Supplement to the Law on the Independent Audit;
- presentation of the head of the internal audit before the directors of directorates in FSC on the subject-theme of practical application of the approved by the Minister of Finance guidelines for implementation of the risk management in the public sector organizations.

In comparison with the preceding year, in 2008 the number of the accomplished consultation engagements increased considerably, which was an indicator for enhancement of the internal audit effectiveness, the heightened confidence and improved communication between the management and the internal auditors.

During the period under review, substantial progress was achieved in the risk management in FSC. On the basis of the approved by the Minister of Finance Guidelines for implementation of the risk management in the public sector organizations and in fulfillment of an order by the FSC Chairman, the directors of directorates identified and assessed the risks jeopardizing the activities of the respective structural units and analyzed the introduced control mechanisms, limiting the impact of risks. With the purpose of documenting the risk management process, risk registers were completed. In 2008 summarizing started of the most substantial risks which may affect the FSC activity in a strategic aspect.

The reports on the results of the accomplished audits for provision of assurance were submitted to the FSC Chairman. The audit reports contained the findings and conclusions of the internal auditors about the state of the audited activities and their independent and impartial opinion about the efficiency of the control mechanisms guaranteeing the observance of the principles of lawfulness and good financial management.

With a view to improvement of the audited processes, the internal audit gave overall 17 recommendations, all of which were accepted by the FSC leadership. To assist the leadership in the development of the monitoring over the recommendations fulfillment, a single data base is maintained of the recommendations given by the internal audit and a system has been implemented for control of the results status. By the regular reports on the IAU activities, the FSC Chairman was provided with information about the actions taken in fulfillment of the recommendations.

With the purpose of providing reasonable assurance that the internal audit pursues its functions in efficient and effective manner and in compliance with the acting legislation, a Program ensuring the audit activity quality was applied. In order to improve the activity of the IAU in FSC, the information was also used from the feedback forms submitted by the managerial staff and employees of the audited structures.

During the strategic and annual planning of the internal audit activity, risk assessment was carried out, in which no high-risk areas for audit were established. After discussion with the FSC leadership, a Strategic Plan was worked out for the IAU's activity in the period 2009 – 2011 and an Annual Plan for the unit's audit engagements for 2009.

For the maintenance of an audit team with adequate expertise and professional qualification, a training plan was developed, in consistence with which the internal auditors participated in a number of trainings, seminars and conferences.

The Inspectorate is a specialized unit with the Financial Supervision Commission, established in compliance with Protocol N° 36 from 19 July, 2006 whereby the new Art. 43a of the Rules of the Structure and Operation of the Financial Supervision Commission was adopted. The Inspectorate's main function is to exercise internal control over the activities of the employees from the Commission's Administration, undertaken in connection with the performance of their official duties. The officials from the Inspectorate are directly subordinated to the Chairman of the Commission, they act in compliance with his orders and propose measures for elimination of the found violations and improvement of the work of the FSC Administration employees.

During the reporting period the officials from the Inspectorate with the Financial Supervision Commission, in compliance with the provisions of the Rules of the Structure and Operation of FSC, Inspectorate Rules of Procedure and in fulfillment of order of the Commission's Chairman, carried out inspections with regard to the activities of the FSC Administration employees as follows:

- complex inspection with regard to the activity of employees from Inspections and Financial Supervision Directorate with Insurance Supervision Division in 2007;
- complex inspection with regard to the activity of employees from Regulatory Regimes and Consumer Protection Directorate with Insurance Supervision Division in 2007;
- complex inspection with regard to the activity of employees from Supervisory Activity Directorate with Investment Activity Supervision Division in 2007;
- thematic inspection in relation to the inspections of supervised entities conducted by the Control Activity Directorate with the Social Insurance Division in 2007;
- thematic inspection over compliance by the FSC Administration employees with the provisions of Art. 20, para 4 of the FSCA and Art. 51 and Art. 52 of the Rules on the Structure and Operation of the Financial Supervision Commission.

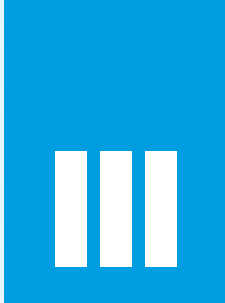




**BULGARIA'S ECONOMY IN 2008**







## BULGARIA'S ECONOMY IN 2008

In 2008 the economy of Bulgaria slowed down to a certain extent the high growth realized in the past 5 years. Despite the worsened market conjuncture, the economy of the country continued to follow a rising tendency. The amount of the gross domestic product (GDP), produced during the year, was BGN 66,728 million and reached a real growth of 6.0 % compared to the previous year. The gross domestic product per capita of the population for 2008 was BGN 8,753, marking a growth of 18.6 % on a year-on-year basis.

Due to the surpassing import growth, compared to the export growth, the balance on the current account remained negative in 2008 as well, reaching the value of € -8,634.2 million, or 25.3 % of the GDP. The positive balance on the financial account declined to € 11,149.5 million, and the direct foreign investments for 2008 decreased to € 6,163 million. The balance on the portfolio investment assets for 2008 was € -220.8 million, and on the investment portfolio liabilities amounted to € -292.3 million.

At the end of 2008 the internal national debt amounted to BGN 3,073.3 million, 89 % of which being issues of government securities (GS), and the remaining 11 % - GS, issued in connection with the structural reform. GSs at the amount of BGN 298.3 million were issued and GSs to the amount of BGN 400.7 million were paid off during the year. The nominal value of the external debt at the end of the year reached € 3,893.6 million, of which 83.99 % being national debt and 16.01 % state guaranteed debt.

The accumulated in 2008 inflation (the consumer price index) reached a level of 7.8%, which was 4.7 percent points lower than the accumulated inflation for 2007.

An increase of the basic interest rate percent was observed, and at the end of 2008 it amounted to 5.1 %, with 3.9 % average rate in 2007.

The decrease in the level of unemployment observed in the past five years continued also in 2008. The average unemployment rate for the year was 5.6 %, or 1.3 percent lower than the rate in 2007. According to data of the National Statistical Institute (NSI), the average annual remuneration in 2008 amounted to BGN 6,297 and marked a growth of 21.7 % on annual basis in nominal terms.

### Macroeconomic indicators for the Bulgarian economy in 2008

Indicator	Amount	Growth on an annual basis
GDP in current prices (BGN million)	66,728	6,0 %
Balance of payments (€ million), incl.:	674.2	-78.69 %
Current account in € million	-8,634.2	-18.80 %
Financial account in € million	11,149.5	-15.50 %
Foreign direct investments in € million	6,163.0	-27.39 %
Public and publicly guaranteed foreign debt in € million	3,893.6	-4.42 %
Internal national debt (annual average amount in BGN million)	3,073.3	-3.96 %
Accumulated inflation (growth of the CPI)	7.8 %	- 4.7 percent points
Basic interest rate	5.12 %	1.2 percent points
Average unemployment rate	5.6 %	- 1.3 percent points





OVERVIEW OF THE NON-BANKING  
FINANCIAL SECTOR IN 2008

**IV**



# IV

## OVERVIEW OF THE NON-BANKING FINANCIAL SECTOR IN 2008

The development of the Bulgarian non-banking financial sector in 2008 confirmed the outlined negative trend on the world financial markets. The decline in the institutional investors' confidence in the Bulgarian capital market resulted in decrease of the basic indicators, characterizing the non-banking financial area.

### Structure of the financial intermediation by institutional investors

Indicators	2003	2004	2005	2006	2007	2008
Assets of investment intermediaries	1.70 %	2.98 %	3.60 %	6.19 %	10.56%	6.81%
Assets of collective investment schemes	0.09 %	0.20 %	0.26 %	0.64 %	1.23%	0.40%
Assets of special investment purpose companies	0.04 %	0.08 %	0.35 %	1.30 %	1.92%	2.00%
Insurance and health insurance premiums	4.22 %	3.49 %	3.46 %	2.59 %	2.10%	2.26%
Assets of pension funds	2.56 %	2.86 %	3.02 %	3.10 %	3.15%	2.84%
Assets of banks	91.38 %	90.38 %	89.32 %	86.17 %	81.04%	85.69%
<b>TOTAL:</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

A predominant share of the bank activity continued to be observed in the field of financial intermediation. Nevertheless that during the preceding reporting periods that share decreased with the progressive steady increase of the activity in the field of the non-banking financial services, as a result of the financial crisis the interest of part of the investors in the capital market decreased. A slight growth was retained only with the special investment purpose companies and the insurance companies.

At the year-end the number of collective investment schemes surged up by more than 32 %, even though the assets accumulated by them registered a drop of 64.22 % on an annual basis, which to a certain extent was due also to the rapid growth of their assets in 2007. A relative slowdown in the growth of the number of the special investment purpose companies was noticed, and they increased by slightly more than 13 %. The investment community interest in such type of companies resulted in a 15.71 % growth of the funds concentrated therein for the last 12 months.

During the reporting period the assets of the investment intermediaries registered a decline by 28.35 % on an annual basis.

In 2008 almost all indicators characterizing **the depth of the financial intermediation**, marked a drop, most significant being the drop in the market capitalization of BSE – Sofia, and only the insurance and health insurance companies reported an increase. The share of the non-banking financial intermediation at the end of 2008 was at the rate of 24.89 % of the GDP, compared to 58.12 % in 2007, and only 11.33 % in 2003.

The market capitalization of the stock exchange in the end of 2008 amounted to BGN 12.47 billion, or only 18.69 % of the GDP, which in comparison with 2007 represented a drop of 32.6 percentage points, as at the end of 2007 the capitalization of BSE – Sofia was BGN 28.99 billion, or 51.29 % of the GDP. The main reason for that was the negative correction observed on the stock exchange in the last year as a result of the financial crisis that spread over the world capital markets.



## Depth of the financial intermediation shown as percentage of GDP

	2003	2004	2005	2006	2007	2008
Market capitalization of BSE – Sofia	7.91 %	10.55 %	20.11 %	31.20 %	51.29 %	18.69 %
Insurance and health insurance premiums	1.94 %	2.51 %	3.03 %	2.59 %	2.71 %	2.75 %
Net assets of pension funds	1.48 %	2.07 %	2.65 %	3.09 %	4.12 %	3.45 %
Assets of banks	50.34 %	65.51 %	78.31 %	85.95 %	104.6 %	104.2 %

During the reporting period a certain decline was registered on the supplementary pension insurance market. As of 31 Dec., 2008 the investments of the 32 supplementary pension insurance funds were to the total amount of BGN 2.19 billion. From them 31.51 %, or BGN 690 billion, were invested in debt securities issued or guaranteed by EU Member States, other states or their central banks. The investments in other debt securities amounted at BGN 572.39 million, or 26.14 %, and the investments in shares, rights and units amounted totally to BGN 367.51 million, or 16.78 %. The investments in securities traded on foreign regulated markets were at the amount of BGN 621.01 million, or 28.36 % of the total investments.

Despite the overall development of the sector within the European market, the intermediation through the non-banking financial institutions is still insufficiently popular in Bulgaria.

## 12

### INVESTMENT ACTIVITY

## 12.1

### CAPITAL MARKET DEVELOPMENT

The financial crisis that emerged on a global scale in 2008 affected all participants on the developing financial market in Bulgaria, and in the last quarter its impact began to be felt also over the real sector of the economy. Despite of the worsened economic conjuncture, the issuers on BSE – Sofia AD showed considerable activity. During the year 47 new issues of securities were admitted to trading, against 44 new issues for 2007.

On 16 June, 2008 BSE – Sofia AD implemented the new electronic system for trade with financial instruments Xetra on the ground of the signed by it framework agreement with Deutsche Börse in 2007. In connection with that change, the Rules of the exchange's operations were amended, new segments being separated and former such terminated. All special investment purpose companies were officially re-registered in the newly created Market of Special Investment Purpose Companies from Unofficial Equity Market A. Unofficial Market of Other Securities was terminated and 46 issues of units of contractual funds, registered on that market, were officially re-registered on the separated Market of Collective Investment Schemes. Official Bond Market was established instead of the terminated Official Bond Market Segment Government Securities, Official Market of Municipal Bonds and Official Market of Corporate Bonds. The new segment Primary Market replaced the former Primary Equity Market, Primary Bond Market, Primary Market of Other Securities and Primary Market of Government Securities. After the implementation of Xetra, the announced by it off-exchange transactions are not divided by types ("Block and Registration Transactions" and "Redemption"), but are kept together as Over-the-counter Trade. Privatization Market has been retained as a segment, but its division into segments Privatization transactions in BGN and Privatization transactions in Compensatory Instruments was eliminated.

At the end of 2008 the market capitalization of BSE – Sofia amounted to BGN 12,465,653 thousand, which constituted a drop of 57 % towards that reported at the end of 2007. Official Market A was most strongly affected, the capitalization of which fell by nearly 80%. The smallest decline of 46.55 % was recorded with Unofficial Market B, but because of its low liquidity it was not representative for the stock exchange. The decrease in the capitalization of Unofficial Market A was by 64.52 %, which might be explained in part with the re-registration of 56 SIPC's on the newly separated Market of SIPC's, of 6 IC's on the Market of Collective Investment Schemes and the shifting of CB FIRST INVESTMENT BANK AD, CB CORPORATE COMMERCIAL BANK AD AND HOLDING ROADS PLC AD to the higher segment Official Equity Market B.

## Market capitalization of BSE - Sofia

	As of 31.12.2007 (BGN)	As of 31.12.2008 (BGN)	Annual growth (%)
Official market A	837,283,597	168,129,374	-79.92%
Official market B	7,700,301,827	3,291,125,203	-57.26%
<b>Official markets – TOTAL</b>	<b>8,537,585,424</b>	<b>3,459,254,577</b>	<b>-59.48%</b>
Unofficial market A	19,632,780,887	6,966,277,082	-64.52%
Unofficial market B	816,493,502	436,451,992	-46.55%
<b>Unofficial markets – TOTAL</b>	<b>20,449,274,389</b>	<b>7,402,729,074</b>	<b>-63.80%</b>
Market of SIPC's		1,603,669,457	
<b>TOTAL</b>	<b>28,986,859,813</b>	<b>12,465,653,108</b>	<b>-57.00%</b>

During the past year almost all values of the indicators characterizing the **exchange trade on BSE – Sofia** registered considerable decrease on an annual basis compared to the values registered in 2007. One of the main reasons for that was the withdrawal of the foreign and institutional investors due to the occurred financial crisis. Another factor was the postponement of part of the planned initial public offerings as a consequence of the worsened market conditions.

A considerable decline is being noticed of the indicators characterizing the trade on **Unofficial Equity Market**. At the end of the period under review the number of the companies listed to be traded on segment A, fell from 176 for 2007 to 148, and on segment B – from 186 to 167 for 2008.

The volume of the traded off lots on Official Market A marked a growth of slightly over 14 % on a year-on-year basis, with unchanged number of the companies included in that segment. At the same time the volume of Official Market B dropped by slightly under one percent for the year. Therefore, the considerable decline in the turnover of both segments was due mostly to the reduced prices of the companies' shares, and not due to lessened investor interest in them.

## Results from the trading on BSE – Sofia for the period 01.01.2008 - 31.12.2008

Market/segment	Number of transactions	Change on an annual basis (%)	Volume (thousand of lots)	Change on an annual basis (%)	Turnover (BGN thousand)	Change on an annual basis (%)
Official Market of Equities Segment A	24,133	-45.14%	15,707	14.22%	105,154	-34.46%
Official Market of Equities Segment B	125,215	-3.94%	99,646	-0.72%	769,540	-35.19%
Official Market of Bonds*	54	-76.00%	13	18.18%	12,699	4.87%
Unofficial Market of Equities Segment A	215,232	-17.44%	121,169	-77.12%	844,129	-86.74%
Unofficial Market of Equities Segment B	10,094	-59.19%	3,981	-40.03%	37,736	-53.48%
Unofficial Market of bonds	1,414	42.11%	136	-42.86%	234,928	-35.15%
Market of SIPC's	5,559	-	54,272	-	90,012	-
Market of collective investment schemes	38	-	362	-	393	-

Market of compensation instruments	6,670	-12.34%	71,151	-14.70%	26,564	-36.33%
Market of rights	583	-	102,411	-	4,120	-
Privatization market	0	-	0	-	0	-
Primary market**	0	0.00%	0	0.00%	0	0.00%
Unofficial market of other securities***	565	-91.29%	20,492	-61.28%	2,237	-96.97%
Primary market of other securities***	32	-91.67%	1,050	-91.45%	1,615	-93.59%
<b>Total trade on regulated market:</b>	<b>389,589</b>	<b>-20.59%</b>	<b>490,389</b>	<b>-55.88%</b>	<b>2,129,127</b>	<b>-78.62%</b>
<b>Over-the-counter Trade****:</b>	<b>11,129</b>	<b>-14.70%</b>	<b>247,407</b>	<b>-13.86%</b>	<b>774,805</b>	<b>-41.73%</b>

\* The percentage change was calculated on the basis of the sum of the indicators for Official Market, Corporate Bonds; Official Market, Municipal Bonds and Official Market of Government Securities in 2007.

\*\* All initial public offerings in 2008 were carried out through investment intermediaries, and not through BSE - Sofia.

\*\*\* The segments Unofficial Market of Other Securities and Primary Market of Other Securities were terminated on 16 June, 2008.

\*\*\*\* The percent change was calculated on the basis of the data about the concluded Block and Registration Transactions in 2007.

The investment interest to the registered issues on **Official Market of Bonds** marked a certain increase for the last 12 months, the volume of traded off lots picking up by 18.18 %, and the turnover – by 4.87 %. Unlike that segment, the issues registered on **Unofficial Market of Bonds**, registered a drop in the traded off volume and turnover and a growth in the number of the concluded transactions in comparison with the preceding year.

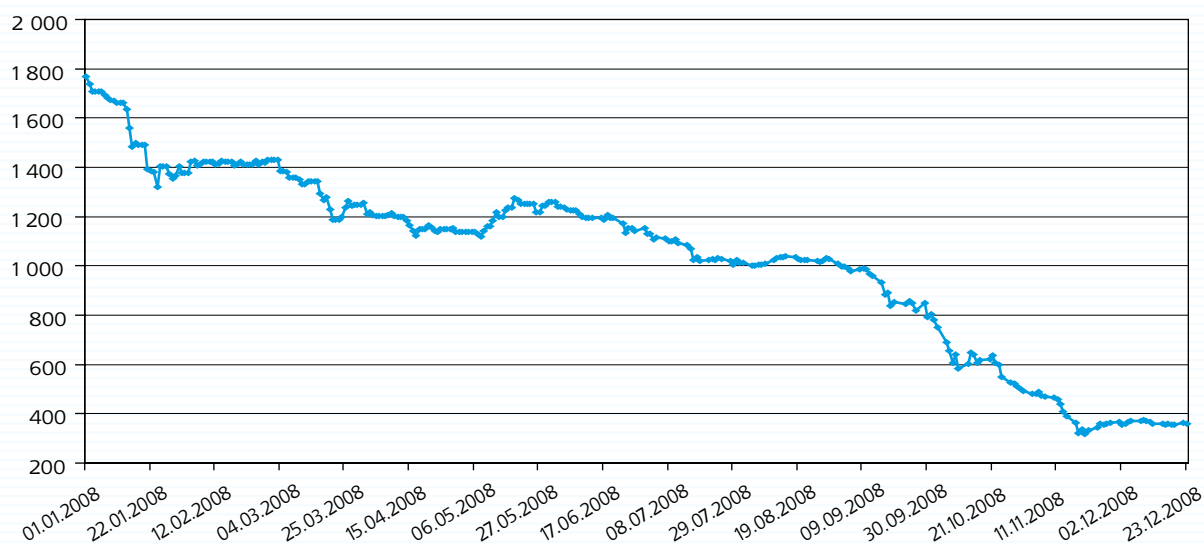
The substantial share in the total volume of the exchange trade in 2008 of **Market of Compensation Instruments** was retained, despite the decrease in volume, turnover and the concluded transactions on it, compared to 2007. The strong correlation of prices and trading in compensation instruments with the privatization process and, respectively the absence of significant privatization transactions during the period, further conditioned the observed considerable decrease by 36.33 % of the turnover on the segment under review.

Regardless of the unfavorable conditions on the financial markets, initial public offerings of shares of 3 companies were carried out during the year: MECOM AD, HERTI AD and ZHELEZOPATNA INFRASTRUKTURA-HOLDING COMPANY AD.

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

In 2008 the official stock exchange index **SOFIX** kept demonstrating its decreasing trend of development from the last three months of the previous year, the decline only for January being around 21 %. In the fourth quarter of the year one of the sharpest reductions in its value was observed of nearly 55 % to levels of 358 points. Finally, the index realized a drop of 79.71 % for the whole period under review, with 1,767.88 points in the beginning and 358.66 points at the end of 2008.

## Dynamics of the SOFIX official exchange index values in 2008

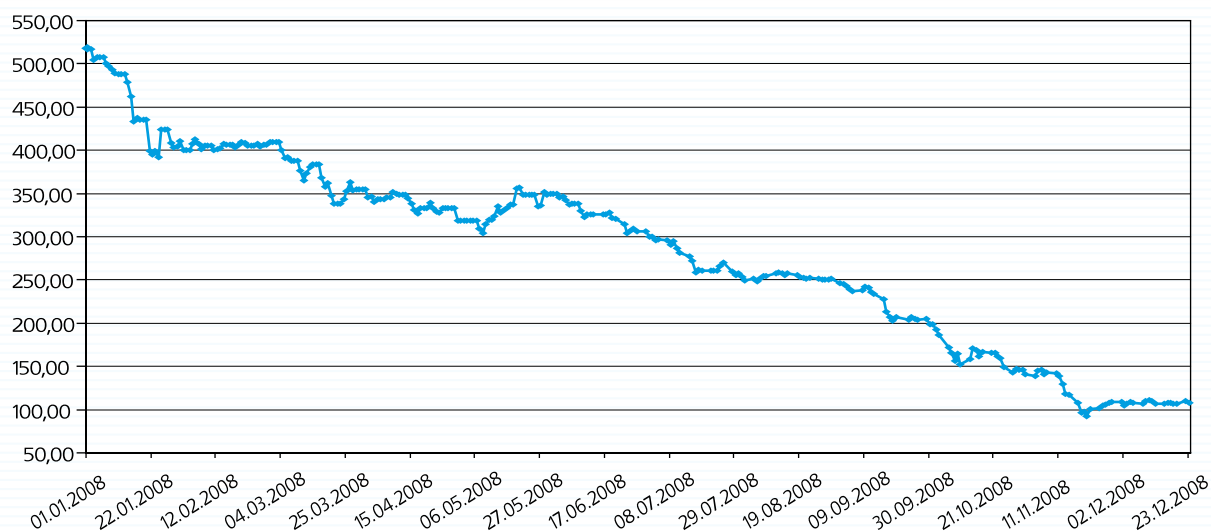


Two changes were made during the year in the SOFIX composition. The first one was on 13 March, 2008 when PETROL AD was removed from the index base, while CB CORPORATE COMMERCIAL BANK AD, CB FIRST INVESTMENT BANK AD, LEAD AND ZINC COMPLEX PLC and HOLDING ROADS PLC were added to the base. The second change was made on 23 Sept., 2008 when company ENEMONA AD was added to the SOFIX base.

On the FSC web site in section **Statistics/ Capital market Statistics/ 2008/ Public companies & Other issuers/ Annual Statistics 2008** is given detailed information on the financial results, capital, net asset value and the other indicators, characterizing the shares of public companies, included in the SOFIX calculation as of 31 Dec., 2008. The **capitalization** of the companies from the index amounted to **BGN 2,565,877 thousand** and formed 20.58 % of the market capitalization on BSE – Sofia at the end of 2008. Simultaneously, 21.43 % of the capitalization of the companies included in the index was held by foreign persons, which was about 3 percent points lower than in 2007. The free float of the companies' capital came totally to 26.36 %, if a free float is considered to be any share below 5 % of the companies' capital.

The movement of the wide-range **BG40** was predominantly negative in 2008, in November the index falling under its base value of 100 points. It started the year at the level of 518.06 points and realized a decrease of 79.19 % to 107.81 points.

## Dynamics of BG40 stock exchange index values in 2008

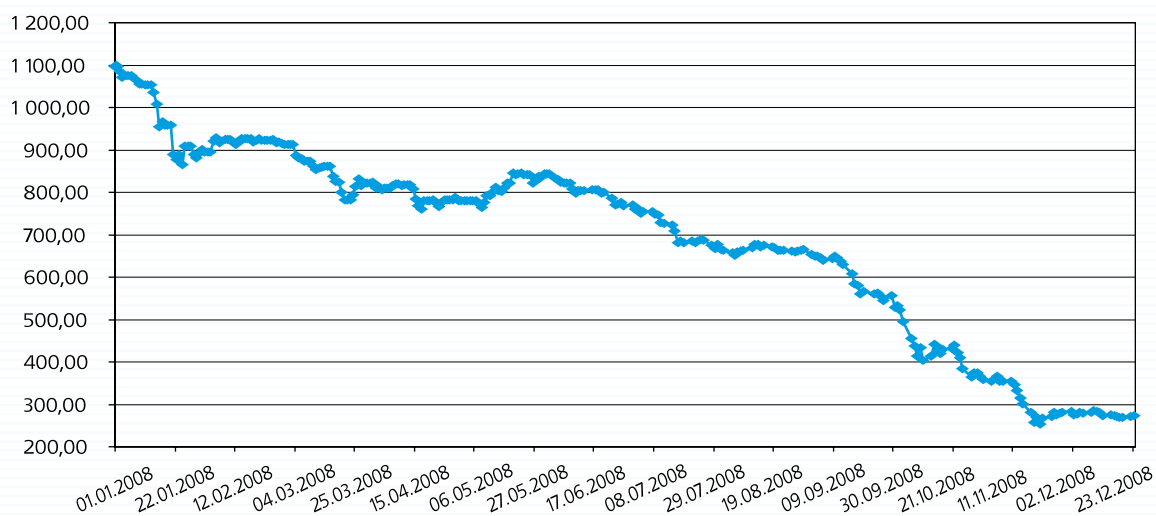


In 2008 two changes were made in the composition of the companies included in the calculation of the BG40 index. On 13 March, 2008 MOSTSTROY AD, CB CORPORATE COMMERCIAL BANK AD, DEVIN AD, AROMA AD, ELHIM ISKRA AD and LOMSKO PIVO AD were added to the BG40 base. Simultaneously, ALCOMET AD, OIL AND GAS EXPLORATION AND PRODUCTION PLC, FAVORIT HOLD AD, POLIMERI AD, EMKA AD and DECOTEX AD were removed from the index composition. The second change was made on 23 Sept., 2008, when companies TCHUGUNOLEENE JSC, BULGARIAN RIVER SHIPPING J. S. Co., ALBENA AD, M+S HYDRAULIC AD, DEVIN AD, LOMSKO PIVO AD, SEVERCOOP GAMZA HOLDING AD, ZAHARNI ZAVODI PLC and HOLDING VARNA AD were taken out of the composition of BG-40, and HOLDING ROADS PLC, ZARNENI HRANI BULGARIA PLC, TRACE GROUP HOLD AD, ENEMONA AD, BILLBOARD AD, NEOHIM AD, FAVORIT HOLD AD, POLIMERI AD and OIL AND GAS EXPLORATION AND PRODUCTION PLC were added.

The financial indicators of the public companies, included in the calculation of the BG40 index at 31 Dec., 2008 are given on the FSC web site in section **Statistics/ Capital market Statistics/ 2008/ Public companies & Other issuers/ Annual Statistics 2008**. The total **capitalization** of the included companies amounted to **BGN 4,500,428 thousand** and thus formed 36.10 % of the total market capitalization of BSE – Sofia at 31 Dec., 2008. At the same time 14.84 % of the capitalization of the companies from the index was held by foreign persons, which was a decrease of nearly 4 percentage point in comparison with the last year. The free float of the capital of the companies from BG40 amounted totally to 30.50 %, if a free float is considered to be a share below 5%.

**BG TR30**, which aims to give an account of the total shares profitability, including the distributed dividends, started the year with the value of 1,097.48 points, which was a little over its base value of 1000. By the end of 2008 several serious declines of the index were recorded, which led it finally to a level of 272.82 points (75.14 % correction downwards).

## Dynamics of BG TR30 (BG Total Return 30) stock exchange index values in 2008

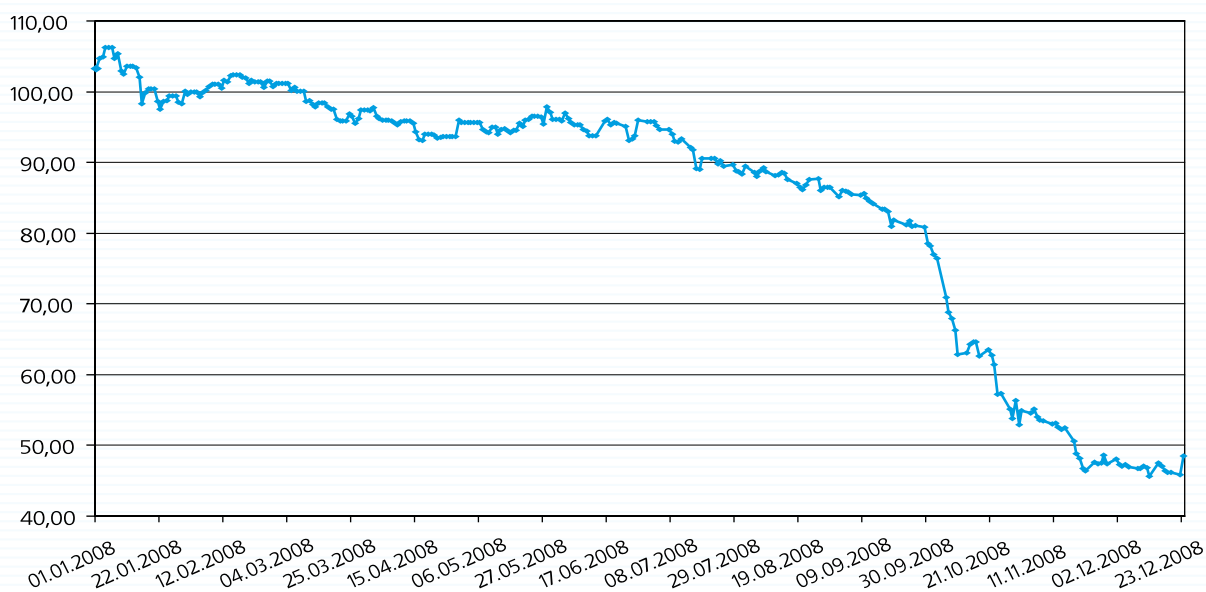


During the period under review one decision was taken for change in the composition of the included companies in the BG TR30 index. HOLDING VARNA A AD, M+S HYDRAULIC AD, PETROL AD, PLOVDIV-YURI GAGARIN BT AD, POLIMERI AD, CB CENTRAL COOPERATIVE BANK AD and BULGARIA REAL ESTATE FUND REIT were removed from its structure. In their place HOLDING ROADS PLC, ENEMONA AD, ZARNENI HRANI BULGARIA PLC, MOSTSTROY AD, LEAD AND ZINC COMPLEX PLC, SPARKY ELTOS AD and TRACE GROUP HOLD AD were added.

On the FSC web site, in section **Statistics/ Capital market Statistics/ 2008/ Public companies & Other issuers/ Annual Statistics 2008** the financial indicators are presented characterizing the public companies included in the BG TR30 index at the yearend. The total **capitalization** as of 31 December, 2008 of the companies participating in the index calculation amounted to **BGN 3,127,347 thousand**, which formed 25.09 % of the capitalization on the stock exchange at the end of 2008. Overall 19.88 % of the capitalization of the included companies was held by foreign persons. The free float of the companies' capital amounted to 33.36 %, if as a free float is considered to be a share below 5 % of the capital of the given company.

The first sectoral index **BG REIT**, including the most liquid SIPCs for securitization of real estate or agricultural land, was the only one from the indexes which recorded a comparatively smaller decline of around 53 % for the year. It started with a value of 103.24 points, and by July its level was fluctuating slightly under its base value. After that period the index dropped considerably, falling at the yearend to levels of 48.53 points.

## Dynamics of BG REIT stock exchange index values in 2008



In 2008 one change was made in the composition of the companies included in BG REIT. On 13 March, 2008 AGRO FINANCE REIT and EXCLUSIVE PROPERTY REIT were added to the index base, while PRIME PROPERTY BG REIT dropped out of it.

On the FSC web site, in section **Statistics/ Capital market Statistics/ 2008/ Public companies & Other issuers/ Annual Statistics 2008** are presented the financial indicators of the public companies included in the calculation of the BG REIT index as of 31 Dec., 2008. The total **capitalization** of the included companies amounted to **BGN 380,350 thousand** at 31 Dec., 2008, and formed 3.05 % of the total capitalization on BSE - Sofia. The total percent of foreign participation in the capitalization of the companies included in the index was 35.21 % towards 28.83 % for 2007. This rise in the indicator speaks of the increased interest of foreign investors to the special investment purpose companies, which were considered to be less correlated to the negative trends on the market. The total percent of the free float came to 46.74 %, a free float being considered to be a share below 5 % from the capital of the given company. The considerably higher total percent of the free float of the companies, composing this index, compared to the other indexes, calculated by BSE - Sofia, is conditioned by the fact that BG REIT covers only SIPCs, whose main idea is to be with bigger share of free float.

At 31 Dec., 2008, in total 557 issues were traded on BSE - Sofia, from which 412 issues of equities, 89 issues of bonds, 3 issues of compensation instruments, one issue of rights and 52 issues of units of contractual funds. During the period 84 new issues were registered, and 31 issues were stopped from trading. Detailed information on the issues registered to be traded on BSE – Sofia as of 31 Dec., 2008 can be found on FSC web site, in section **Statistics/ Capital market Statistics / 2008/ Investment Intermediaries & BSE - Sofia/ Annual Statistics 2008**.

## 12.2

### ANALYSIS OF THE PARTICIPANTS ON THE CAPITAL MARKET

## 12.2.1

### PUBLIC COMPANIES, SPECIAL INVESTMENT PURPOSE COMPANIES AND OTHER ISSUERS OF SECURITIES

The total number of public companies on all market segments, registered for trading on BSE – Sofia as of 31 December, 2008 was 412. In 2008, 47 public companies were listed on the stock exchange floor, and the shares of 10 public companies were withdrawn from trading. A certain increase in the carried-out public offerings of shares on the stock exchange was noticed in comparison with 2007.

By initial public offerings (IPO) of shares in 2008, 3 companies raised new capital through BSE – Sofia, namely: MECOM AD, HERTI AD and ZHELEZOPATNA INFRASTRUKTURA-HOLDING COMPANY AD. As a comparison, the initial public offering of



shares carried out in 2007 were 11, and in 2006 – 5. A new opportunity for the investors were also the shares of other 16 companies, listed on the stock exchange floor by the approval of a prospectus for admission of securities to trading on a regulated market.

Approved by FSC were also the prospectuses for public offering of 27 bond issues, where all issues were of corporate bonds. The amount of the publicly issued bond debt in 2008 was equal to BGN 403,797 thousand, which represented a drop of 1.73 % compared to the debt issued in 2007.

The market capitalization of the public companies traded on BSE – Sofia as of the end of 2008 amounted to BGN 12,465,653 thousand, which was a decrease of 57 % compared to the reported capitalization at the end of 2007. The biggest share in the market capitalization of BSE – Sofia, for a next successive year, was held by the companies from subsector “Financial Intermediation”, followed by the companies from subsector “Wholesale and Retail Trade, Repair and Technical Servicing of motor vehicles and motorcycles, of personal and household goods”, “Transport, Storage and Communications” and “Real Estate, Renting and Business Activities”. These four subsectors of the economy accounted for 70.48 % of the market capitalization of all publicly traded companies on the Bulgarian stock market. More information on the allocation of the market capitalization of the public companies by subsectors of the economy to which they belong, as well as indicators for foreign participation and allocation of the free float by subsectors can be found on the FSC web site in section **Statistics/ Capital market Statistics/ 2008/ Public companies & Other issuers/ Annual Statistics 2008**.

The subsector “Manufacture of Other Non-metallic Mineral Products” continued to be with a significant share (92.06 %) of foreign investments in the joint-stock capital in 2008. The reason for the especially large share of the registered foreign participation was the belonging of companies with significant market capitalization, respectively with a significant amount of shares owned by foreign persons, to the relevant subsectors. Considerable foreign interest was also recorded to investments in subsectors “Financial Intermediation” (44.10 %), “Real Estate, Renting and Business Activities” (39.99%), as well as in “Production of Chemical Substances, Products and Fibers” (29.06 %).

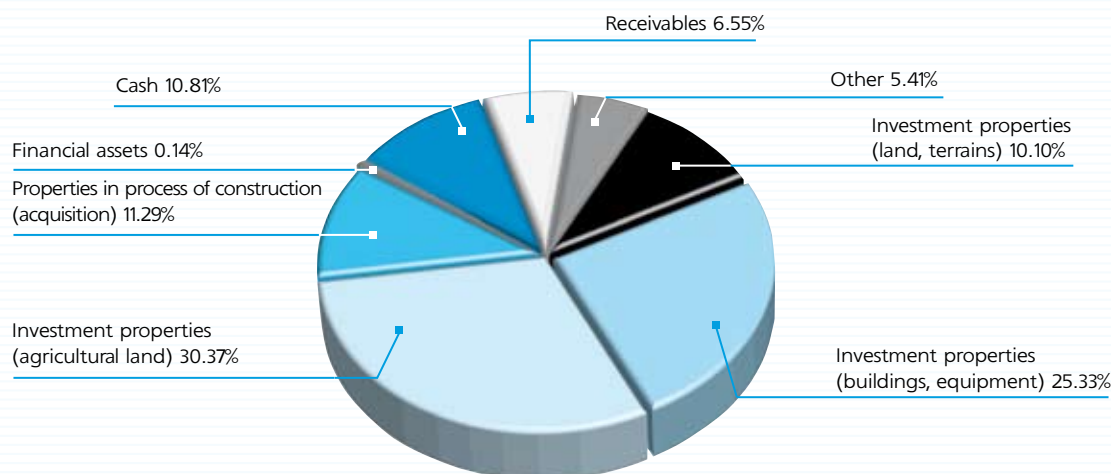
The share of free floats representing less than 5 % of the companies’ capital for the companies traded on the stock exchange amounted totally to 23.65 %. The sectors with the highest free floats in 2008 were “Financial Intermediation” (37.30 %), “Products of Agriculture, Hunting and Forestry” (35.88 %), “Mining and Quarrying of Energy Producing Materials” (26.99 %) and “Production of Chemical Substances, Products and Fibers” (26.23 %).

This was the next consecutive year during which the field of services, provided by the **special investment purpose companies**, attracted the interest of the investment community. During the period under review the number of these companies increased with 8, and at 31 Dec., 2008 they were already 69. As of the end of the reporting period the SIPCs accumulated assets amounting to BGN 1,620,537 thousand, recording a growth of 18.19 % on annual basis. More information about the own capital, accumulated assets and market share of the special investment purpose companies as of 31 Dec., 2008 can be found on the FSC web site in section **Statistics/ Capital Market Statistics /2008/ REIT and SPV/ Annual Statistics 2008**.

At the end of 2008 the number of **companies engaged in securitization of real estate** became 60 with accumulated resources totaling up to BGN 1,538,354 thousand, or 94.93 % of the assets of all special investment purpose companies. The growth of the number of companies engaged in securitization of real properties, resulted in market **deconcentration**. As of the end of 2007 the four companies, concentrating the biggest market share, owned 38.90 % of the total assets of the companies, engaged in securitization of real properties, and as of 31 Dec., 2008 this percent was 37.99 %.

At the end of the reporting period, the investment properties (agricultural land) had a dominant share in the **structure of the assets** of the companies, carrying out securitization of real properties. Their share of 30.37 % showed some increase in comparison with the registered 27.36 % at the end of 2007. The cash of the companies increased to 10.81 %, compared to 9.97 % at the end of 2007. The cash kept maintaining its high rate in the structure of the assets of SIPCs, engaged in securitization of real properties, in view of the fact that part of the companies were still newly established. More information about the structure of assets of SIPCs as of 31 Dec., 2008 can be found on the FSC web page in section **Statistics/ Capital Market Statistics /2008/ REIT and SPV/ Annual Statistics 2008**.

## Structure of the assets of SIPC engaged in securitization of real properties as of 31 Dec., 2008



Companies ERG CAPITAL - 3 REIT, UNIVERSAL PROPERTIES REIT and BENCHMARK FUND PROPERTIES FUND REIT made the biggest investments in investment properties in the form of land and terrains, and those that made the biggest investments in investment properties (buildings and equipment) were FAIRPLAY PROPERTIES REIT, PRIME PROPERTY BG REIT, SERDIKA PROPERTIES REIT and BLACK SEA INVESTMENT REIT. As of the end of the period under review, 22 of the companies owned investment properties in progress of construction.

As of 31 Dec., 2008 the special investment purpose companies, which are engaged in securitization of real properties and which direct their resources mainly in **agricultural land**, increased to eight, namely BULGARIA REAL ESTATE FUND REIT, ELANA AGRICULTURAL LAND FUND REIT, ADVANCE-TERRAFUND REIT, BULAND INVESTMENTS REIT, AGRICULTURAL LAND OPPORTUNITY FUND MEL INVEST REIT, AGROFINANCE REIT, ZENITH PROPERTIES REIT and AGROENERGY REIT. At the end of the year the assets accumulated by these companies marked a growth of 23.28 % on annual basis and reached BGN 577,570 thousand, or 37.54 % of the assets of the special investment purpose companies, engaged in securitization of real estate. The first three of the indicated companies occupied a considerable market share in this segment amounting to 77.45 %.

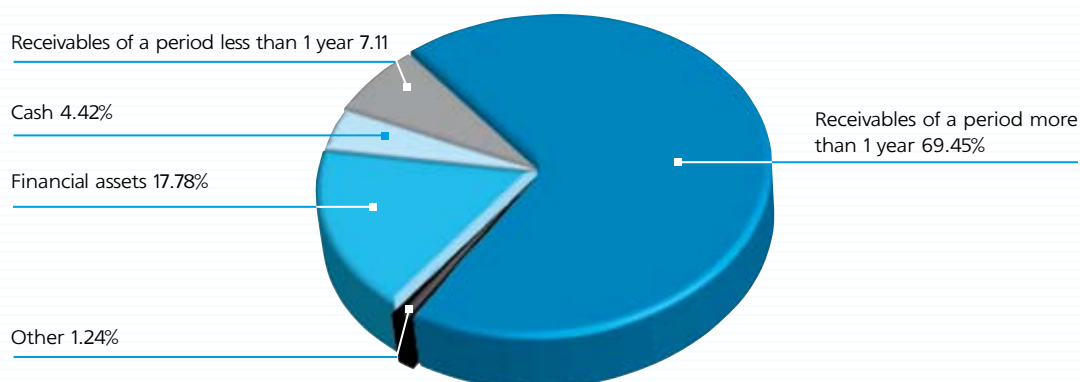
The companies engaged in securitization of agricultural land facilitated the access of the individual investor to investments in huge agricultural areas, which otherwise would have required considerable financial resource. The capitals accumulated by SIPCs provided the opportunity for consolidation (re-grouping) of huge land plots for the purpose of their subsequent offering for purchase or renting to big landowners. In the medium and long-term plan, the profitability from the investment is based on dividends for the shareholders (on the basis of current incomes from lease and profitable resale of consolidated terrains) and on increase in the share prices (upon rising of the land price in the companies' portfolios). The differences in prices of small and consolidated plots create additional value for the investors.

The companies oriented to securitization of real properties, closed 2008 with the total profit of BGN 81,436 thousand, and the year-end **financial result** was positive for 27 of them. In **Appendix 12.2.1** are presented the dividends distributed for 2007, the reported profit and profit per share in 2008 for each of the special investment purpose company.

At the yearend there were nine **companies engaged in securitization of receivables**, and one of them obtained a license during the reporting period. The assets accumulated in the companies engaged in securitization of receivables, marked for the second consecutive year a certain decline at the rate of 7.29 %. As of 31 Dec., 2008 the resources accumulated by them amounted to BGN 82,183 thousand and occupied a share of 5.07 % in the assets of all special investment purpose companies.

The market of services related to public securitization of receivables continued to feature considerable **concentration**, CAPITAL MANAGEMENT SPV had a share of 56.95 % of the assets of the companies for receivables.

## Structure of the assets of SIPCs engaged in securitization of receivables as of 31 December, 2008



The receivables on commercial loans (for a period of more than one year) had a dominant share in the aggregated portfolio of the companies, engaged in securitization of activities, as of the end of 2008. This type of investments had a sizable share in the portfolios of the companies with most substantial accumulated resource – CAPITAL MANAGEMENT SPV and TRANSINVESTMENT SPV.

The companies specialized in the securitization of receivables closed 2008 with total profit of BGN 4,357 thousand and the year-end **financial result** was positive for seven of these companies.

Due to the fact that the Bulgarian market of real properties and receivables retained its attractiveness for the foreign investors, a large portion of the resources in the special investment purpose companies were raised from them. More information on the main founders and shareholders, date of incorporation and the envisaged period of activity of SIPC is given on the FSC web site in section **Statistics/ Capital Market Statistics /2008/ REIT and SPV/ Annual Statistics 2008**.

During the past reporting year, SIPC were especially preferred investment alternative both for the individual and institutional investors with a view to their weaker correlation with the other securities market. The transactions executed in 2008 with that type of companies were 11,222, whereby a turnover was realized of a little over BGN 173,897 thousand. The volume of trading with shares of SIPC was 99,926 thousand lots. The most intensive trading for a third consecutive year was the trading with the shares of ELANA AGRICULTURAL LAND OPPORTUNITY REIT. The total market capitalization of the SIPC listed on the stock exchange at 31 Dec. 2008 was BGN 1,603,669 thousand, whereby a decline by 10.09 % was marked on an annual basis.

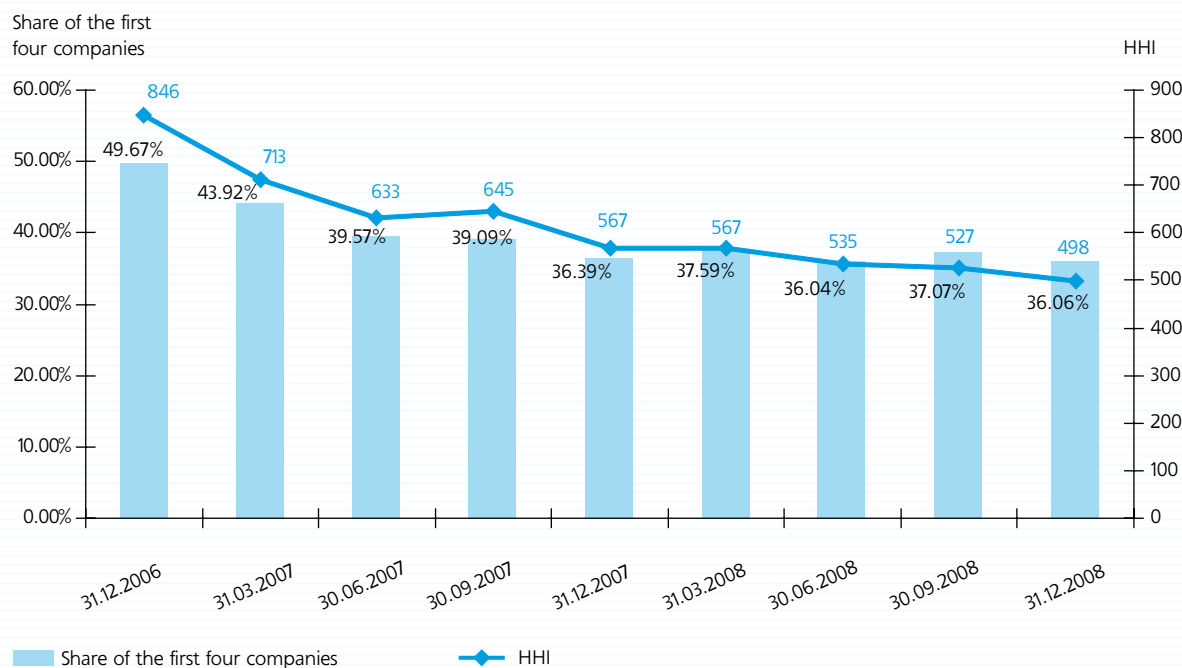
The diagram below shows the HHI<sup>28</sup> index (Herfindahl – Hirschman) and the share of the first four companies on the SIPC market.

<sup>28</sup> The Herfindahl-Hirschman Index (HHI) is generally accepted measurer of the market concentration. Three intervals of the HHI value can be differentiated:

- under 1000 – a market for which the index takes a value under 1000 units, is strongly competitive;
- between 1000 and 1800 – these markets are characterized with moderate competitive environment and concentration;
- over 1800 – these are markets on which strong concentration is observed.

Formula for calculation:  $H = \sum_{i=1}^n s_i^2$ , where  $s_i$  is the relative share of the i-tieth company, participant on the considered market.

## Concentration on the market of services offered by SIPC's measured through HHI and the share of the first four companies



The diagram shows a slight decrease in the share of the first four companies on the market and more serious drop in the HHI index, which measure the concentration on the market of services offered by SIPC's. This positive result for the market is expressed in the increase of the competition among the market participants and more equal allocation of assets among the companies.

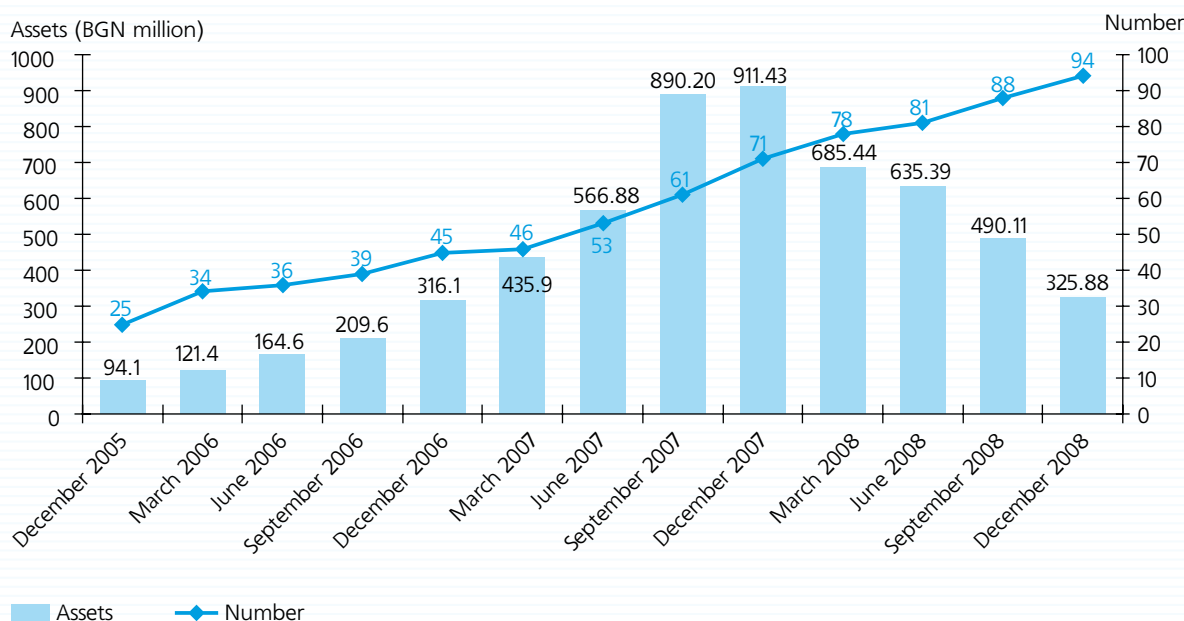
## 12.22

### COLLECTIVE INVESTMENT SCHEMES AND MANAGEMENT COMPANIES

Despite of the worsened conditions on the capital market in 2008, the growth rate of the number of collective investment schemes (CIS) was retained. During the year, 23 new contractual funds were registered, while there were no new registrations made with regard to investment companies. Consequently, the total number of the contractual funds as of 31 Dec., 2008 reached 83, which together with the 11 investment companies formed the total number of collective investment schemes – 94. At the same time a considerable decrease was recorded in the CIS assets. That was due to, on one side, the reduction of the prices of the securities traded on BSE – Sofia AD, and on the other – the withdrawal of investors from the schemes. The overall amount of assets concentrated in CIS decreased to BGN 325,877 thousand, which constituted a decline of 64.25 % for the last 12 months.

The dynamics of the number and the amount of collective investment schemes' assets can be traced on the following diagram:

## Changes in the number and assets of collective investment schemes



At the end of 2008, the assets attracted by the investment companies amounted to BGN 63,470 thousand, and the resources accumulated by the contractual funds – BGN 262,406 thousand. Thus the contractual funds continued to increase their market share, compared to the market share of investment companies, and their assets reached 80.52 % of the total amount of assets. On the FSC web site, in section **Statistics/ Capital market Statistics/ 2008/ Collective Investment Schemes & Management Companies/ Annual Statistics 2008**, is given information about the assets, foreign participation in the capital of the schemes and market concentration in relation to services provided by the collective investment schemes.

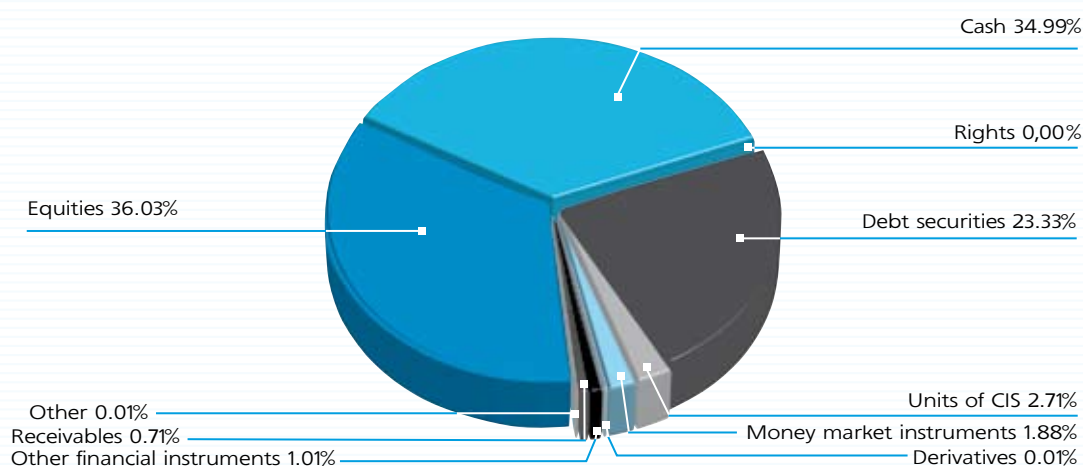
Nine of the **eleven** operating investment companies (IC) were of open-end type and 90.54 % of the total assets of all ICs were concentrated in them, namely BGN 57,469 thousand, which represented a decrease on an annual basis of 69.23 %. At the end of 2008 the assets of the two closed-end **investment companies** amounted to BGN 6,001 thousand, whereby a drop of 49.72 % was realized for the year.

During the reporting period, the relatively high **concentration** on the market of services offered by the open-end investment companies, decreased considerably. ADVANCE INVEST which was a leader in market share for the past year, lost its position, its share in the net assets of open-end ICs falling by 13 percent points (from 31.68 % for 2007 to 18.47 % for 2008). TBI EUROBOND, in turn, realized the highest growth from 7.95 % to 20.19 % for 2008 and took the first position on that market. Overall five companies from nine owned about 72 % of the net assets of all open-end ICs, which was evidence of the comparatively low concentration, considering the small number of companies. Among the closed-end investment companies, the biggest market share in terms of raised resources was held by IC NADEZHDA with 75.59 %, and among the contractual funds – CF DSK BALANCE with 7.16 %, which confirmed the tendency of the past years for reduction of the concentration on the market of services offered by the latter.

The collective investment schemes can most generally be classified in three main groups from viewpoint of risk and profitability - aggressive (high-risk), balanced and conservative (low-risk). At 31 Dec., 2008, 40 CIS were with aggressive investment profile, 34 – with balanced, and 18 with conservative. The indicated distribution was made on the basis of the declared by the companies/ funds investment strategy, by reason of which their belonging to a certain group was conditional – it depended on the adherence of the portfolio managers to the declared investment profile. The portfolios of the two closed-end investment companies were structured in a balanced way as a consequence of the financial crisis. The percent of assets of IC NADEZHDA AD invested in capital securities was decreased from 70.56 % for 2007 to 28.31 %, and of IC INDUSTRIAL FUND AD – from 63.68 % to 33.73 %.

As in the preceding period, despite of the global financial crisis, the greatest share of CIS assets were concentrated in companies and funds showing an aggressive investment profile (41.30 %). The reason for this was that the number of the high-risk schemes was the biggest – 40 CIS from totally 94. At the same time, CIS with a conservative portfolio increased the percent of accumulated assets from 5.60 % for 2007 to 23.30 %, which showed the heightened investor interest to greater security during the past year. The collective schemes following balanced investment strategy accumulated 35.40 % of the assets in the sector. On FSC web site in section **Statistics/ Capital market Statistics/ 2008/ Collective Investment Schemes & Management Companies/ Annual Statistics 2008**, information is presented about the investment portfolio of the licensed as of the end of 2008 collective investment schemes on the Bulgarian market, about the net asset value per one share (unit) and the return for the year.

### Structure of the aggregate investment portfolio of CIS as of 31 Dec., 2008



As evident from the graph, the most significant share in the structure of assets of the collective investment schemes as of 31 Dec., 2008 was occupied by investments in equities, although their share, compared to the other investments, declined by 22 percent points from 58.00 % for 2007 to 36.03 %. Simultaneously, the percent of cash picked up considerably (from 21.63 % for the previous year to almost 35 % for 2008), as well as of the investments in debt securities, which realized a growth of nearly 13 percent points for the last 12 months. A large part of the cash was formed of investments in bank deposits, namely 28.59 % of the total amount of the CIS assets. The transfer of assets from investments in equities to investments in cash and debt securities was evidence of the negative moods that spread over the capital market during the period under review as a result of the global financial crisis.

The aggregate portfolio of the collective investment schemes is shown in the next table:

Assets (BGN)	Total for IC		Total for CF		Total for CIS	
	Amount (BGN)	Share	Amount (BGN)	Share	Amount (BGN)	Share
Cash, incl.	17,607,819	27.74%	96,412,561	36.74%	114,020,380	34.99%
<i>term deposits</i>	13,159,421	20.73%	80,006,767	30.49%	93,166,188	28.59%
Financial assets and instruments, incl.	45,192,778	71.20%	164,045,745	62.52%	209,238,523	64.21%
<i>shares</i>	23,399,107	36.87%	94,005,038	35.82%	117,404,146	36.03%
<i>rights</i>	147	0.00%	8,281	0.00%	8,428	0.00%
<i>debt securities</i>	19,747,425	31.11%	56,287,216	21.45%	76,034,641	23.33%
<i>units of CIS</i>	1,566,505	2.47%	7,268,282	2.77%	8,834,787	2.71%
<i>money market instruments</i>	0	0.00%	6,123,217	2.33%	6,123,217	1.88%
<i>derivatives</i>	0	0.00%	24,567	0.01%	24,567	0.01%
<i>other financial instruments</i>	479,594	0.76%	2,800,226	1.07%	3,279,820	1.01%
Non-financial assets, incl.	636,914	1.00%	1,932,878	0.74%	2,569,792	0.79%
<i>receivables</i>	613,628	0.97%	1,700,769	0.65%	2,314,397	0.71%
Other	32,846	0.05%	15,642	0.01%	48,488	0.01%
<b>TOTAL BALANCE SHEET ASSETS</b>	<b>63,470,357</b>	<b>100.00%</b>	<b>262,406,827</b>	<b>100.00%</b>	<b>325,877,184</b>	<b>100.00%</b>

Detailed information about the portfolio of each collective investment scheme can be found on FSC web site in section **Statistics/ Capital market Statistics/ 2008/ Collective Investment Schemes & Management Companies/ Annual Statistics 2008**.

As of 31 Dec., 2008 29 foreign CIS, distributing 93 mutual funds and subfunds, were carrying out public offering of units in Bulgaria. On FSC web site in section **Statistics/ Capital market Statistics/ 2008/ Collective Investment Schemes & Management Companies/ Annual Statistics 2008**, information is provided about the foreign CIS and their investment intermediary (distributor) for Bulgaria.

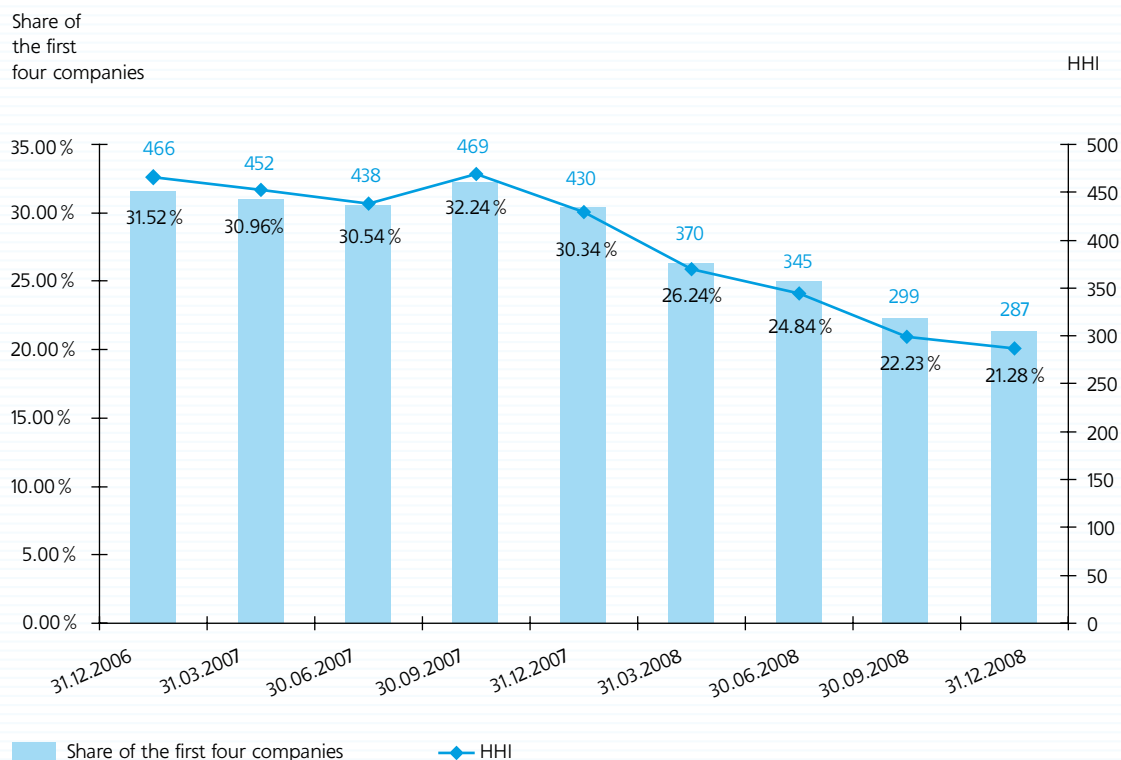
At the end of 2008, the licensed **management companies** were 38 and 3 of them had no concluded management contract as of the end of the period under review. The assets managed by them amounted to BGN 547,176 thousand, thus realizing a fall of 50 % for the year. That fall was conditioned by two factors – the reduced securities prices and the withdrawal of the investors because of the worsened market conjuncture.

A slight increase in the concentration was noticed with regard to the management companies for the past year. The five companies having the biggest market share held 68.64 % of the assets, managed by all MCs, while in 2007 that percent was 64.83 %. Furthermore, the share of the company, which was a leader in 2008 (TBI ASSET MANAGEMENT EAD with a share of 26.19 %), was about 10 percent points higher than the share of the leader from the previous year – RAIFFEISEN ASSET MANAGEMENT AD with 15.97 %. The latter was in second place in regard to the amount of the managed assets for 2008, accounting for 16.74 %, followed by DSK ASSET MANAGEMENT EAD (11.70 %). As of the end of 2008, TBI ASSET MANAGEMENT EAD had 5 concluded management contracts, as RAIFFEISEN ASSET MANAGEMENT AD, as well. On FSC web site, in section **Statistics/ Capital market Statistics/ 2008/ Collective Investment Schemes & Management Companies/ Annual Statistics 2008**, information is published on the own capital, managed assets, the market share and the concluded management contracts of MCs as of 31 Dec., 2008.

The following diagram illustrates the conclusions made till now about decreasing concentration on the market of services provided by the collective investment schemes. It shows the HHI index (Herfindahl – Hirschman Index) and the share of the first four companies on the CISs market.



## Concentration on the market of services provided by CIS, measured through HHI and the share of the first four companies

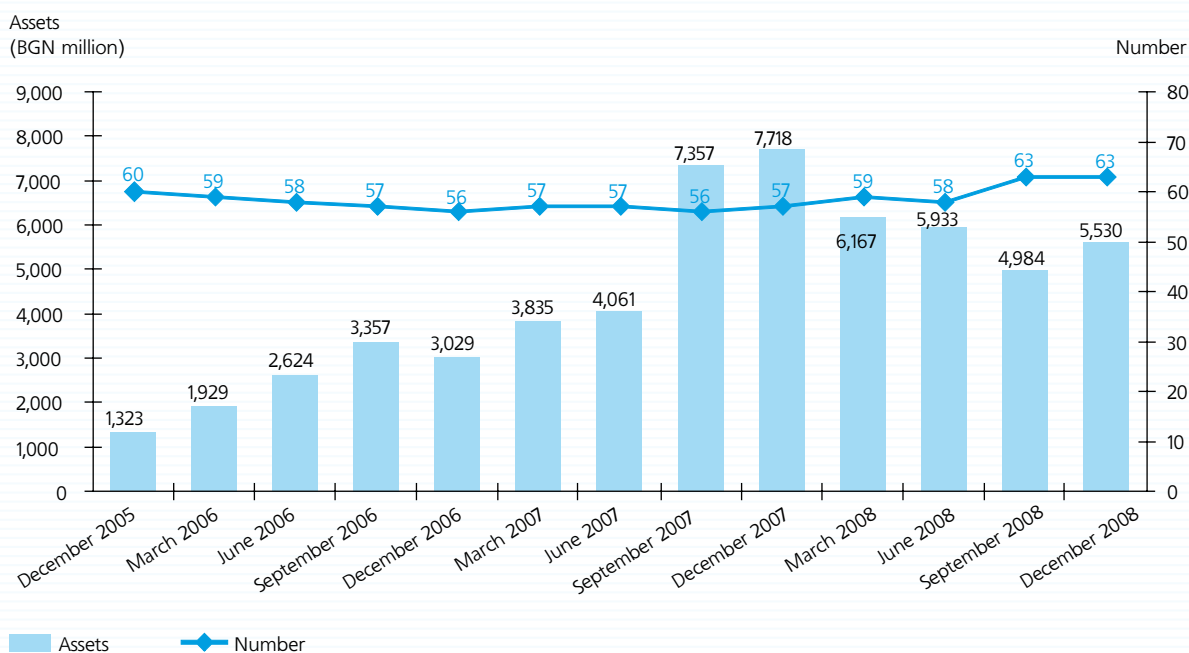


As evidenced from the diagram a stable tendency of decrease in both indices, measuring the concentration on the market of services offered by CIS, was observed, which was an indicator for enhancement of the competition among the market participants, resulting from the more equal allocation of assets among the companies.

## 12.23

### INVESTMENT INTERMEDIARIES

#### Dynamics in the number and assets of non-banking financial intermediaries



The total number of the **investment intermediaries** (II) as of the end of 2008 was 88, of which 25 banks as IIs. At the yearend the **assets of the non-banking investment intermediaries** reached the total amount of BGN 5,529,749 thousand, registering a 28.35 % decline on a year-on-year basis.

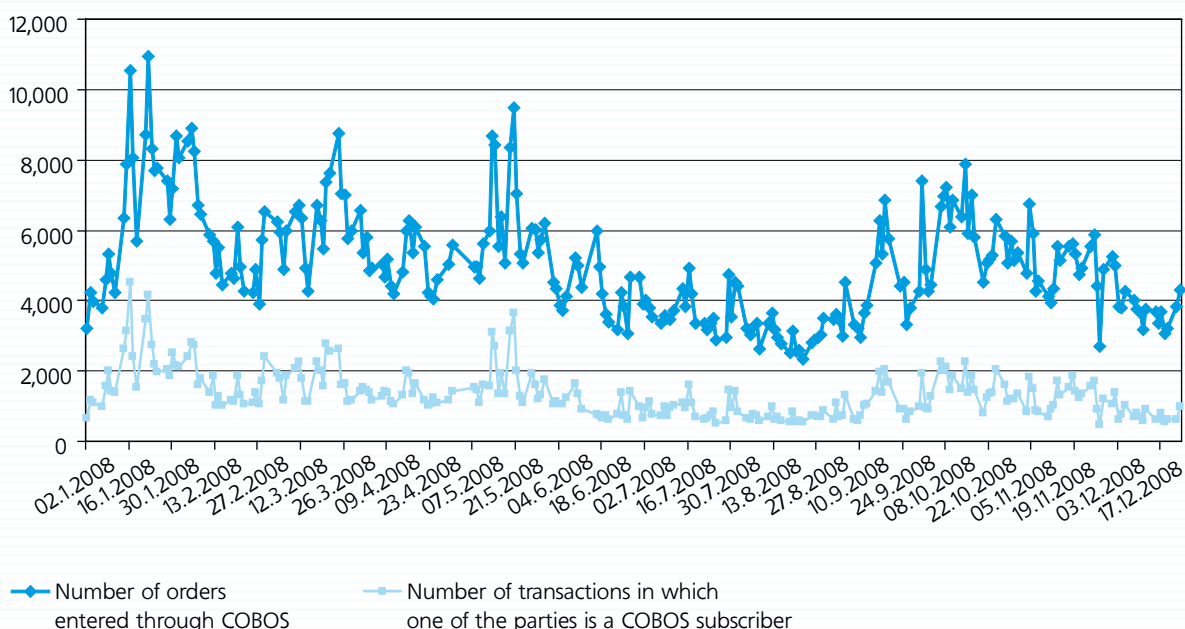
The **concentration** on the market for provision of services by the investment intermediaries decreased compared to the previous reporting period, but it remained comparatively high. Five investment intermediaries – KAROLL AD, FIRST FINANCIAL BROKERAGE HOUSE OOD, CB INVESTBANK AD, CB RAIFFEISENBANK – BULGARIA AD and CB UNICREDIT BULBANK AD realized 42.77 % of the stock exchange turnover during the period. The greatest share of the realized volume of trading on the stock exchange during the year was achieved through the intermediation of FIRST FINANCIAL BROKERAGE HOUSE OOD with 13.88 %, followed by KAROLL AD with 10.86 %, CB INVESTBANK AD and CB UNICREDIT BULBANK AD, with respectively 9.24 % and 6.77 % of the volume of lots traded off on the stock exchange during the period. The leader as regards the number of the concluded transactions for a third consecutive year was FINANCIAL HOUSE KAROLL AD, holding a share of 16.91 %, which sharply outlined it against the next companies BENCHMARK FINANCE AD (10.99 %), ELANA TRADING AD (7.96 %) and UG MARKET PLC (5.94 %).

The substantial foreign interest on the market of services provided by the investment intermediaries was retained. In **Appendix 12.2.3** the foreign participation in the shareholding structure of the investment intermediaries is presented as of 31 Dec., 2008.

Within 2008, the concluded transactions, where at least one of the parties was a subscriber of **COBOS** (Client Order Book On-line System is following the trading on BSE – Sofia in real time and orders are given for conclusion of transactions, which after confirmation by a stock broker, are entered in the trading system of the stock exchange), were slightly over 333 thousand, forming a 42.76 % share of the transactions concluded on the stock exchange.

Dynamics of trading through COBOS can be traced in the following diagram.

### Dynamics of the given orders and the concluded transactions through the COBOS Trading System in 2008



## ACTIVITY AND FINANCIAL SITUATION OF THE INVESTORS COMPENSATION FUND IN 2008

As of 31 Dec., 2008 the participants in the Investors Compensation Fund (ICF) in Bulgaria were 126, from which: 64 investment intermediaries (IIs), 23 commercial banks and 39 management companies. During the year 7 investment intermediaries and 8 management companies were included in the scheme.

The Fund's operations in 2008 were connected with collection of contributions from IIs; analysis of the information received from the intermediaries, for determination of eventual compensations in case that an investment intermediary is incapable to fulfill its obligations to the clients, setting the level of the Fund's financing; conclusion of bilateral agreements with investor compensation schemes from other EU Member States.

For the period 1 January – 31 December 2008 the Fund received  $\frac{1}{4}$  of the annual IIs contributions for 2007 and  $\frac{3}{4}$  of the annual contributions for 2008, income from investing the Fund's resources, as well as default interest under Art. 77m, para 4 of LPOS. The total amount of **cash** in the Fund as of 31 Dec., 2008 was **BGN 4.59 million**. According to Art. 77m, para 4 of LPOS, the deadline for transfer of the due portions of the annual contributions is not later than 30 days after the end of each quarter. Some of the IIs transferred their contributions in 2008 with delay, for which default interest was charged and collected from them. At the end of 2008 there was no investment intermediary owing any contributions to the Fund.

The resources raised in the Fund were invested in short-term deposits in commercial banks and in government securities, in line with the Fund's investment policy. The income from investments for 2008 amounted to BGN 219 thousand.

During the period no pre-conditions occurred for payment of compensations to IIs customers.

The investment intermediaries submit monthly statistics to the Fund under Art. 77m, para 11 of LPOS and every six months - information on the number of their clients, subject to compensation, by groups of client assets. Since June 2008 this information is received in the Fund through the newly built electronic portal for on-line filing of statistics. Thus the check for the data correctness is made automatically and the received statistics are recorded in the data bases information system. The received information is accepted and processed much quicker by the new information system, which optimizes the working process both of the Fund's officials and of the investment intermediaries. At the end of 2008 all IIs filed the statistic under Art. 77m and the information on the number of the clients through the on-line portal for filing of information, with the exception of one investment intermediary and one management company which kept on filing statistics on paper.

The Fund has continued its successful cooperation with the European Forum of Deposit Insurers (EFDI), in which it is an associated member. In 2008 bilateral agreements for cooperation were signed with the investor compensation schemes in Hungary and Romania. Representatives of the Romanian Fund made a visit to Bulgaria. A bilateral agreement between the Bulgarian and Polish schemes is being finalized. The objective of these agreements is to broaden the exchange of information, and mostly the establishment of cooperation in eventual payment of compensation because of differences in the compensation level in the individual countries. ICF representatives paid a working visit to the Romanian Investor Compensation Fund and acquainted themselves with the work process and the problems of the Romanian investor compensation scheme.

In **Appendix 12.2.4 A-D** are presented the balance sheet, the income statement, the statement on changes in the own fund and the cash flow statement of the Investors Compensation Fund.

## INSURANCE MARKET AND MARKET OF VOLUNTARY HEALTH INSURANCE SERVICES

### INFORMATION ABOUT THE PARTICIPANTS ON THE MARKET OF NON-LIFE (GENERAL) INSURANCE, LIFE INSURANCE AND VOLUNTARY HEALTH INSURANCE

In 2008 the Financial Supervision Commission did not issue any new licenses for pursuance of insurance activity and at the yearend the total number of the licensed insurers having a seat in the Republic of Bulgaria was retained as 37. Of them 20 were non-life insurance companies, 15 – life insurance companies and 2 – life insurance co-operatives. License to offer a new type of insurance was issued to ZK DSK GARANTZIA AD – for insurance Miscellaneous Financial Loss and to ZAD VICTORIA – for

Railway Rolling Stock insurance.

In 2008 FSC issued a license to carry out reinsurance activity to GP REINSURANCE EAD, whereby a professional reinsurer for the first time entered the Bulgarian market, pursuing non-life reinsurance activity<sup>29</sup> on it.

In the field of the voluntary health insurance FSC licensed five new companies – MUNICIPAL HEALTH INSURANCE FUND AD, HEALTH INSURANCE FUND PRIME HEALTH AD, HEALTH INSURANCE FUND EUROPA AD, HEALTH INSURANCE FUND VICE MEDICA AD and HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD. Thus at the end of 2008 the total number of the health insurance companies reached 20.

During the year a license was issued to HEALTH INSURANCE INSTITUTE AD to offer a new health insurance package Dental Medicine.

In the course of the period, the documents were reviewed and decisions issued by the Deputy Chairperson in charge of Insurance Supervision Division, for the entry in the FSC's register of 49 new insurance brokers. For the same period, the registration of 8 insurance brokers was withdrawn. Thus the total number of the registered insurance brokers reached 275.

In the FSC's register were filed 19,291 insurance agents and their total number became 60,194, including 798 agents carrying out intermediation activity in favor of the branches of insurers from Member States. The insurance agents-legal entities were 4,006, one-man traders – 3,101, and natural persons – 53,087.

In 2008 FSC was notified by 75 insurers from Member States of their intention to carry out insurance activity on the territory of the Republic of Bulgaria under the freedom to provide services, their total number reaching 239. Four insurers from Member States availed themselves of the right of establishment through their branches on the territory of the Republic of Bulgaria, thus their overall number came to 8, namely: CARDIFF – NON-LIFE INSURANCE, Bulgaria Branch; CARDIFF – LIFE INSURANCE, Bulgaria Branch; ZAD ING – Branch Sofia; QBE INTERNATIONAL INSURANCE (EUROPE) LIMITED – Sofia Branch; AIG EUROPE S.A., France; COFACE AUSTRIA KREDITVERSICHERUNG AG, Austria; AXERIA PREVOYANCE, France and AXERIA IARD, France.

511 notifications were received from insurance intermediaries from Member States regarding their carrying out of activity on the territory of the Republic of Bulgaria under the freedom to provide services, whereby their overall number became 928.

During the year FSC received 4 notifications by Bulgarian insurers in connection with the right of freedom to provide services on the territory of other Member States, whereby their total number reached 7. These were: IC EURO INS AD – for all Member States; DZI-GENERAL INSURANCE AD – for Romania; ZAD DZI – for Romania; AIG BULGARIA ZD EAD – for Romania and Greece; IC BULSTRAD PLC – for Romania and Greece; ZAD ARMEEZ – for Belgium, France, Germany, Italy, the Netherlands, Denmark, the United Kingdom, Greece, Portugal, Spain, Hungary, the Czech Republic and Romania; and INTERAMERICAN BULGARIA ZAED – for Belgium, the Netherlands and Greece.

Notifications by Bulgarian insurance brokers were not received in 2008 in relation to freedom to provide services of insurance intermediation on the territory of other Member States, respectively their total number remained 4. These were: IPS SERVICES OOD – for the United Kingdom; MARINS INTERNATIONAL EOOD – for all EU Member States; INSTRADE EOOD – for France, Greece, Lithuania, Austria and Romania; and CAPMAN BROKER OOD – for the United Kingdom, Spain, Malta, the Netherlands, Germany, Austria, Greece, Belgium, the Czech Republic and Ireland.

<sup>29</sup> GP REINSURANCE EAD was granted a license to pursue reinsurance business in June, 2008, but as of the end of 2008 did not carry out any activity, by reason of which was not included in this report.

## Indicators regarding the place of insurance and voluntary health insurance in the Bulgarian economy

Indicators	2004	2005	2006	2007	2008
Gross domestic product at current prices (BGN thousand)	38,822,636	42,797,407	49,360,950	56,519,818	66,728,103*
Gross premium income from insurance (BGN thousand)	834,291	1,069,204	1,246,949	1,505,070	1,804,642
Gross premium income from voluntary health insurance (BGN thousand)	11,612	17,787	22,620	25,314	30,302
Insurance penetration (%)	2.15	2.5	2.53	2.66	2.70
Voluntary health insurance penetration (%)	0.03	0.04	0.05	0.04	0.05
Population at the end of the year (capita)	7,761,049	7,718,750	7,679,290	7,640,240	7,606,551**
Insurance density (BGN)	107.5	138.52	162.38	196.99	237.25
Health insurance density (BGN)	1.5	2.3	2.95	3.31	3.98

\* NSI – „GDP in the fourth quarter of 2008 and 2008“ (preliminary data)

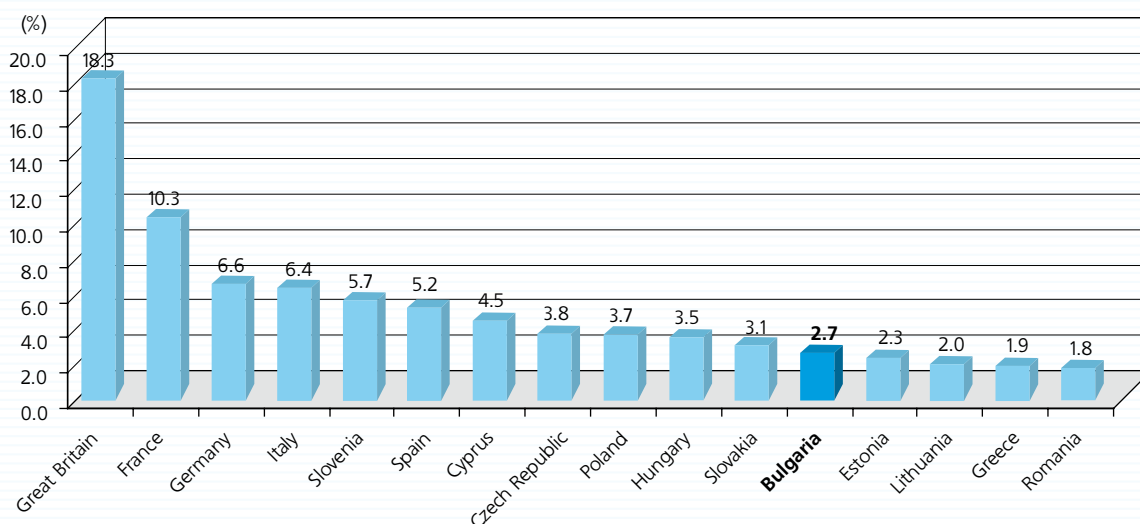
\*\* NSI – „Population and demographic processes in 2008“ (preliminary data)

As of the end of 2008 the **gross premium income** generated by insurers in the Republic of Bulgaria amounted to BGN 1,804,642 thousand compared to BGN 1,505,070 thousand at the end of 2007, or an increase of 19.9 % on annual basis was registered. The reported growth was slightly lower than the growth in 2007 - 20.7 %.

The gross premium income reported in 2008 was calculated at 2.7 % of GDP<sup>30</sup> (insurance penetration). In comparison with 2007 this indicator marked a growth of 0.04 percentage points.

The gross premium income per capita (insurance density) was calculated at BGN 237.25 for 2008<sup>31</sup>, with BGN 196.99 for 2007.

### Insurance penetration in some European Countries in 2007 (%)

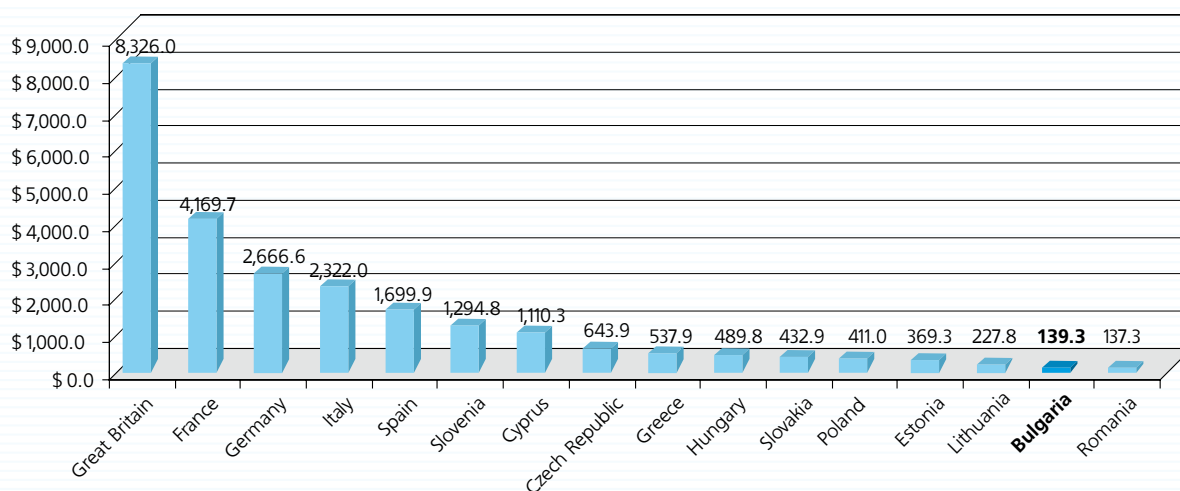


Source: Sigma № 3/2008 World insurance in 2007: emerging markets leading the way, Statistical appendix, updated December 2008.

<sup>30</sup> Source for the GDP: Agency for Economic Analysis and Forecasting

<sup>31</sup> Source for the statistics of the population in 2008: National Statistical Institute

## Insurance density in some European countries in 2007 (in USD)

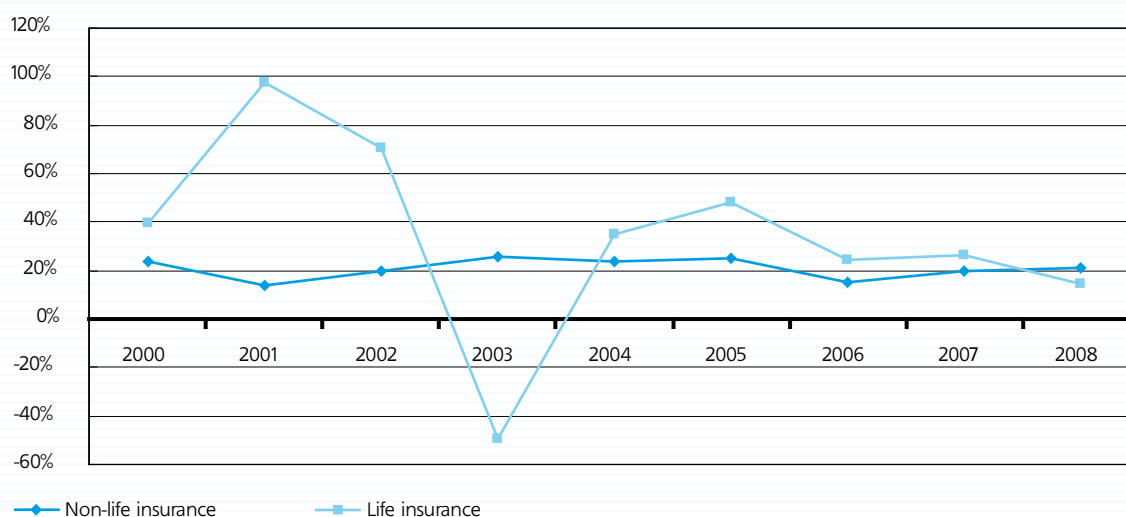


Source: Sigma № 3/2008 World insurance in 2007: emerging markets leading the way, Statistical appendix, updated December 2008.

The **gross premium income in non-life insurance** reported for 2008 amounted to BGN 1,534,395 thousand, whereby a growth of 20.9 % on annual basis was realized. The indicator insurance penetration was calculated at 2.30 % compared to 2.25 % for 2007, and the insurance density – at BGN 201.72 per capita compared to BGN 166.17 for 2007.

The **gross premium income recorded by life insurers** in 2008 amounted to BGN 270,247 thousand, thus marking a growth of 14.7 % on a year-on-year basis. The insurance penetration in the sector was calculated at 0.4 %, and the insurance density at BGN 35.53 per capita, compared to calculated for the previous year 0.42 % and BGN 30.83 per capita respectively.

## Nominal growth rate of premium income from non-life insurance and life insurance



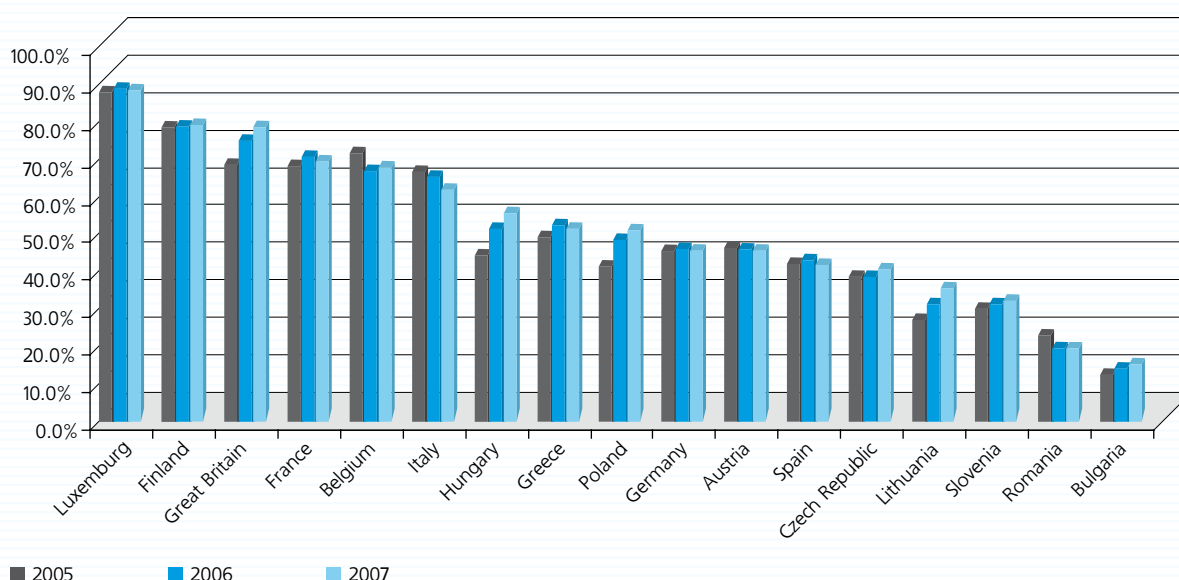
The average annual inflation rate in Bulgaria for 2008 was calculated as 12.3 % towards 8.4 % in 2007<sup>32</sup>. The actual growth of the gross premium income was assessed at 6.77 % on an annual basis, respectively 7.62 % in non-life insurance and 2.18 % in

<sup>32</sup> Source: Agency for Economic Analysis and Forecasting

life insurance<sup>33</sup>. The reported actual growth of the gross premium income from non-life insurance was above the reported actual growth of GDP on an annual basis of 6 %<sup>34</sup>, while the life insurance market was developing with much slower rates in comparison with 2007, when an actual growth of 16.7 % was achieved.

At the end of 2008 the shares of the non-life insurance and life insurance in the gross premium income were 85.02 % and 14.98 % respectively, compared to 84.35 % and 15.65 % reported for 2007.

### Share of life insurance in the total premium income in some European countries in 2005, 2006 and 2007 (in %)



Source: Sigma № 3/2008 World insurance in 2007: emerging markets leading the way, Statistical appendix, updated December 2008.

In terms of relative share of life insurance in the overall insurance business in Bulgaria ranked last among the European countries.

## 13.2 ANALYSIS OF THE ACTIVITIES OF NON-LIFE INSURANCE COMPANIES AS OF THE END OF 2008

### 13.2.1 PREMIUM INCOME AND MARKET SHARE

The gross premium income for non-life insurance as of the end of 2008 amounted to BGN 1,534,395 thousand, thus realizing a growth of 20.9 % on an annual basis. The premium income from direct non-life insurance amounted to BGN 1,513,272 thousand, with BGN 1,259,882 thousand for 2007, or a growth of 20.1 % was recorded. The amount of the received premiums for inward reinsurance was BGN 21,123 thousand against BGN 9,664 thousand reported one year earlier. The ceded premiums on outward reinsurance for the overall non-life insurance sector amounted to BGN 267,654 thousand and accounted for 17 % of the gross premium income generated in the sector. The self-retention ratio, presented in the table below, was calculated at 0.83 against 0.81 in 2007.

A large part of the non-life insurance companies reported positive growth on a year-on-year basis with regard to the generated by them premium income. The only exception was GENERALI INSURANCE AD.

<sup>33</sup> The actual growth is calculated by the formula of Fisher:  $1 + r_n = (1 + r_r)(1 + i)$ , where  $r_n$  is the nominal growth,  $r_r$  is the actual growth and  $i$  is the inflation growth.  
<sup>34</sup> Source: Agency for Economic Analysis and Forecasting



## Self-retention ratio in the non-life insurance by insurer for 2008

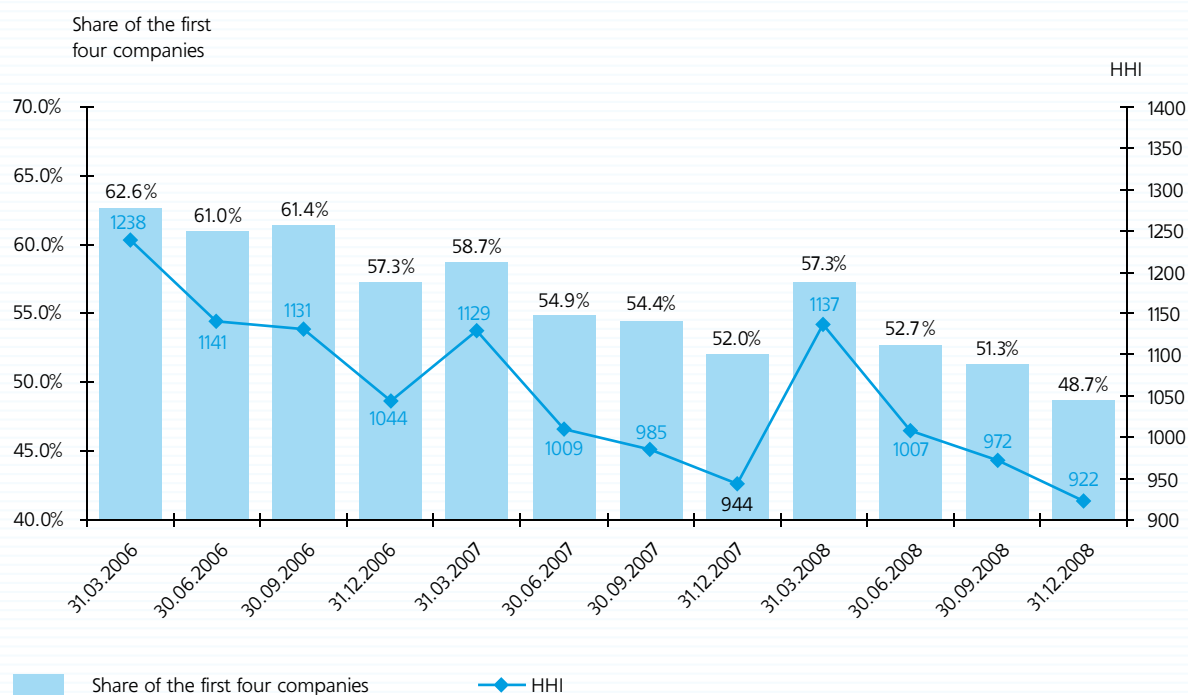
Insurers	Gross premium income (BGN thousand)	Ceded premiums to reinsurer (BGN thousand)	Self-retention ratio
ZK LEV INS AD	158,561	1,397	0.99
ZD BUL INS AD	155,002	1,642	0.99
DZI – GENERAL INSURANCE AD	202,151	7,367	0.96
HDI ZAD	18,860	1,161	0.94
ZAD ARMEEC AD	145,968	11,590	0.92
ZAD VICTORIA	44,127	4,587	0.90
GENERALI INSURANCE AD	62,381	8,972	0.86
ZAD BULSTRAD	221,938	45,767	0.79
ZAD ENERGIA	57,799	13,460	0.77
ZAD ALLIANZ	165,031	39,870	0.76
ZD EUROINS AD	82,345	20,694	0.75
MUNICIPAL INSURANCE COMPANY AD	14,203	3,979	0.72
UBB – AIG ZD AD	5,936	1,826	0.69
BUGARIAN EXPORT INSURANCE COMPANY EAD	5,042	1,567	0.69
INTERAMERICAN BULGARIA ZEAD	20,258	7,469	0.63
ZK UNIKA AD	95,974	44,390	0.54
ZK DSK GARANTZIA AD	8 328	4,220	0.49
GRAWE BULGARIA GENERAL INSURANCE EAD	73	43	0.41
AIG BULGARIA ZD EAD	18,216	11,737	0.36
ZK BULGARSKI IMOTI AD	52,202	35,916	0.31
<b>TOTAL:</b>	<b>1,534,395</b>	<b>267,654</b>	<b>0.83</b>

The market share of the four companies (ZAD BULSTRAD, DZI – GENERAL INSURANCE AD, ZAD ALLIANZ BULGARIA and ZK LEV INS AD) which generated the highest premium income at the end of 2008 came to 48.73 % against 51.99 % at the end of 2007. More detailed information on the gross written premiums by insurers is given in **Appendix 13.2.1A**.

The diagram on the following page shows the concentration of the non-life insurance market measured through the Herfindahl-Hirschman Index (HHI) and the share of the first four companies.

It is evident from the diagram that in 2006, 2007 and 2008 the curve of the HHI index featured a descending trend, which outlined a tendency of competition intensifying on the non-life insurance market at the yearend, at the expense of reduction in the concentration.

## Concentration on the non-life insurance market measured by HHI and the share of the first four companies



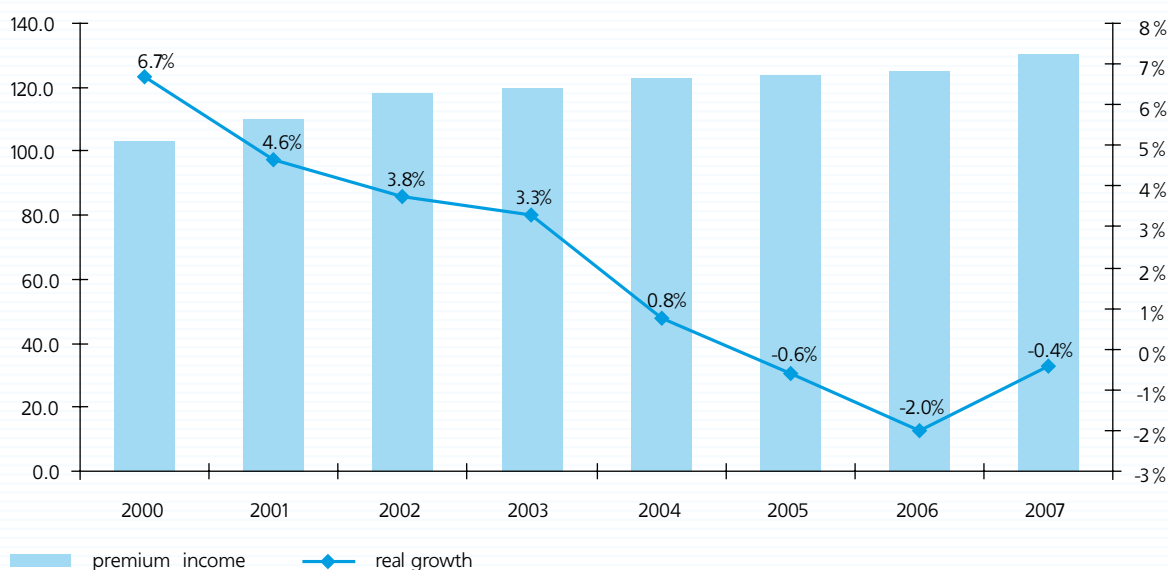
In the portfolio structure of the companies which carry out non-life insurance, a main share of 70.1% was held by the motor vehicle insurances – Land Vehicles, excluding railway rolling stock (45%) and Third Party Liability insurance related to the possession and use of motor vehicles (25.1%).

For the period January – December 2008 the generated premium income from Land Vehicles, excluding railway rolling stock insurance amounted to BGN 690,286 thousand and achieved a growth of 23.3% on an annual basis, compared to 36.6% in 2007. The registered decrease in the income from this type of insurance to a large extent was explained with the reduced sales of new automobiles. According to data of the Automobile Manufacturers Association in Bulgaria, the growth of the sales of new automobiles in 2008 was calculated at 4.68% on a year-on-year basis, compared to a growth of 22.15% on a year-on-year basis for 2007. The biggest premium income from this insurance was generated by ZD BUL INS AD – BGN 126,685 thousand (18.4%), DZI – GENERAL INSURANCE AD – BGN 101,698 thousand (14.7%), and ZAD BULSTRAD AD – BGN 97,484 thousand (14.1%).

In 2007 the premium income realized by the European motor insurers amounted to 130.2 billion Euro and registered a negative real growth of 0.4% for a third consecutive year despite the growing number of the insured motor vehicles, which was due primarily to the high level of competition among insurers. Negative growth rate was observed in more than 1/3 of the member states of the European Insurance Committee (CEA).

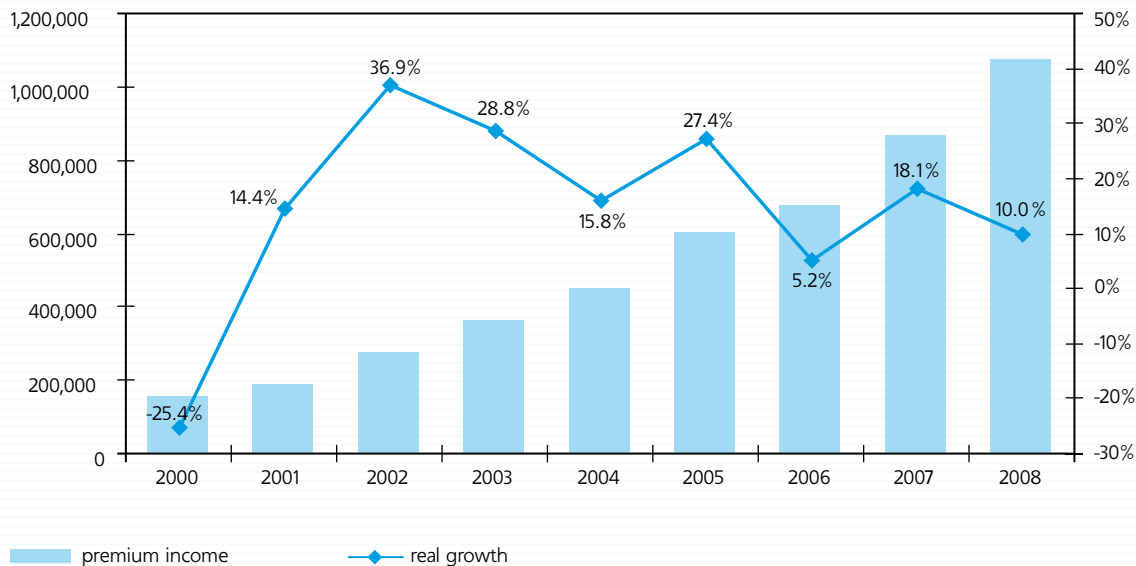
The following diagrams show the development of the European motor insurance and the motor insurance in Bulgaria.

### Development of the premium income from motor insurance in Europe (Motor Casco and Third Party Liability Insurance related to the possession and use of motor vehicles) (in billion Euro)



Source: CEA, Statistics N° 36

### Development of the premium income from motor insurance in Bulgaria (Motor Casco and Third Party Liability insurance related to the possession and use of motor vehicles) in Bulgaria (in BGN thousand)



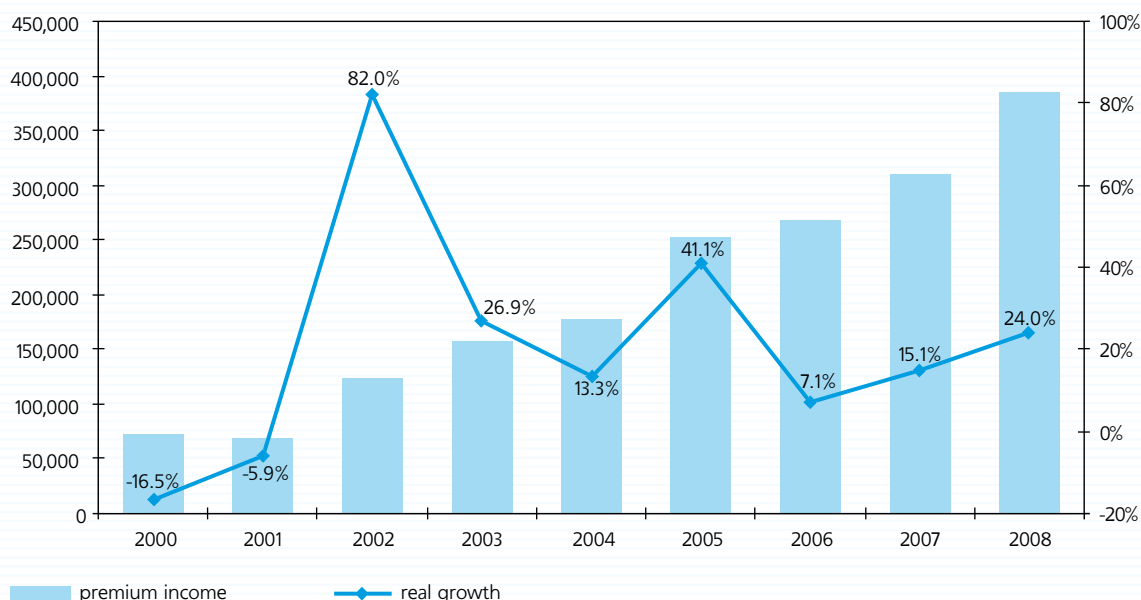
Unlike the European motor vehicle insurance which recorded a negative real growth of the premium income during the last three years, the Bulgarian motor insurance marked a positive real growth of the premium income since 2001.

At the end of 2008 from a total of 20 licensed non-life insurance companies, 16 had a license to offer Third Party Liability related to the possession and use of motor vehicle. The share of the first four companies in that insurance was calculated as 55.2%. The realized premium income on that insurance amounted to BGN 383,844 thousand, with BGN 309,634 thousand reported at the end of 2007, i.e. the growth of this class of insurance was calculated to be 24%. The premium income from Third Party Liability insurance of motorists amounted to BGN 368,812 thousand, from Third Party Liability in third countries (Green Card) – to BGN 10,982 thousand, Border Third Party Liability insurance of motorists – BGN 2,163 thousand, and from

Third Party Liability insurance of carriers – BGN 1,887 thousand.

The scope of the Third Party Liability insurance of motorists on the basis of insured motor vehicles towards registered motor vehicles, excluding those suspended from movement, was calculated to be 81.26 % (as of 30 Dec., 2008 – on the basis of a check-up from the information system on 12 May, 2009).

### Development of the premium income from Third Party Liability insurance related to the possession and use of motor vehicles in Bulgaria (BGN thousand)



At the end of 2008 the property insurances Fire and Natural Forces and Property Damage accounted for a share of 16.9 % of the gross premium income. The realized premium income from Fire and Natural Forces insurance and Property Damage insurance amounted to BGN 259,593 thousand and marked a growth of 7.5 % on an annual basis (real negative growth of 4 %), against a growth of 10.35 % for 2007 (real growth of 1.8 %) and increase by 21.43 % for 2006 (real growth of 13.2 %). 395,641 insurance contracts were concluded on these insurances in 2008, compared to 452,631 concluded insurance contracts in 2007 and 300,641 in 2006.

In 2007 on the European insurance market the property insurances accounted for a share of 19.3 % from the non-life insurance business, and the generated premium income amounted to 81.5 billion Euro. In 2007 this insurance class registered a negative real growth of 0.2 % on a year-on-year basis, with realized negative growth of 1.3 % in 2006.

The highest growth of the premium income on annual basis was reported on insurances: Legal expenses (713 %), Credit insurances (222 %), Railway rolling stock insurance (100 %) and Sickness (83 %), while these classes of insurances occupied a relatively small share in the portfolio of the non-life insurance companies.

The premium income from Legal expenses insurance amounted to BGN 1,186, where only ZAD ALLIANZ BULGARIA reported concluded contracts on that type of insurance.

The premium income generated from Credit insurance amounted to BGN 30,023 thousand, the highest premium income from that type of insurance being realized by ZK LEV INS (BGN 24,207 thousand).

Premium income of BGN 7,684 thousand was realized from Railway Rolling Stock insurance, the share of ZAD ALLIANZ BULGARIA being the biggest with realized premium income of BGN 7,260 thousand.

The reported premium income from Sickness insurance was at the amount of BGN 33 thousand, which was recorded by HDI ZAD.

A negative growth in the premium income on a year-on-year basis was reported from insurances: Aircraft (-22.2 %), Third Party Liability insurance related to the possession and use of aircrafts (-9.4 %), Third Party Liability insurance related to the possession and use of vessels (-9.2 %), Loads in transit insurance (-3.1 %) and Property Damage insurance (-0.7 %).

## Gross accrued (underwritten) premiums of non-life insurance companies as per insurance class

Insurance class	2008		2007		Growth rate
	BGN thousand	Share	BGN thousand	Share	
1. Accident insurance	27,311	1.8%	21,808	1.7%	25.2%
Including the obligatory Accident Insurance of Passengers in Public Transport	5,552	0.4%	5,461	0.4%	1.7%
2. Sickness	33	0.0%	18	0.0%	82.8%
3. Land vehicles, excluding railway rolling stock	690,286	45.0%	560,055	44.1%	23.3%
4. Railway rolling stock	7,684	0.5%	3,836	0.3%	100.3%
5. Aircraft insurance	7,024	0.5%	9,025	0.7%	-22.2%
6. Vessels insurance	21,955	1.4%	16,974	1.3%	29.3%
7. Loads in transit insurance	18,215	1.2%	18,803	1.5%	-3.1%
8. Fire and natural perils insurance	200,473	13.1%	181,879	14.3%	10.2%
9. Property damage insurance	59,120	3.9%	59,520	4.7%	-0.7%
10. Third Party Liability insurance related to the possession and use of motor vehicles, including:	383,844	25.1%	309,634	24.4%	24.0%
Third Party Liability insurance of motorists	368,812	24.1%	299,235	23.6%	23.3%
Green Card	10,982	0.7%	8,138	0.6%	34.9%
Border Third Party Liability insurance	2,163	0.1%	654	0.1%	230.5%
Third Party Liability insurance of carriers	1,887	0.1%	1,607	0.1%	17.5%
11. Third Party Liability insurance related to the possession and use of aircrafts	7,836	0.5%	8,650	0.7%	-9.4%
12. Third Party Liability insurance related to the possession and use of vessels	1,928	0.1%	2,125	0.2%	-9.2%
13. General Third Party Liability insurance	31,673	2.1%	30,762	2.4%	3.0%
14. Credit insurance	30,023	2.0%	9,329	0.7%	221.8%
15. Suretyship insurance	3,487	0.2%	3,368	0.3%	3.5%
16. Miscellaneous financial loss insurance	31,032	2.0%	23,143	1.8%	34.1%
17. Legal expenses insurance	1	0.0%	0	0.0%	712.6%
18. Travel assistance insurance	10,513	0.7%	9,654	0.8%	8.9%
<b>TOTAL:</b>	<b>1,532,438</b>	<b>100.0%</b>	<b>1,268,582</b>	<b>100.0%</b>	<b>20.8%</b>

In the sector of non-life insurance, a major share in the activity of inward reinsurance in 2008 was occupied by the risks associated with Fire and Natural Forces insurance. The premiums received by cedants for this insurance amounted to 49.2 % of the total amount of the premiums received from inward reinsurance. Next in relative share came insurances Vessels (20.8 %) and Land vehicles excluding railway rolling stock (18.9 %). Information about the gross received premiums from inward reinsurance by non-life insurers is given in **Appendix 13.2.1B**.

In the structure of the ceded premiums to reinsurers as per insurance class, the highest share belonged to Fire and Natural Forces insurance (28.1%), Land vehicles excluding railway rolling stock (22.1%), Third Party Liability insurance related to the possession and use of motor vehicles (19.1%) and Property Damage insurance (9.3%).

## Self-retention ratio in the non-life insurance as per insurance class for 2008

Insurance class	Gross premium income (BGN thousand)	Ceded premiums to reinsurers (BGN thousand)	Self-retention ratio
Sickness insurance	33	0	1.00
Legal Expenses insurance	1	0	1.00
Miscellaneous Financial Loss insurance	31,032	1,177	0.96
Credit insurance	30,023	1,542	0.95
Land vehicles, excluding railway rolling stock insurance	690,286	58,954	0.91
Accident insurance	27,311	2,684	0.90
Travel assistance insurance	10,513	1,135	0.89
Third Party Liability insurance related to the possession and use of motor vehicles	383,844	50,914	0.87
Railway Rolling Stock insurance	7,684	2,006	0.74
General Third Party Liability insurance	31,673	10,439	0.67
Loads in Transit insurance	18,215	6,331	0.65
Fire and Natural Forces insurance	200,473	75,029	0.63
Suretyship insurance	3,487	1,450	0.58
Property Damage insurance	59,120	24,809	0.58
Vessels	21,955	15,228	0.31
Third Party Liability insurance related to the possession and use of vessels	1,928	1,374	0.29
Aircraft insurance	7,024	6,202	0.12
Third Party Liability insurance related to the possession and use of aircrafts	7,836	7,634	0.03
<b>TOTAL:</b>	<b>1,532,438</b>	<b>266,909</b>	<b>0.83</b>

## 13.2.2

### ANALYSIS AND STRUCTURE OF PAID COMPENSATIONS AND COSTS RELATED TO INSURANCE ACTIVITY BY CLASS OF INSURANCE

The sum of the paid compensations in the non-life insurance sector in 2008 amounted to BGN 594,263 thousand, against BGN 451,504 thousand paid a year earlier, whereby an outpacing growth of 31.6 % on an annual basis was registered in comparison with the growth of the gross premium income. The incurred claims in non-life insurance amounted to BGN 772,618 thousand, with a year-on-year growth of 37.9 %.

The biggest share in the structure of the paid compensations was held by IC BULSTRAD PLC with 19.4 %, DZI – GENERAL INSURANCE AD with 16 %, ZAD ALLIANZ BULGARIA with 10.5 % and ZD BUL INS AD with 10.2 %. The aggregate share of these companies was 56.1 % of the total volume of the compensations paid in the sector. More detailed information about the compensations paid, the incurred claims and the changes in their amounts can be found in **Appendix 13.2.2A** and **Appendix 13.2.2B**.

It is evident from **Appendix 13.2.2B** that with nearly two thirds of the non-life insurers the increase of the paid compensations on an annual basis outpaced the premium income growth. With GENERALI INSURANCE AD simultaneously a drop of the premium income (by -3.9 %) was recorded and big increase in both the paid compensations (by 53.6 %), and in the incurred claims (by 75.5 %) on a year-on-year basis.

The BULGARIAN EXPORT INSURANCE AGENCY EAD, AIG BULGARIA INSURANCE AND REINSURANCE COMPANY EAD and UBB-AIG ZD AD reported more than 200 % increase in the compensations paid by them.

UBB-AIG ZD AD registered an increase of the paid compensations on all offered by the company types of insurances (Accident, Fire and Natural Forces u Miscellaneous Financial Loss).

The increase of the sum of the compensations paid by AIG BULGARIA ZD EAD was due to the big growth, with BGN 2,487 thousand, of the paid indemnities on Fire and Natural Forces insurance.

In the structure of the paid compensations by classes of insurances, the highest share was occupied by: Land vehicles, excluding railway rolling stock (57.5 %), third Party Liability insurance related to the possession and use of motor vehicles (27.2 %) and Fire and Natural Forces (5.3 %). In **Appendix 13.2.2C** is presented information about the paid compensations, incurred claims and the actually made expenses by classes of insurance.

Over 100 % increase of the amount of the paid compensations on a year-on-year basis was marked by insurances: Suretyship – by 265 %, Credit insurance – by 175 %, Vessels – by 165 %, and Aircrafts – by 146 %.

The indemnities paid on Suretyship insurance for the period January – December, 2008 were at the amount of BGN 739 thousand, and a year earlier they amounted to BGN 203 thousand, or a growth of 265 % was recorded. ZAD ALLIANZ BULGARIA paid 59 % of the indemnities on that class of insurance.

During the period under review, compensations amounting to BGN 5,006 thousand were paid on Credit insurance, the largest share of 45 % being held by ZK LEV INS AD. Despite of it, the biggest growth in the paid compensations was registered by companies DZI – GENERAL INSURANCE AD (from BGN 47 thousand in 2007 to BGN 936 thousand in 2008) and ZAD ARMEEZ AD (from BGN 31 thousand to BGN 365 thousand).

The compensations paid on Aircraft insurance at the end of 2008 amounted to BGN 1,376 thousand, 85 % of which were paid by ZAD BULSTRAD.

Compensations at the amount of BGN 17,471 thousand were paid on Vessels insurance. The biggest growth in absolute terms was registered by companies ZAD BULSTRAD of BGN 8,998 thousand, ZAD ALLIANZ BULGARIA of BGN 2,732 thousand and ZK UNIKA AD of BGN 345 thousand.

The compensations paid to cedants in non-life insurance amounted to BGN 3,986 thousand, the biggest share belonging to Fire and Natural Forces insurance – 61.6 %. It was followed by Land vehicles, excluding railway rolling – 19.1 %, and Vessels insurance – 10.6 % of the total amount of the compensations paid under contracts subject of inward reinsurance.

The recovered amounts on reinsurance contracts amounted to BGN 92,763 thousand, which accounted for 16 % of the non-life insurance compensations, paid in 2008.

It is evident from **Appendix 13.2.2D** that on a year-on-year basis, the increase in the compensations paid for the classes of insurances: Accident, Land vehicles, excluding railway rolling stock, Aircrafts, Vessels, Property damage, Third Party Liability insurance related to the possession and use of motor vehicles, Third Party Liability insurance related to the possession and use of aircrafts, Third Party Liability insurance related to the possession and use of vessels, and Suretyship outstripped the premium income growth.

## Main indicators by class of insurances offered by non-life insurance companies

Insurance class	2008				2007			
	Gross loss ratio	Gross expense ratio	Gross combined ratio	Gross technical result (BGN thousand)	Gross loss ratio	Gross expense ratio	Gross combined ratio	Gross technical result (BGN thousand)
1. Accident insurance	0.23	0.49	0.73	6,893,920	0.21	0.47	0.68	6,112,318
2. Sickness insurance	0.55	0.52	1.07	-3,393	1.60	0.29	1.90	-16,990

3. Land vehicles, excluding railway rolling stock	0.57	0.37	0.94	23,282,755	0.55	0.40	0.94	14,282,616
4. Railway rolling stock insurance	-0.05	0.34	0.29	5,484,002	0.08	0.31	0.38	2,291,884
5. Aircraft insurance	0.21	0.13	0.33	4,520,258	0.22	0.12	0.34	6,966,634
6. Vessels insurance	0.79	0.33	1.12	-2,629,952	0.64	0.46	1.09	-302,649
7. Loads in transit insurance	0.19	0.43	0.61	7,617,879	0.22	0.42	0.64	6,552,548
8. Fire and natural forces insurance	0.17	0.31	0.48	104,888,364	0.19	0.31	0.51	80,773,761
9. Property damage insurance	0.15	0.46	0.61	25,562,975	0.08	0.40	0.48	24,559,845
10. Third Party Liability insurance related to the possession and use of motor vehicles	0.84	0.37	1.21	-100,215,669	0.74	0.39	1.13	-44,994,350
11. Third Party Liability insurance related to the possession and use of aircrafts	0.00	0.12	0.13	6,437,972	0.00	0.11	0.10	8,191,678
12. Third Party Liability insurance related to the possession and use of vessels	1.23	0.48	1.72	-1,559,954	0.01	0.20	0.21	1,720,902
13. General Third party Liability insurance	0.49	0.28	0.77	7,341,608	0.43	0.25	0.68	9,227,200



14. Credit insurance	0.23	0.25	0.48	10,975,686	0.18	0,40	0.58	2,835,100
15. Suretyship insurance	0.15	0.28	0.43	1,923,679	-0.69	0.35	-0.34	4,164,083
16. Miscellaneous financial loss insurance	0.32	0.45	0.77	9,930,697	0.29	0.42	0.71	3,616,727
17. Legal expenses insurance	0.00	0.21	0.21	256	0.00	1.85	1.85	820
18. Travel assistance insurance	0.22	0.51	0.73	2,572,202	0.16	0.57	0.72	2,886,989
<b>TOTAL:</b>	<b>0.53</b>	<b>0.36</b>	<b>0.89*</b>	<b>113,023,284*</b>	<b>0.48</b>	<b>0.38</b>	<b>0.86*</b>	<b>128,869,115*</b>

\* The values are obtained on the basis of accounting for the immediate inherent income and expenses by insurance classes, without taking into account other technical expenses and distributed investment income, reported in the Income Statement. The other technical expenses for 2008 amounted to BGN 105,753 thousand (where predominantly were included amortization of the receivables under insurance contracts with deferred payment of the premiums and contributions to funds), and the distributed investment income amounted to BGN 20,648 thousand. For 2007 the other technical expenses amounted to BGN 85,636 thousand, and the distributed investment income amounted to BGN 35,939 thousand

The biggest relative share in the gross technical result by class of insurance belonged to Fire and Natural Forces insurance (BGN 104,888 thousand) and Property Damage insurance (BGN 25,563 thousand).

The gross technical result of Third Party Liability insurance related to the possession and use of motor vehicles continued to decrease, reaching negative values of BGN -100,216 thousand. From 16 insurers, having the right to offer that insurance, 10 reported a negative gross technical result: DZI – GENERAL INSURANCE AD (BGN -29,484 thousand), INSURANCE COMPANY BULGARSKI IMOTI AD (BGN -17,973 thousand), ZK UNIKA AD (BGN -14,327 thousand), ZAD ARMEEZ AD (BGN -13,691 thousand), GENERALI INSURANCE AD (BGN -12,474 thousand), ZAD BULSTRAD (BGN -5,894 thousand), ZD BUL INS AD (BGN -4,031 thousand), ZD EUROINS AD (BGN -3,692 thousand), INTERAMERIKAN BULGARIA ZEAD (BGN -1,886 thousand) and ZAD VICTORIA (BGN -550 thousand).

The actually incurred expenses for 2008 by the non-life insurance companies related to their activity amounted to BGN 581,055 thousand, against BGN 481,325 thousand for the same period in 2007, which was 38 % of the gross premium income generated in the sector. The gross expense ratio at the end of the reporting period was 0.36, with 0.38 at the end of 2007.

The acquisition expenses amounted to BGN 354,576 thousand and accounted for 61 % of the incurred actual expenses and 23.1 % of the realized gross premium income for 2008. From them BGN 293,054 thousand, or 82.6 %, were acquisition commissions, BGN 23,474 thousand, or 6.6 %, were advertisement expenses and BGN 38,048 thousand were other direct and indirect acquisition expenses.

The acquisition commissions paid on insurance Land vehicles, excluding railway rolling stock amounted to BGN 144,948 thousand, picking up by 19.7 %. The share of the acquisition commissions of that class of insurance was 54 % of the total incurred actual expenses on that class of insurance and 21 % of the premium income from that class of insurance.

At the end of the period, regarding Third Party Liability insurance related to the possession and use of motor vehicles, acquisition commissions were paid at the amount of BGN 78,756 thousand, with BGN 61,429 thousand a year earlier. A growth of 28 % was reported on a year-on-year basis. The share of the paid acquisition commissions on that class of insurance from the overall incurred actual expenses on the same class of insurance were 53 % and 21 % of the premium income from that class of insurance.

The administrative expenses incurred were at the amount of BGN 166,684 thousand, or 29 %, from the total incurred expenses and 11 % from the gross premium income. As of the end of 2008 the amount of the administrative expenses

incurred by the non-life insurance companies surged by 14 % compared to the same period in the previous year. The administrative expenses incurred on Land vehicles, excluding railway rolling stock amounted to BGN 75,454 thousand, which was 28 % of the total incurred expenses on that type of insurance and 11 % of the premium income from the insurance. The growth on an annual base was 17 %.

On Third Party Liability insurance related to the possession and use of motor vehicles, the administrative expenses incurred amounted to BGN 23,820 thousand, increasing by 10 % on a year-on-year basis and accounted for 16 % of the total incurred expenses on that type of insurance and 6 % of the premium income from the insurance.

Claims settlement expenses amounted to BGN 24,576 thousand, or 4 % of the overall incurred expenses.

The sum of the incurred expenses amounted to more than 40 % from the premium income realized from the relevant type of insurance: on Third Party Liability insurance related to the possession and use of vessels – 66 %, Sickness – 53 %, Travel Assistance – 53 %, Accident – 50 %, Miscellaneous Financial Loss – 46 %, Property Damage – 46 %, Loads in Transit – 44 %, and Vessels – 43 %.

The biggest growth of incurred expenses was registered on insurances Sickness – by 232 %, Third Party Liability insurance related to the possession and use of vessels – by 203 %, Credit insurance – by 123 %, and Railway Rolling Stock – by 121 %.

## 13.23

### ANALYSIS AND STRUCTURE OF THE TECHNICAL PROVISIONS AND ASSETS FOR COVERING TECHNICAL PROVISIONS

#### ANALYSIS AND STRUCTURE OF THE GROSS TECHNICAL PROVISIONS

At the end of 2008 the amount of the gross technical provisions, set aside by the non-life insurance companies reached BGN 1,197,655 thousand, against BGN 921,138 thousand one year earlier.

#### Gross Technical Provisions in the Non-life Insurance (BGN thousand)

TYPE OF TECHNICAL PROVISIONS	31.12. 2008	31.12. 2007	31.12. 2006	31.12. 2005	Change 2008/2007	Change 2007/2006	Change 2006/2005
Unearned premium reserve	535,732	455,024	350,449	269,587	17.7%	29.8%	30.0%
Unexpired risks reserve	18,996	44	33	-	43072.7%	33.3%	-
Loss reserve	640,852	464,204	333,688	275,483	38.1%	39.1%	21.1%
incl. reserve for incurred but unsubmitted claims	239,129	160,843	111,329	80,320	48.7%	44.5%	38.6%
Equalization reserve	1,811	1,649	920	1,286	9.8%	79.2%	-28.5%
Bonus and rebate reserve	263	217	0	-	-	-	-
Other reserves approved by FSC	0	0	7,724	3,509	-	-100.0%	120.1%
<b>TOTAL:</b>	<b>1,197,655</b>	<b>921,138</b>	<b>692,815</b>	<b>549,865</b>	<b>30.0%</b>	<b>33.0%</b>	<b>26.0%</b>

The biggest share in the gross technical provisions of 54 % was held by the loss reserve. The sum of that reserve at the end of 2008 amounted to BGN 640,852 thousand, increasing by 38.1 %, with a growth of the premium income of 20.9 %.

With regard to Third Party Liability insurance related to the possession and use of motor vehicles, the allocated loss reserve as of the end of 2008 grew by 48 % on a year-on-year basis and reached BGN 426,772 thousand, with a growth of the premium income from that class of insurance of 24 % on a year-on-year basis. The increase of the reserve on this class of insurance was mostly as a result of the increase by 51 % of its portion allocated for incurred but unsubmitted claims.

The amount of the unearned premium reserve at the end of 2008 came to BGN 535,732 thousand and marked a growth of 45 % on annual basis. By classes of insurances, the biggest increase in the unearned premium reserve was registered on insurance Land vehicles, excluding railway rolling stock (with BGN 49,634 thousand), Third Party Liability insurance related to the possession and use of motor vehicles (with BGN 26,173 thousand) and Credit insurance (with BGN 6,028 thousand).

## ANALYSIS OF THE DEVELOPMENT OF THE MARKET IN FINANCIAL INSURANCES

As from the end of 2008 the underwritten premium income on financial insurances amounted to BGN 64,543 thousand, of which BGN 30,023 thousand on Credit insurance, BGN 3,487 thousand on Suretyship insurance and BGN 31,032 thousand on insurance Miscellaneous Financial Loss (**Appendix 13.2.3**). ZK LEV INS AD underwrote BGN 37,084 thousand from the premium income on the three classes of insurances, followed by ZAD ALLIANZ BULGARIA with BGN 5,285 thousand, ZD BUL INS AD with BGN 4,406 thousand, ZD EUROINS AD with BGN 4,127 thousand and DZI – GENERAL INSURANCE AD with BGN 3,796 thousand. The realized growth of the premium income on an annual basis was respectively 222 % on Credit insurance, 3.5 % on Suretyship insurance and 34 % on Miscellaneous Financial Loss insurance.

The incurred claims in 2008 were at the amount of BGN 16,095 thousand, of which BGN 10,389 thousand were paid compensations. The incurred claims on Credit insurance amounted at BGN 5,437 thousand, on Suretyship insurance – at BGN 527 thousand, and on Miscellaneous Financial Loss insurance – at BGN 10,131 thousand. Biggest share in the total incurred claims on the three classes of insurances was held by ZAD ALLIANZ BULGARIA, followed by ZK LEV INS AD and DZI – GENERAL INSURANCE AD.

The total technical provisions set aside on the three classes of insurances at the end of 2008 amounted to BGN 40,244 thousand, of which BGN 13,824 thousand were set aside on Credit insurance, BGN 3,576 thousand on Suretyship insurance and BGN 22,844 thousand on Miscellaneous Financial Loss insurance. The unearned premium reserve amounted to BGN 19,607 thousand, from which BGN 9,159 thousand on Credit insurance, BGN 672 thousand on Suretyship insurance and BGN 9,776 thousand on Miscellaneous Financial Loss insurance. The loss reserve amounted to BGN 19,165 thousand, of which BGN 3,360 thousand on Credit insurance, BGN 2,803 thousand on Suretyship insurance and BGN 13,002 thousand on Miscellaneous Financial Loss insurance. The equalization reserve amounted to BGN 1,317 thousand, from which BGN 1,154 thousand on Credit insurance, BGN 100 thousand on Suretyship insurance and BGN 63 thousand on Miscellaneous Financial Loss insurance. The bonus and rebate reserve amounted to BGN 152 thousand, allocated on Credit insurance. The unexpired risks reserve amounted at BGN 3 thousand, which was allocated on Miscellaneous Financial Loss insurance. The biggest amount was that of the technical provisions set aside from ZAD ALLIANZ BULGARIA (BGN 13,252 thousand), followed by ZK LEV INS AD with BGN 9,403 thousand and DZI–GENERAL INSURANCE AD with BGN 4,536 thousand.

The size of the insurance amount, whose risks were covered at the end of 2008 reached BGN 3,965,761 thousand, from which BGN 1,484,890 thousand on Credit insurance, BGN 312,183 thousand on Suretyship insurance and BGN 2,168,688 thousand on Miscellaneous Financial Loss insurance.

The ratio of the premium income towards the insurance amount for the period August – December, 2008 moved within the limits from 1 % to 2 % on Credit insurance, from 0.6 % to 1.1 % on Suretyship insurance and from 0.9 % to 1.4 % on Miscellaneous Financial Loss insurance.

The ratio of the paid compensations towards the insurance amount for the period August – December, 2008 moved within the limits between 0.3 % and 0.6 % on Credit insurance, 0.2 % on Suretyship insurance and within 0.2 % to 0.4 % on Miscellaneous Financial Loss insurance.

The technical result at the end of 2008 on the three types of financial insurances was respectively BGN 10,976 thousand

compared to BGN 2,835 thousand for 2007 on Credit insurance, BGN 1,924 thousand compared to BGN 4,164 thousand for 2007 on Suretyship insurance and BGN 9,931 thousand against BGN 3,617 thousand for 2007 on Miscellaneous Financial Loss insurance.

## ANALYSIS AND STRUCTURE OF THE ASSETS FOR COVERING TECHNICAL PROVISIONS

As of the end of 2008 the amount of the assets for covering the technical provisions amounted to BGN 1,203,472 thousand.

### Assets for Covering Technical Provisions

Nº	TYPE OF ASSETS	As of 31.12.2008 (BGN thousand)	Share	As of 31.12.2007 (BGN thousand)	Share	Change
1.	Securities admitted to trading on a regulated securities market in the Republic of Bulgaria or in a Member State, as well as shares, eligible bonds and other eligible debt securities, admitted to trading on internationally recognized and liquid regulated securities markets in a third country	<b>121,401</b>	10.1%	<b>116,974</b>	12.2%	3.78%
2.	Securities issued or guaranteed by the Republic of Bulgaria or a Member State, as well as eligible debt securities, issued or guaranteed by third countries, their central banks or international organizations, a member of which the Republic of Bulgaria is	<b>193,431</b>	16.1%	<b>202,739</b>	21.2%	-4.59%
3.	Shares and units issued by investment companies and mutual funds which carry out activities under the provisions of the LPOS, as well as shares and units of collective investment schemes whose seat is located in an EU Member State	<b>21,704</b>	1.8%	<b>36,779</b>	3.8%	-40.99%
4.	Title on lands and buildings	<b>70,337</b>	5.8%	<b>57,418</b>	6.0%	22.50%
5.	Receivables from reinsurers (less the liabilities to the respective reinsurer), including the reinsurer's shares in the technical provisions	<b>150,870</b>	12.5%	<b>119,252</b>	12.4%	26.51%
6.	Deposits and receivables from cedants	<b>0</b>	0.0%	<b>0</b>	0.0%	0.00%
7.	Receivables from insured persons and intermediaries, arising from insurance and reinsurance contracts which are not overdue more than three months	<b>223,077</b>	18.5%	<b>130,191</b>	13.6%	71.35%
8.	Receivables from loans against Life insurances	<b>0</b>	0.0%	<b>0</b>	0.0%	0.00%

9.	Cash in hand or on payment accounts or deposits at banks authorized to carry out banking activity in the Republic of Bulgaria or in a Member State, incl.	<b>397,529</b>	33.0%	<b>270,583</b>	28.2%	46.92%
-	deposits	<b>370,288</b>	30.8%	<b>253,745</b>	26.5%	45.93%
-	cash on payment accounts	<b>18,577</b>	1.5%	<b>13,845</b>	1.4%	34.18%
-	cash in hand	<b>8,665</b>	0.7%	<b>2,993</b>	0.3%	189.51%
10.	Deferred acquisition expense	<b>24,988</b>	2.1%	<b>23,590</b>	2.5%	5.93%
11.	Indisputably established receivables in relation to tax refund	<b>134</b>	0.0%	<b>618</b>	0.1%	0.00%
	<b>TOTAL ASSETS FOR COVERING TECHNICAL PROVISIONS:</b>	<b>1,203,472</b>	<b>100.00%</b>	<b>958,144</b>	<b>100.00%</b>	<b>25.60%</b>

The biggest share in the structure of assets for covering technical provisions belonged to cash in hand and on payment accounts or bank accounts – 33 %, the latter accounting for 93 % of this group of assets. These are followed by receivables from insured persons and intermediaries, holding a share of 18.5 %.

The cash in hand used for covering the technical provisions increased from BGN 2,993 thousand at the end of 2007 to BGN 8,665 thousand at the end of 2008, their increase being highest in ZAD ARMEEZ AD with BGN 2,073 thousand, ZD BUL INS AD with BGN 1,524 thousand, INSURANCE COMPANY BULGARSKI IMOTI AD with BGN 1,000 thousand and DZI – GENERAL INSURANCE AD with BGN 1,000 thousand.

The covering of the technical provisions with receivables from insured persons and intermediaries grew by 71.35 % on a year-on-year basis, or with BGN 92,886 thousand. The companies which contributed most to that growth were ZAD ARMEEZ AD with BGN 33,747 thousand, ZAD BULSTRAD with BGN 16,926 thousand, ZD EUROINS AD with BGN 13,877 thousand, ZK UNIKA AD with BGN 12,305 thousand, ZK LEV INS AD with BGN 9,299 thousand, ZD BUL INS AD with BGN 9,056 thousand and INSURANCE COMPANY BULGARSKI IMOTI AD with BGN 7,952 thousand.

The covering of the technical provisions with deposits at the end of 2008 increased by 45.9 % on a year-on-year basis, or with BGN 116,542 thousand. The companies which contributed most to that growth were GENERALI INSURANCE AD with BGN 29,371 thousand, ZK LEV INS AD with BGN 21,263 thousand, ZAD BULSTRAD with BGN 20,315 thousand, DZI – GENERAL INSURANCE AD with BGN 15,142 thousand and IC BULGARSKI IMOTI with BGN 13,767 thousand.

The covering of the technical provisions with bonds increased by 43.1 % on a year-on-year basis, and the covering with shares decreased by 42.8 %.

## 13.2.4 TECHNICAL RESULT AND FINANCIAL RESULT

At the end of 2008 the companies in the non-life insurance sector reported a negative **technical result** at the amount of BGN -4,694 thousand, compared to reported BGN 34,328 thousand at the end of 2007. Detailed information about the technical and financial result of the non-life insurance companies is given in **Appendix 13.2.4**. The considerably lower technical result was due to the more rapid rate of increase of the incurred claims, net of reinsurance (by 34.6 % on an annual basis), compared to the rate of increase of the gained premiums, net of reinsurance (by 24.7 % on an annual basis). The big change in the gross amount of the loss reserve by 64 % contributed most to the increase of the incurred claims. The net operating expenses grew by 18 % on an annual basis, and the other technical expenses, net of reinsurance (in this position the insurers report as expense the amortization of receivables under the insurance contracts and the expenses related to the Guarantee Fund) – by 23 %. To the decrease of the technical result also contributed the distributed investment income carried over from the non-technical report, which declined by 43 % on an annual basis.

The highest technical result was achieved by ZAD ENERGY, ZK LEV INS AD, ZD BUL INS AD and ZAD ALLIANZ BULGARIA. Of 20 non-life insurance companies 10 closed the period with negative technical result: DZI – GENERAL INSURANCE AD, GENERALI INSURANCE AD, ZD EUROINS AD, ZK BULGARSKI IMOTI AD, ZK UNIKA AD, INTERAMERICAN BULGARIA ZEAD, ZAD VICTORIA,

ZK DSK GARANTSIA AD, ZAD HDI and GRAWE BULGARIA GENERAL INSURANCE EAD.

The negative technical result of DZI – GENERAL INSURANCE AD amounted to BGN - 33,956 thousand at the end of the period under review compared to BGN -22,018 thousand for the same period of the previous year, which was due mainly to the outpacing increase of the incurred claims, net of reinsurance (by 42.6 %) towards the gained premiums, net of reinsurance (by 17.7 %).

The realized at the end of 2008 negative technical result of GENERALI INSURANCE AD was at the amount of BGN -16,432 thousand against BGN -3,243 thousand at the end of the same period of the previous year. This result was due to the more rapid growth of the incurred claims, net of reinsurance (by 72.7 %) compared to the growth of the gained premiums, net of reinsurance (of 34.6 %). The net operating expenses of the company increased by 47.3 %.

As of 31 December, 2008 the technical result of ZD EUROINS AD amounted to BGN -10,526 thousand compared to BGN 6,319 thousand one year earlier. The company reported a growth of the gained premiums, net of reinsurance, by 26.1%, growth of the incurred claims, net of reinsurance, by 113.1%, growth of the net operating expenses by 28.2 % and growth of the other technical expenses, net of reinsurance, by 85.2 %.

The insurers carrying out non-life insurance activity at the end of 2008 reported a negative **net financial result** at the amount of BGN -2,366 thousand, with realized net financial result a year earlier at the amount of BGN 66,338 thousand. The registered decrease in the financial result of the non-life insurance companies was due to the substantial decline of the obtained technical result (from BGN 34,328 thousand in 2007 to BGN -4,694 thousand in 2008), as well as due to the high realized expense on investments (negative differences from revaluation of the value of investments and losses from investment realization). The highest financial result was achieved by ZAD ENERGY, ZK LEV INS AD, ZD BUL INS AD and ZAD ALLIANZ BULGARIA. Loss was recorded at closing by 7 non-life insurance companies, while a year earlier their number was three. The biggest loss was realized by DZI – GENERAL INSURANCE AD (BGN -23,588 thousand), GENERALI INSURANCE AD (BGN -16,509 thousand) and ZD EUROINS AD (BGN -13,407 thousand). The negative financial result of those companies was predominantly a consequence of the negative technical result.

## 13.25

### MAIN BALANCE SHEET INDICATORS

#### AMOUNT OF ASSETS AND OWN CAPITAL

At the end of the reporting period the sum of the non-life insurance companies' assets amounted to BGN 1,649,005 thousand, registering an increase by 21.5 % on an annual basis. The return on the assets, calculated as a ratio between the profit (loss) for the financial period and the total sum of the assets, was -0.1%, compared to 4.9 % in 2007.

The own capital of the non-life insurers reached BGN 456,110 thousand, against reported data for 2007 of BGN 412,818 thousand, or a growth of 10.5 % was recorded. That growth was a result mostly of the increase in:

- the subscribed share capital of the non-life insurance companies with BGN 73,446 thousand towards the end of 2007 (increase in the subscribed share capital was recorded by DZI – GENERAL INSURANCE AD with BGN 55,000 thousand, ZK LEV INS AD with BGN 9,115 thousand, ZD EUROINS AD with BGN 1,754 thousand, INTERAMERICAN BULGARIA ZEAD with BGN 777 thousand and UBB – AIG ZD AD with BGN 400 thousand);
- the premiums from issues with BGN 47,852 thousand (the increase was due mostly to GENERALI INSURANCE AD and ZD EUROINS AD, whose premiums from issues increased respectively with BGN 42,300 thousand and BGN 5,261 thousand);
- the capital reserves with BGN 21,835 thousand (the increase was mostly due to ZAD ARMEEZ, where the reserves increased with BGN 14,910 thousand);
- the undistributed profit with BGN 8,224 thousand.

It was also noticed, that unlike the data for 2007, as of the end of 2008 the balance sheets of only two non-life insurance companies had recorded uncovered loss from prior periods, which was biggest with GENERALI INSURANCE AD (BGN -36,249 thousand). **Appendix 13.2.5A** presents full information on the asset and own capital amount of the non-life insurance companies.

The return on the own capital, calculated as a ratio between the profit (loss) or the period and the own capital was

calculated at -0.5 % for 2008, compared to 16.1 % for 2007.

The own funds less the intangible assets of the non-life insurance companies amounted to BGN 369,144 thousand at the end of 2008 and covered in full their solvency margin (amounting to BGN 228,468 thousand), with the exception of GENERALI INSURANCE AD, which covered 57 % of its solvency margin. Likewise, the own funds of GENERALI INSURANCE AD, less the intangible assets and amounting to BGN 6,089 thousand, did not cover the minimum amount of the guarantee capital (BGN 6,400 thousand). The shareholder of the company laid down the necessary measures and took the appropriate actions for removal of the deviations from the requirements, related to the solvency – a plan for payment of additional own funds was submitted. The fulfillment of the plan for increase in the own funds will find reflection in the periodical reports of the company for 2009.

## Solvency ratio of non-life insurance companies for 2008

Insurers	Own funds (BGN thousand)	Solvency margin (BGN thousand)	Solvency ratio
ZAD ARMEEZ AD	29,270	23,626	123.89%
ZAD ALLIANZ BULGARIA	34,150	26,092	130.88%
ZAD BULSTRAD	37,670	33,365	112.90%
ZD BUL INS AD	26,585	25,638	103.69%
INSURANCE COMPANY BULGARSKI IMOTI AD	6,479	3,814	169.85%
BULGARIAN EXPORT INSURANCE AGENCY EAD	12,269	337	3640.40%
ZK UNIKA AD	15,801	9,378	168.49%
DZI – GENERAL INSURANCE AD	53,159	31,014	171.40%
INSURANCE COMPANY EURO INS AD	14,327	8,709	164.51%
ZAD ENERGIA	30,916	10,439	296.16%
AIG BULGARIA INSURANCE COMPANY EAD	13,615	1,715	793.77%
INTERAMERICAN BULGARIA ZEAD	6,890	1,802	382.26%
ZK LEV INS AD	32,940	28,166	116.95%
ZAD VICTORIA	11,212	7,085	158.24%
MUNICIPAL INSURANCE COMPANY AD	9,165	1,734	528.61%
GENERALI INSURANCE AD	6,089	10,756	56.61%
HDI ZAD	7,268	2,588	280.86%
ZK DSK GARANTZIA AD	7,796	1,134	687.34%
UBB – AIG ZD AD	6,761	1,068	633.02%
GRAWE BULGARIA GENERAL INSURANCE EAD	6,783	7	99062.64%
<b>TOTAL:</b>	<b>369,144</b>	<b>228,468</b>	<b>161.57%</b>

## INVESTMENTS

The total amount of investments of the non-life insurance companies amounted to BGN 975,422 thousand, whereby a growth of 16.3 % was reported for the last 12 months.



## Investments of the non-life insurance companies

INVESTMENT TYPE	2008		2007		Change
	BGN thousand	Share (%)	BGN thousand	Share (%)	
<b>I. Land and buildings</b>	<b>98,071</b>	<b>10.05%</b>	<b>75,664</b>	<b>9.02%</b>	<b>29.61%</b>
<b>II. Investments in subsidiary, joint and associate undertakings in which the company possesses a shareholding, including:</b>	<b>68,872</b>	<b>7.06%</b>	<b>52,078</b>	<b>6.21%</b>	<b>32.25%</b>
shares and units in subsidiary, joint and associate undertakings	41,103	4.21%	36,073	4.30%	13.94%
debt securities issued by subsidiary, joint and associate undertakings as well as loans granted to them	2,618	0.27%	5,017	0.60%	-47.82%
other shareholdings	25,151	2.58%	10,988	1.31%	128.90%
debt securities issued by other undertakings in which the insurer possesses a shareholding, as well as loans granted to them	0	0.00%	0	0.00%	0.00%
<b>III. Other financial investments, including:</b>	<b>808,479</b>	<b>82.89%</b>	<b>711,270</b>	<b>84.77%</b>	<b>13.67%</b>
shares and other variable-yield securities and units in investment funds	63,165	6.48%	122,734	14.63%	-48.54%
debt securities and other fixed-income securities,	319,620	32.77%	270,127	32.20%	18.32%
including securities issued and guaranteed by the state	185,087	18.98%	186,521	22.23%	-0.77%
participation in investment pools	0	0.00%	0	0.00%	0.00%
loans guaranteed with mortgages	0	0.00%	86	0.01%	-100.00%
other loans	15,853	1.63%	14,899	1.78%	6.40%
deposits in banks	407,972	41.83%	301,698	35.96%	35.23%
other	1,869	0.19%	1,726	0.21%	8.29%
<b>IV. Deposits in cedants</b>	<b>0</b>	<b>0.00%</b>	<b>0</b>	<b>0.00%</b>	<b>0.00%</b>
<b>TOTAL:</b>	<b>975,422</b>	<b>100.00%</b>	<b>839,012</b>	<b>100.00%</b>	<b>16.26%</b>

In the structure of the aggregated investment portfolio of the companies, the biggest share was occupied by bank deposits – 41.8 %, followed by debt securities and other fixed-income securities – 32.8 %, from which 57.9 % were government securities, issued and guaranteed by the state.

The biggest growth was recorded in the investments of subgroup Other Shareholdings (by 129 % or with BGN 14,163 thousand). That growth was due to ZAD BULSTRAD, which registered an increase of BGN 14,163 thousand compared to the previous year.

The deposits in banks grew by 35.2 %, or with BGN 106,274 thousand, where the biggest increase of the investments in such funds were recorded by DZI – GENERAL INSURANCE AD with BGN 25,522 thousand, ZK LEV INS AD with BGN 21,263 thousand, GENERALI INSURANCE AD with BGN 20,768 thousand, ZAD BULSTRAD with BGN 18,471 thousand and ZK BULGARSKI IMOTI AD with BGN 13,713 thousand.



A decline of 48.5 % was marked by investments in share and other variable-yield securities and units in investment funds. The biggest decrease was registered by ZAD ARMEEZ AD of BGN 19,360 thousand, ZAD BULSTRAD of BGN 18,153 thousand and ZK UNIKA AD of BGN 12,872 thousand.

The investments in debt securities issued by subsidiary, joint and associate undertakings, as well as loans granted to them, also registered a decrease by 47.8 %, or BGN 2,399 thousand. That decrease was due to DZI – GENERAL INSURANCE AD, which reported a decline at the amount of BGN 2,558 thousand.

The realized in the period January – December, 2008 investment income by the non-life insurance companies amounted to BGN 119,080 thousand, compared to BGN 122,351 thousand realized in 2007. The biggest decrease in the investment income at the amount of BGN 9,908 thousand was registered by DZI – GENERAL INSURANCE AD.

The investment expenses grew two-fold in comparison with those reported in the same period of the previous year and were calculated at BGN 87,491 thousand, from which BGN 76,746 thousand were negative differences from revaluation of the investments value and BGN 9,122 were losses from the realization of investments. The biggest increase of the investment expenses was reported by ZAD ARMEEZ AD with BGN 18,903 thousand, ZAD BULSTRAD with BGN 5,432 thousand, ZK UNIKA AD with BGN 3,786 thousand, ZAD ALLIANZ BULGARIA with BGN 3,595 thousand and ZD BUL INS AD with BGN 3,196 thousand.

Companies ZD BUL INS AD, ZD EUROINS AD and ZK DSK GARANTZIA AD reported higher investment expenses, compared with the income generated from them.

It is evident from **Appendix 13.2.5B** that as of the end of 2008 ZAD ARMEEZ AD reported highest investment income, as well as highest investment expense.

The biggest loss from realization of investments was generated by ZK UNIKA AD at the amount of BGN 5,534 thousand from BGN 9,122 thousand for the overall non-life insurance market, which was due predominantly to the sale of investments in shares and units of investment funds.

**Appendix 13.2.5C** presents the non-life insurance companies which had investments in shares, and in particular investments in shares of companies, included in SOFIX index. SOFIX index marked a drop by -79.71 %<sup>35</sup> on a year-on-year basis, which explained the reported bigger expenses from the revaluation of the value of investments in shares of these insurers.

In the calculations made at the end of 2008, the excess of the eligible own funds over the solvency margin of the non-life insurance companies (BGN 140,677 thousand) was in sufficient amount to cover a 100 % drop in the value of investments in shares (BGN 30,586 thousand), as indicated in the Appendix. GENERALI INSURANCE AD did not have capital excess to cover future loss upon decrease in the value of shares. ZAD ARMEEZ AD and ZAD BULSTRAD had an excess of eligible own funds over the solvency margin, to cover respectively 26 % and 89 % future losses upon decrease in the value of investments in shares.

## 13.3

### ANALYSIS OF THE ACTIVITIES OF LIFE INSURANCE COMPANIES AS OF THE END OF 2008

#### 13.3.1

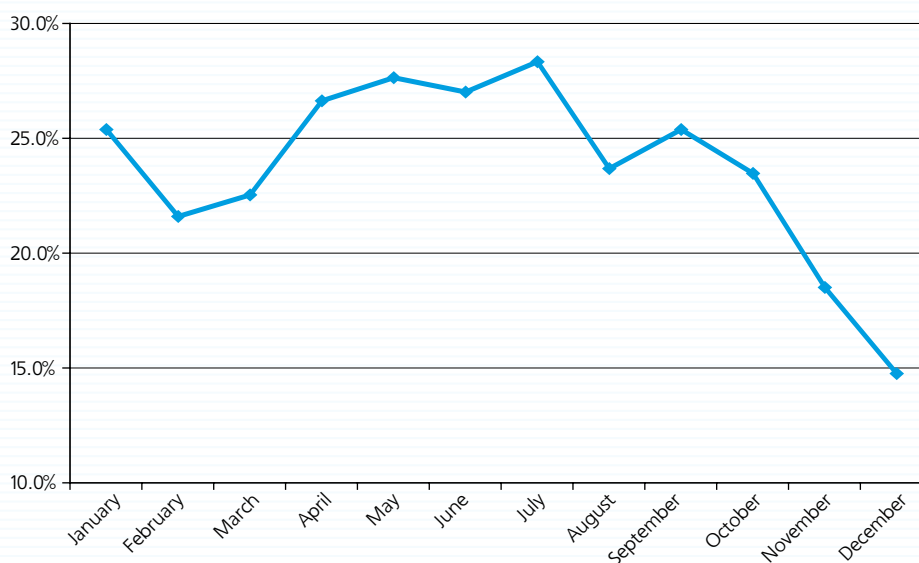
#### PREMIUM INCOME AND MARKET SHARE

The gross premium income underwritten by life insurance companies in 2008 amounted to BGN 270,247 thousand, from which BGN 269,577 thousand were the premiums from direct life insurance and BGN 670 thousand was the gross amount of the received premiums from inward life reinsurance. As of the end of 2007 the premium income from direct life insurance was BGN 234,147 thousand, and the received premiums from inward reinsurance – BGN 1,376 thousand. The only company which carried out inward reinsurance as of the end of 2008 through covering risks on Accident insurance was ZAD DZI.

The growth in the amount of the gross premium income was by 14.74 % on an annual basis, which was 11.91 percent points less compared to the growth registered at the end of 2007 z. (26.65 %). The diagram on the following page illustrates the increase of the amount of the gross premium income from life insurance by months in 2008:

<sup>35</sup> Source : BSE

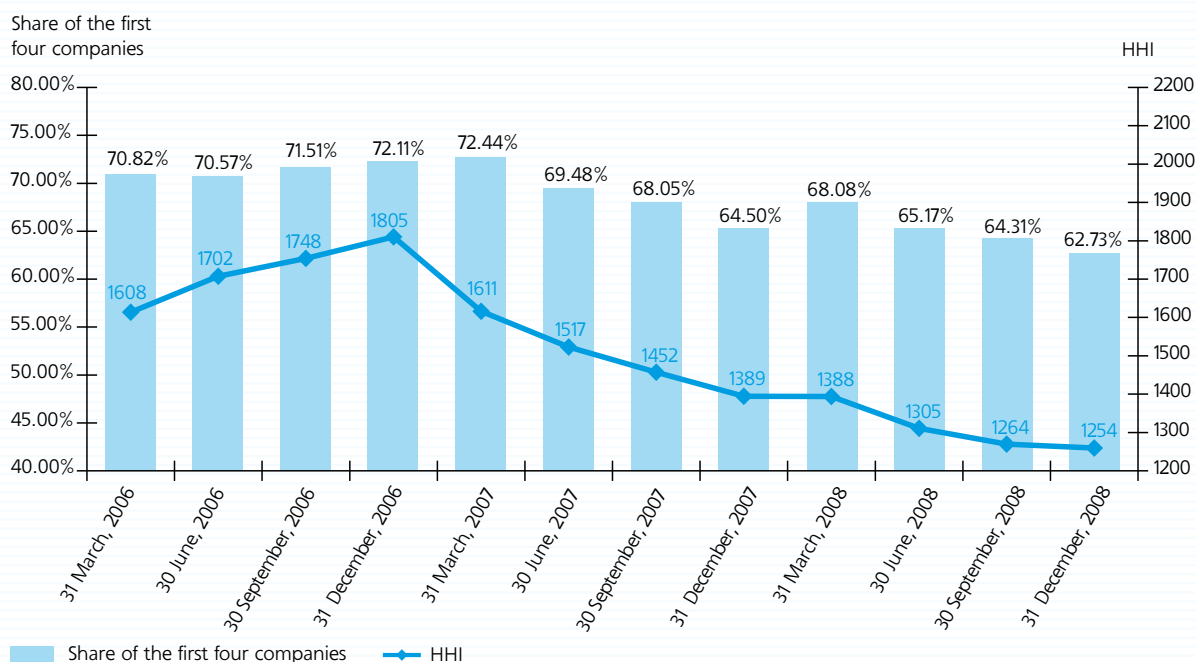
## Nominal growth of the premium income in life insurance in 2008 (on an annual basis)



The gross premium income generated by the life insurance companies is given in **Appendix 13.3.1**. GENERALI LIFE INSURANCE AD, ZHZK BULGARSKI IMOTI AD and VZK DOBRUDZA-M-LIFE reported a negative growth on annual basis with regard to the amount 2008 premium incomes generated by them. Simultaneously, all life insurance companies, with the exception of ZAD DZI and ZHZK DSK GARANTZIA EAD, achieved a lower growth of the premium income on an annual basis for 2008 compared to that reported in 2007. The aggregate market share of the four life insurance companies with the highest premium income at the end of the period under review (ZAD ALLIANZ BULGARIA LIFE AD, ZAD DZI, ZK UNIKA LIFE AD and AIG LIFE BULGARIA ZHZD EAD) was recorded to be 62.73 %, with 64.5 % at 31 Dec., 2007 and 72.11% at 31 Dec., 2006.

The extent of concentration on the life insurance market measured through the Herfindahl – Hirschman index (HHI) and the share of the first four companies is illustrated on the following diagram:

## Concentration on the life insurance market measured through HHI and the share of the first four companies



As evident from the diagram, the falling trend in the HHI index, which started to be noticed since the beginning of 2007 continued in 2008, as well. The concentration on the life insurance market gradually decreased, while respectively the competition between the operating on it companies continued to be increased.

Premiums ceded to reinsurers by life insurance companies as of the end of 2008 amounted to BGN 8,842 thousand, which represented 3.27 % of the gross premium income in the sector. The share of reinsurance with the life insurance companies remained relatively low, the self-retention ratio being 0.97.

### Self-retention ratio in life insurance business per insurer for 2008

Insurer	Gross premium income (BGN thousand)	Ceded premiums to reinsurers (BGN thousand)	Self-retention ratio
LIFE INSURANCE INSTITUTE AD	1,137	0	1.00
SINDIKALNA VZK	7,425	0	1.00
VZK DOBRIDZHA - M – LIFE	259	0	1.00
ZED CCB LIFE	910	0	1.00
INTERAMERICAN BULGARIA LIFE INSURANCE EAD	60	0	1.00
ZD KD LIFE AD	2,803	8	1.00
ZHZK DSK GARANTZIA AD	9,344	48	0.99
ZHZK BULGARSKI IMOTI AD	4,152	25	0.99
ZPAD DZI	40,972	297	0.99
ZK UNIKA AD	37,784	435	0.99
ZAD ALLIANZ BULGARIA LIFE AD	58,948	1,242	0.98
ZAD SOGELIFE BULGARIA AD	1,768	41	0.98
AIG LIFE BULGARIA ZHZD EAD	31,818	1,096	0.97
GRAWE BULGARIA LIFE INSURANCE AD	16,887	709	0.96
ZAD BULSTRAD LIFE AD	24,397	1,104	0.95
GENERALI LIFE INSURANCE AD	18,509	1,229	0.93
UBB – AIG LIFE ZD AD	13,074	2,608	0.80
<b>TOTAL:</b>	<b>270,247</b>	<b>8,842</b>	<b>0.97</b>

UBB – AIG LIFE ZD AD conceded largest share of its gross premium income (19.95 %) and accounted for the biggest share in the total size of the conceded premiums on life insurance – 29.5 %.

## Premium income generated by life insurance companies by class of insurance for 2008

Insurance Class	Premium income				Growth
	31.12.2008		31.12.2007		
	BGN thousand	Share (%)	BGN thousand	Share (%)	
1. Life Insurance and Annuity	208,931	75.04%	184,306	73.20%	13.36%
a) Life Insurance	188,527	67.72%	166,876	66.28%	12.97%
- combined Life Insurance	169,514	60.89%	154,361	61.31%	9.82%
- risk Life Insurance (covers only risk of „death“)	19,013	6.83%	12,515	4.97%	51.92%
b) Pension or Annuity Insurance	20,404	7.33%	17,430	6.92%	17.07%
2. Marriage and Child Insurance	9,641	3.46%	8,087	3.21%	19.21%
3. Unit-linked Life Insurance	18,405	6.61%	26,603	10.57%	-30.81%
4. Permanent Health Insurance	2,540	0.91%	2,412	0.96%	5.30%
5. Capital Redemption	0	0.00%	0	0.00%	0.00%
6. Additional Insurance	10,504	3.77%	8,909	3.54%	17.90%
7. Accident Insurance	28,387	10.20%	21,457	8.52%	32.30%
incl. from obligatory Accident Insurance for Passengers in Public Transport	904	0.32%	1,750	0.69%	-48.34%
<b>TOTAL:</b>	<b>278,409</b>	<b>100.00%</b>	<b>251,776</b>	<b>100.00%</b>	<b>10.58%</b>

\*The difference from the above stated premium income is due to the accounting policy adopted by some insurance companies which involves separation of the deposit component of the premium of Unit-linked Life Insurance and its inclusion in the reserve on that class of insurance, as well as due to the differences in the recognition of the premium income where there is a deferred payment of the premium in periods of less than 1 year – the whole annual premium or only the premium which is due in the reporting period.

A predominant percentage in the structure of the life insurance companies' portfolio continued to be occupied by Life Insurance and Annuity - 75.04 %. The gross premium income from that insurance consisted of 90.2 % premiums from Life Insurance and 9.8 % - from Pension or Annuity Insurance. In comparison with 2007, a growth was noticed by 1.84 percent points of the share of the Life Insurance and Annuity in the structure in the life insurance companies' portfolio. A leading position in sales of Life Insurance and Annuity was held by ZAD ALLIANZ BULGARIA LIFE which generated 25.4 % of the premium income from that class of insurance.

The share of Unit-linked Life Insurance in the total portfolio of the companies operating on the life insurance market came to 6.61 % as of the end of 2008, decreasing 3.96 percent points on an annual basis, although the number of the companies which offered that insurance increased to 10 in 2008 – ZAD DZI, ZAD ALLIANZ BULGARIA LIFE, ZD KD LIFE AD, GRAWE BULGARIA LIFE INSURANCE AD, GENERALI LIFE INSURANCE AD, ZK UNIKA LIFE AD, AIG LIFE BULGARIA ZHZD EAD, ZAD BULSTRAD LIFE, VZK DOBRUDZHA – M – LIFE and INTERAMERICAN BULGARIA LIFE INSURANCE EAD. A major share in the total gross premium income from Unit-linked Life Insurance was occupied by ZAD DZI (42.44 %) and ZAD ALLIANZ BULGARIA LIFE (39.13 %).

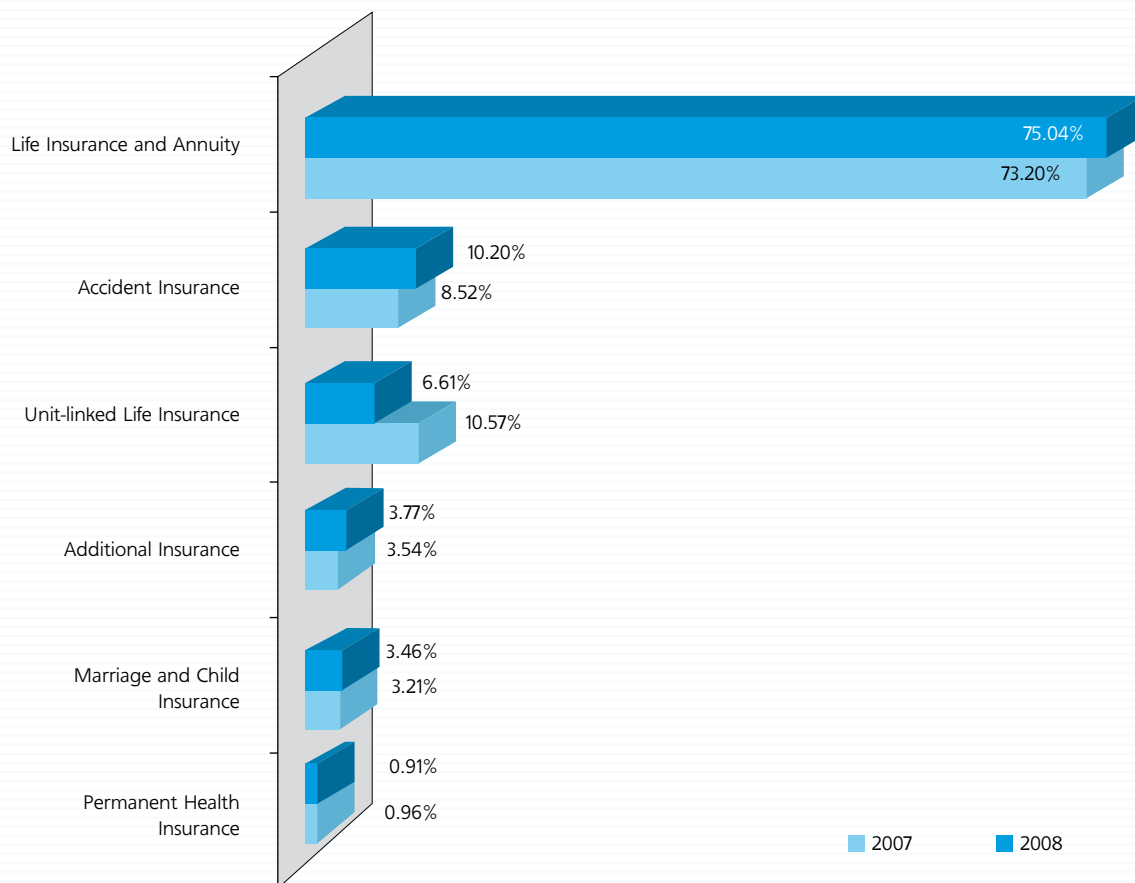
The gross premium income from Unit-linked Life Insurance, declined by 30.81% on a year-on-year basis. As a reason for this decline can be indicated the reduced amount of the average premium per insured person on that insurance, calculated as a ratio between the gross premium income and the number of the insured persons under acting contracts at the yearend. At 31 Dec., 2008 the average premium was BGN 605, while at the end of 2007 it amounted to BGN 845. On the other hand, an increase was also observed in the number of the redeemed (in whole or in part) contracts on Unit-linked Life Insurance, the redemption values picking up almost twice in comparison to 2007, or with BGN 1,710 thousand.

Lower premium income from Unit-linked Life Insurance compared to 2007 was reported by ZAD ALLIANZ BULGARIA LIFE, ZAD DZI, GENERALI LIFE INSURANCE AD, ZK UNIKA LIFE AD and VZK DOBRUDZHA-M-LIFE. A positive growth on a year-on-

year basis was achieved by ZD KD LIFE AD, GRAWE BULGARIA LIFE INSURANCE AD and ZAD BULSTRAD LIFE, which began to offer that insurance in 2007.

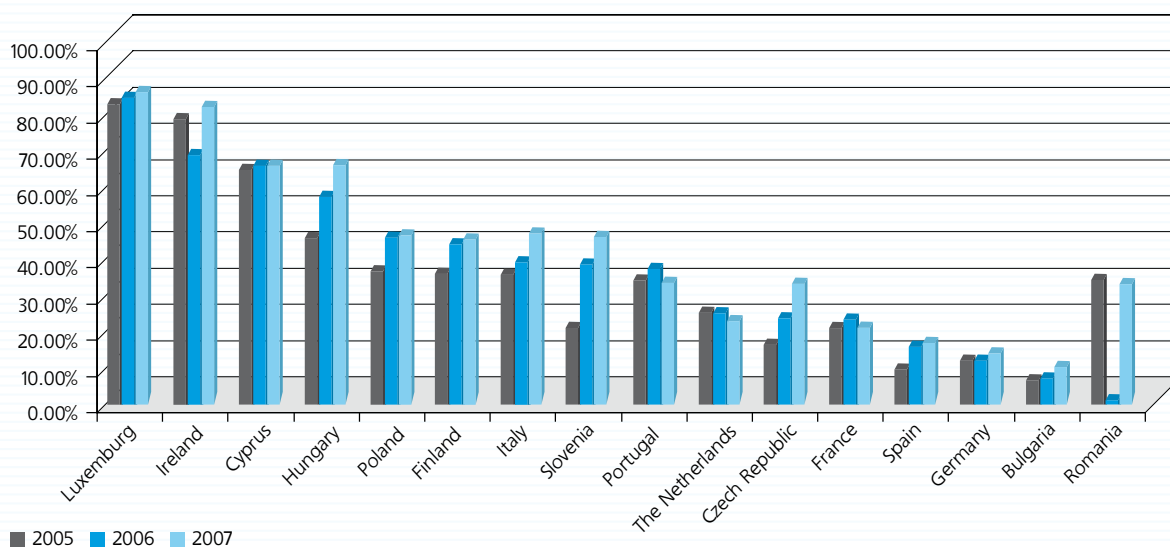
A positive growth of the gross premium income on an annual basis was recorded for the other classes of insurances offered by life insurers, the highest being that of premiums from Accident insurance (32.3 %), Marriage and Child Insurance (19.21 %) and Additional Insurance (17.90 %).

### Structure of the life insurance companies' portfolio



The next diagram illustrates the share of Unit-linked Life Insurance in the total portfolio of life insurance companies in some European countries in 2005, 2006 and 2007.

## Share of Unit-linked Life Insurance in the total portfolio of life insurance companies in some European countries in 2005, 2006 and 2007 (in %)



Source: CEIOPS-FS-20/08, Financial Conditions and Financial Stability in the European Insurance and Occupational Pension Fund Sector 2007-2008 (Risk Update)

In the structure of the ceded premiums to reinsurers per class of insurance, the largest share was held by Life Insurance and Annuity, Accident Insurance, Additional Insurance.

## Self-retention ratio in life insurance per class of insurance as of 31 December, 2008

Class of Insurance	Gross premium income (BGN thousand)	Ceded premiums to reinsurers (BGN thousand)	Self-retention ratio
Unit-linked Life Insurance	18,405	34	0.998
Marriage and Child Insurance	9,641	27	0.997
Life Insurance and Annuity	208,931	4,030	0.981
Permanent Health Insurance	2,540	194	0.924
Accident Insurance	28,387	2,725	0.904
Additional Insurance	10,504	1,832	0.826
Capital Redemption	0	0	-
<b>TOTAL:</b>	<b>278,409</b>	<b>8,842</b>	<b>0.968</b>

\*The difference from the above stated premium income is due to the accounting policy adopted by some insurance companies which involves separation of the deposit component of the premium of Unit-linked Life Insurance and its inclusion in the reserve on that class of insurance.

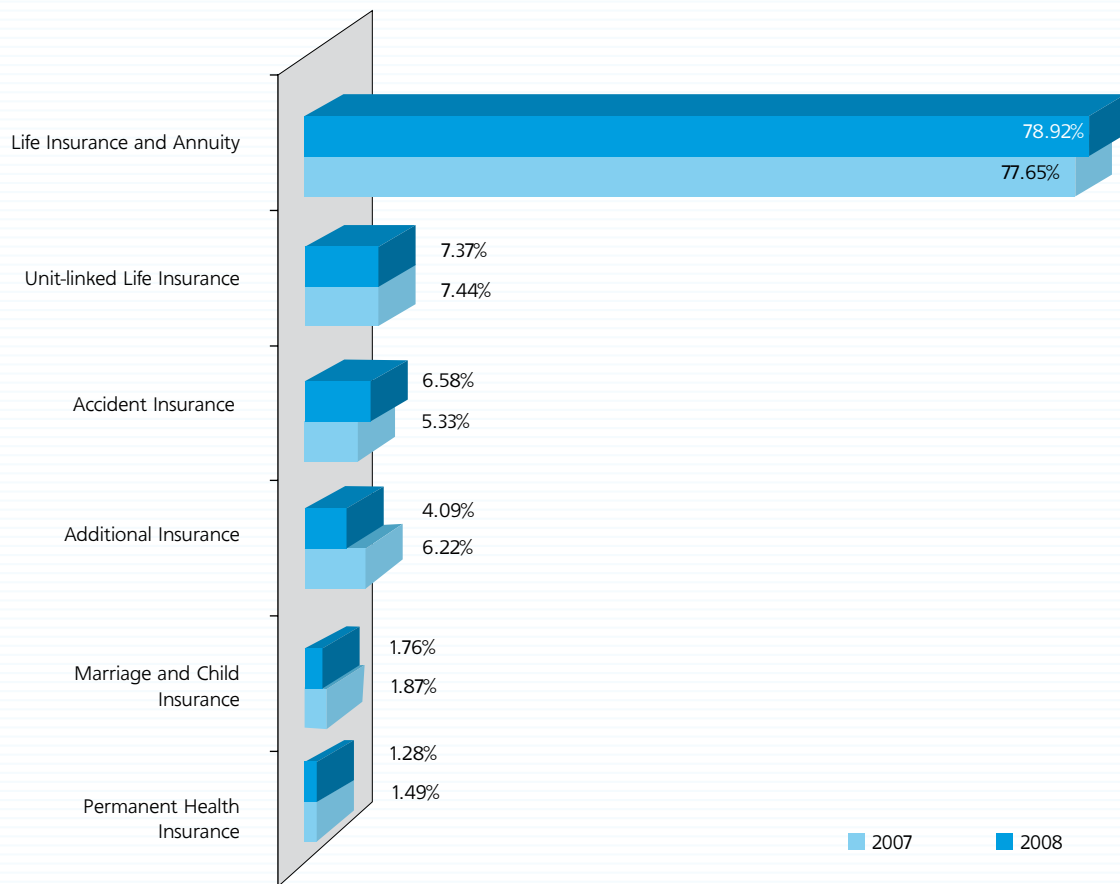
## 13.3.2

### ANALYSIS AND STRUCTURE OF THE PAID COMPENSATIONS AND COSTS RELATED TO INSURANCE ACTIVITY BY CLASS OF INSURANCE

The claims paid by life insurance companies in 2008 amounted to BGN 92,240 thousand, compared to BGN 77,767 thousand paid in 2007. Of these, BGN 158 thousand were sums and compensations paid to cedants. The biggest share in the paid in 2008 sums and compensations in life insurance belonged to ZAD DZI – 30.17 %. Detailed information on the paid claims is given in **Appendix 13.3.2A**.

In the general structure of the paid claims, presented in **Appendix 13.3.2B**, the biggest share continued to be held by Life Insurance and Annuity (78.92%), within which 89.08 % of the payments were on Life Insurance. Next in terms of percentage were Unit-linked Life Insurance (7.37 %), and Accident Insurance (6.58 %).

#### Structure of claims paid by life insurance companies



The recovered amounts and compensations on reinsurance contracts amounted to BGN 2,824 thousand which was 3.06 % of the life insurance claims paid during the period.

The sums and compensations paid as of the end of 2008 by life insurance companies (without the claims settlement expenses and the paid bonuses and rebates, including reduced or partially returned premiums) amounted to BGN 93,186 thousand on total of 86,132 claims (**Appendix 13.3.2C**). The biggest share of them was occupied by the paid claims on contracts with expired term or fallen maturity (50.6 %), followed by redeemed (in whole or in part) insurance contracts (13.5 %) and sums and compensations paid upon death (12.1 %). As a comparison, at the end of 2007 the total amount of the paid sums and compensations was BGN 77,321 thousand on total of 84,693 claims.

Redemptions were reported on Life Insurance and Annuity, Unit-linked Life Insurance and Marriage and Child Insurance. Their number at the end of 2008 came to 13,053, increasing with 4,339 for the last quarter of the year. At the end of 2007 the number of redemptions was 10,557 and it grew with 2,433 for the last quarter of the year. The amount of the redemption

values amounted to totally BGN 12,563 thousand for 2008, against BGN 10,083 thousand for 2007. The redemption values on Unit-linked Life Insurance increased most - by 92.9 %, or with BGN 1,710 thousand.

The expenses incurred by life insurance companies in relation to the carrying out of their activity amounted to BGN 103,049 thousand as of the end of 2008, compared to BGN 81,905 thousand a year earlier, i.e. a growth by 25.8 % was recorded on a year-on-year basis. The expenses incurred at the end of the period under review were 38.1 % of the gross premium income realized for the period.

A major share of the total incurred expenses in 2008 was occupied by the acquisition and administrative expenses, respectively 48.7 % and 46.4 %. The acquisition expenses amounted to 18.6 % of the gross premium income generated in the sector, and the administrative – 17.7 %.

The biggest share in the total incurred expenses belonged to the expenses on Life Insurance and Annuity – 71 %. The second position in the structure of the incurred expenses was occupied by Accident Insurance (14.2 %), followed by Unit-linked Life Insurance (7.5 %).

The biggest growth on annual basis in terms of the amount of expenses was registered with Marriage and Child Insurance (70.8 %) and with Additional Insurance (38.3 %).

## 13.3.3

### ANALYSIS AND STRUCTURE OF THE TECHNICAL PROVISIONS AND ASSETS FOR COVERING TECHNICAL PROVISIONS

#### ANALYSIS AND STRUCTURE OF GROSS TECHNICAL PROVISIONS

As of the end of 2008 the total amount of the gross technical provisions allocated by the life insurance companies amounted to BGN 456,455 thousand, increasing by 22.93 % compared with the allocated provisions as of the end of 2007. An increase was recorded in the amount of all types of reserves, except for the reserve for future participation in the income.

The biggest share in the gross amount of the technical provisions in the life insurance sector was held by the mathematical reserve (65.86 %), formed to meet future payments on the long-term life insurances. As of the end of 2008 the increase in the amount of that reserve on a year-on-year basis was 23.56 %, or BGN 57,321 thousand, with BGN 65,439 thousand in 2007 and BGN 49,614 thousand in 2006.

The Capitalized Value of Pension Reserve formed as of the end of 2008 increased by 42.78 % on annual basis, i.e. with BGN 12,029 thousand, compared to BGN 4,296 thousand a year earlier and BGN 5,679 thousand at the end of 2006. The growth of the premium income from Pension or Annuity Insurance, in its turn, was 17.1 % at the end of 2008 compared to -24.7 % at the end of 2007 and 20.9 % at the end of 2006.

The reserve on Unit-linked Life Insurance is formed for covering the insurer's liabilities under insurance contracts, where the investment risk is borne by the insured or the third-party beneficiary. In 2008 the total amount of the insurance reserves on Unit-linked Life Insurance increased by only 0.24 % on annual basis, or with BGN 121 thousand, compared to a change by 55.06 %, or BGN 18,164 thousand at the end of 2007 and 42.05 %, or BGN 9,766 thousand at the end of 2006. At the same time the gross premium income from Unit-linked Life Insurance registered a drop for the period by 30.81 % compared to a recorded growth of 86.93 % for the previous year.

#### Gross technical provisions in life insurance

Type of Technical Provisions	31.12.2008		31.12.2007		31.12.2006		Change 2008/2007	Change 2007/2006
	BGN thousand	Share (%)	BGN thousand	Share (%)	BGN thousand	Share (%)		
Unearned premium reserve	35,394	7.75 %	25,260	6.80 %	18,874	6.85 %	40.12 %	33.83 %
Unexpired risks reserve	0	0.00 %	0	0.00 %	0	0.00 %	-	-



Loss reserve	21,532	4.72 %	16,397	4.42 %	15,410	5.60 %	31.32 %	6.41 %
Mathematical reserve	300,624	65.86 %	243,303	65.53 %	177,864	64.59 %	23.56 %	36.79 %
Capitalized value of pensions	40,148	8.80 %	28,119	7.57 %	23,823	8.65 %	42.78 %	18.03 %
Reserve for future participation in the income	1,569	0.34 %	2,547	0.69 %	516	0.19 %	-38.40 %	393.60 %
Bonus and rebate reserve	131	0.03 %	0	0.00 %	0	0.00 %	-	-
Equalization reserve	2,598	0.57 %	2,598	0.70 %	2,573	0.93 %	0.00 %	0.97 %
Other reserves approved by FSC	3,182	0.70 %	1,922	0.52 %	3,332	1.21 %	65.56 %	-42.32 %
Insurance reserves on Unit-linked Life Insurance	51,277	11.23 %	51,156	13.78 %	32,992	11.98 %	0.24 %	55.06 %
<b>TOTAL:</b>	<b>456,455</b>	<b>100.00%</b>	<b>371,302</b>	<b>100.00%</b>	<b>275,384</b>	<b>100.00%</b>	<b>22.93 %</b>	<b>34.83 %</b>

## ANALYSIS AND STRUCTURE OF ASSETS FOR COVERING TECHNICAL PROVISIONS

The value of the assets for cover of the technical provisions of life insurance companies (excluding the reserves on Unit-linked Life Insurance) amount to BGN 428,075 thousand as of 31 Dec., 2008, with BGN 358,718 thousand at 31 Dec., 2007.

### Assets for covering technical provisions

ASSETS FOR COVERING TECHNICAL PROVISIONS		31.12.2008		31.12.2007	
		BGN thousand	Share (%)	BGN thousand	Share (%)
<b>Assets for covering technical provisions (excluding the reserves of Unit-linked Life Insurance), including</b>		<b>428,075</b>		<b>358,718</b>	
<b>Assets in Member States</b>		<b>79,999</b>	<b>18.69 %</b>	<b>51,758</b>	<b>14.43 %</b>
<b>Assets in third countries</b>		<b>6,647</b>	<b>1.55 %</b>	<b>3,246</b>	<b>0.90 %</b>
1.	Securities admitted to trading on a regulated securities market in the Republic of Bulgaria, or in a Member State as well as shares, eligible bonds and other eligible debt securities admitted to trading on internationally recognized and liquid regulated securities markets in a third country, incl.:	51,012	11.92 %	39,104	10.90 %
	<i>shares</i>	<i>1,330</i>	<i>0.31 %</i>	<i>2,392</i>	<i>0.67 %</i>
	<i>bonds</i>	<i>49,682</i>	<i>11.61 %</i>	<i>36,712</i>	<i>10.23 %</i>
2.	Securities issued or guaranteed by the Republic of Bulgaria, or a Member State, as well as eligible debt securities issued or guaranteed by third countries, their central banks or international organizations, a member of which the Republic of Bulgaria is	169,648	39.63 %	138,434	38.59 %

3.	Shares and units issued by investment companies and mutual funds, which carry out activities under the provisions of the Law on Public Offering of Securities, as well as shares and units of collective investment schemes whose seat is located in an EU Member State	15,040	3.51 %	15,837	4.41 %
4.	Title on lands and buildings	26,975	6.30 %	25,655	7.15 %
5.	Receivables from reinsurers (less the liabilities to the respective reinsurer), including the reinsurers' share in the technical provisions	566	0.13 %	770	0.21 %
6.	Deposits and receivables from cedants	0	0.00 %	0	0,00 %
7.	Receivables from insured persons and intermediaries, arising from insurance and reinsurance contracts which are not overdue more than three months	6,310	1.47 %	12,609	3.52 %
8.	Receivables from loans against Life Insurances	18,223	4.26 %	11,475	3.20 %
9.	Cash in hand or on payment accounts or deposits in banks which are authorized to carry out banking activity in the Republic of Bulgaria or in a Member State:	103,264	24.12 %	81,192	22.63 %
	- deposits, incl. in banks	101,440	23.70 %	76,225	21.25 %
	- cash on payment accounts, incl. in banks	1,717	0.40 %	4,701	1.31 %
	- cash in hand	107	0.02 %	266	0.07 %
10.	Deferred acquisition expenses	37,037	8.65 %	33,643	9.38 %
11.	Indisputably established receivables in relation to tax refund	0	0.00 %	0	0.00 %
<b>Assets for covering reserves on Unit-linked Life Insurance, including</b>		<b>50,918</b>		<b>48,205</b>	
<b>Assets in Member States</b>		<b>19,481</b>	<b>38.26 %</b>	<b>15,913</b>	<b>33.01 %</b>
<b>Assets in third countries</b>		<b>0</b>	<b>0.00 %</b>	<b>0</b>	<b>0.00 %</b>

In Member States and in third countries were allocated respectively 18.69 % and 1.55 % of the total amount of assets for cover of the technical provisions (excluding the reserves on Unit-linked Life Insurance). As a comparison, at the end of 2007 the allocated outside of Bulgaria assets were respectively 14.43 % in other Member States and 0.90 % in third countries.

The biggest share in the structure of assets for covering of the technical provisions was held by government securities (39.63 %), followed by deposits at banks (23.7 %), bonds, (11.61 %), etc.

The assets for cover of the technical provisions (excluding the reserves on Unit-linked Life Insurance) increased by 19.33 % on a year-on-year basis. The biggest was the increase in percentage terms in the receivables from loans against Life Insurance (58.81 %), bonds (35.33 %), deposits at banks (33.08 %) and government securities (22.55 %). At the same time the shares used for cover of the technical reserves (excluding the reserves on Unit-linked Life Insurance) decreased by 44.39 %, and the shares and units issued by investment companies and mutual funds - by 5.03 %.

The amount of the assets for covering reserves on Unit-linked Life Insurance picked up by 5.63 % for the year. At the end of the period 38.26 % of these assets, or BGN 19,481 thousand, were allocated in other Member States.

In the general structure of the assets for cover of the provisions on Unit-linked Life Insurance, 40.74 %, or BGN 20,745 thousand was the amount of investments in units and shares of investment funds. The other part of the provisions on that insurance were covered by government securities (48.86 %), bank deposits (10.19 %), mortgage bonds (0.20 %) and shares (0.01 %).

## 13.3.4

### TECHNICAL RESULT AND FINANCIAL RESULT

The technical result in the field of life insurance (**Appendix 13.3.4**) at the end of 2008 was negative and amounted to BGN -1,642 thousand, compared to a result of BGN 11,359 thousand, registered at 31 Dec., 2007. The considerably lower result was due mostly to the outpacing rate of the growth of the incurred claims, net of reinsurance (24.6 %), and of the net operating expenses (35.7 %) compared to the rate of growth of the earned premiums, net of reinsurance (13.28 %). At the same time the investment expenses in the technical report increased by 150.09 % with a growth of the investment income of 64.85 %, in a consequence of which a positive result was realized, but it was less than that for 2007.

Nine of the insurers operating on the life insurance market closed the period with a negative technical result – ZAD DZI (BGN -4,704 thousand), LIFE INSURANCE COMPANY DSK GARANTZIA EAD (BGN -3,849 thousand), ZD KD LIFE AD (BGN -2,872 thousand), ZAD BULSTRAD LIFE (BGN -2,340 thousand), INTERAMERICAN BULGARIA LIFE INSURANCE EAD (BGN -2,170 thousand), GENERALI LIFE INSURANCE AD (BGN -2,049 thousand), ZAD SOGELIFE BULGARIA AD (BGN -1,669 thousand), VZK DOBRUDZHA – M – LIFE (BGN -159 thousand) and ZEAD CCB LIFE (BGN -122 thousand).

The negative technical results of ZAD DZI, of GENERALI LIFE INSURANCE AD and of LIFE INSURANCE COMPANY GARANTZIA EAD were due mostly to the higher amount of the sum of the incurred claims and the net operating expenses than the amount of the earned premiums. Besides, ZAD DZI and GENERALI LIFE INSURANCE AD reported comparatively high other technical expenses, in which mainly the accrued but uncollected premiums were included.

VZK DOBRUDZHA – M – LIFE reported net earned premiums at the amount of BGN 307 thousand, which were by 53.13 % less than those reported at the end of 2007, simultaneously the net incurred claims of the insurer (at the amount of BGN 468 thousand) grew sevenfold on an annual basis. At the same time the investment expenses were higher than the investment income.

The negative technical results of ZD KD LIFE AD, INTERAMERICAN BULGARIA LIFE INSURANCE EAD, ZAD SOGELIFE BULGARIA AD and ZEAD CCB LIFE were due to their comparatively high net operating expenses and their small market share, which is characteristic for the first years of operation of the new companies, entering the market.

The result of the activity of ZAD BULSTRAD LIFE was due most of all to the recorded negative differences from revaluation of the company's investments value, as well as to the comparatively high amount of the expenses included in the composition of the other net technical expenses.

The total net **financial result, achieved in life insurance** as of the end of 2008 was positive and amounted to BGN 6,590 thousand, but it was considerably lower than that reported for 2007 (BGN 50,059 thousand). Seven of the life insurance companies realized loss, and these were insurers which also reported a negative technical result.

Regardless of the negative technical result recorded by ZAD DZI, the company achieved a positive financial result, due to profits from investments realization.

## 13.3.5

### MAIN BALANCE SHEET INDICATORS

#### ASSET AMOUNT AND OWN CAPITAL

The total sum of assets in the life insurance sector amounted to BGN 899,989 thousand at the end of 2008, marking a growth of 11.47 % on an annual basis. The return on the assets, calculated as a ratio between the profit (loss) for the financial period and the total sum of assets, came to 0.7 %, compared to 6.2 % for 2007. Detailed information on the sum of assets and own capital of life insurance companies is shown in **Appendix 13.3.5A**.

The own capital engaged in the life insurance sector increased by 1.97 % on a year-on-year basis and amounted to BGN 417,489 thousand. The return on the own capital, calculated as a ratio between the profit (loss) for the financial period and the own capital, was 1.6 % for 2008, compared to 12.2 % for 2007.

The total amount of own funds in the life insurance sector, less the intangible assets, amounted to BGN 307,405,394, while the solvency margin was BGN 40,111,806. The solvency ratio which reflects the degree of coverage of the insurers' contractual obligations with own capital in the long term, was 766 %. All companies possessed enough funds to guarantee the fulfillment of their long-term obligations.

## Solvency ratio in life insurance in 2008

Insurers	Own funds (BGN)	Solvency margin (BGN)	Solvency ratio
ZAD ALLIANZ BULGARIA LIFE	18,229,426	8,899,102	205%
LIFE INSURANCE COMPANY BULGARSKI IMOTI AD	7,767,305	907,840	856%
ZAD BULSTRAD LIFE	7,527,553	3,011,352	250%
ZK UNIKA LIFE AD	8,787,804	3,321,076	265%
GRAWE BULGARIA LIFE INSURANCE AD	6,496,853	1,959,330	332%
ZAD DZI	188,030,000	5,033,276	3,736%
AIG LIFE BULGARIA LIFE INSURANCE COMPANY EAD	12,533,082	4,236,871	296%
GENERALI LIFE INSURANCE AD	6,507,244	1,427,012	456%
LIFE INSURANCE COMPANY DSK GARANTZIA AD	6,633,130	2,580,221	257%
LIFE INSURANCE INSTITUTE	6,898,532	59,247	11,644%
UBB – AIG LIFE INSURANCE COMPANY AD	7,775,459	6,660,673	117%
ZD KD LIFE AD	7,363,308	161,321	4,564%
ZAD SOGELIFE BULGARIA AD	8,054,285	1,121,498	718%
ZED CCB LIFE	6,400,842	191,588	3,341%
INTERAMERICAN BULGARIA LIFE EAD	7,363,522	4,942	149,008%
SINDIKALNA VZK	691,051	497,443	139%
VZK DOBRUDZHA-M-LIFE	346,000	39,014	887%
<b>TOTAL:</b>	<b>307,405,394</b>	<b>40,111,806</b>	<b>766%</b>

In 2008 the own funds, less the intangible assets, of four life insurance companies, fell under the amount of the minimum guarantee capital. It was required from the companies to prepare short-term plans for additional rising of own funds. They fulfilled that requirements and as of 31 Dec., 2008 all life insurance companies had the necessary own funds to cover the minimum guarantee capital.

In calculations made at the end of 2008, the surplus of capital of life insurance companies, investing in shares, was in sufficient amount to cover a 100 % drop in the value of these investments. In the calculations made, the investments to the benefit of policies of Unit-linked Life Insurance were not taken into account.

## INVESTMENTS

The investments of life insurers amounted to BGN 764,349 thousand, increasing by 13.7 % on an annual basis, compared to 55.77 %, recorded at the end of 2007. The biggest share in the total investment portfolio of life insurance companies belonged to debt securities and other fixed income securities (38.14 %) and bank deposits (32.97 %).

The debt securities and other fixed income securities amounted to BGN 291,506 thousand. They included BGN 143,356 thousand government securities, which increased by 28.75 % on a year-on-year basis. The biggest increase in absolute terms was noticed in the debt securities of ZAD DZI (with BGN 28,556 thousand), and the investments of the company in government securities decreased, while the investments in other debt securities climbed up.

The biggest share in the total investments in government securities was held by ZAD ALLIANZ BULGARIA LIFE (42 %) and AIG

LIFE BULGARIA LIFE INSURANCE COMPANY EAD (31.6 %). The biggest share in the other debt securities belonged to ZPAD DZI (53.6 %), GRAWE BULGARIA LIFE INSURANCE AD (27.7 %) and ZAD ALLIANZ BULGARIA LIFE (12.6%).

The bank deposits declined by 6.13 % for the year and amounted to BGN 252,026 thousand. The negative change in the amount of bank deposits was a result predominantly of the decrease of the bank deposits of ZAD DZI by 32.2 %, or with BGN 62,251 thousand on a year-on-year basis.

## Investments of life insurers as of 31 December, 2008

TYPE OF INVESTMENTS	31.12.2008		31.12.2007		Change
	BGN thousand	Share (%)	BGN thousand	Share (%)	
<b>I. Land and buildings</b>	<b>30,307</b>	<b>3.97 %</b>	<b>29,547</b>	<b>4.40 %</b>	<b>2.57%</b>
<b>II. Investments in subsidiary, joint and associated undertakings in which the company possesses a shareholding, including:</b>	<b>88,646</b>	<b>11.60 %</b>	<b>46,936</b>	<b>6.98 %</b>	<b>88.87%</b>
shares and units in subsidiary, joint and associated undertakings	88,243	11.54 %	31,533	4.69 %	179.84%
debt securities, issued by subsidiary, joint and associated undertakings, as well as loans provided to them	0	0.00 %	0	0.00 %	0.00%
other shareholdings	403	0.05 %	403	0.06 %	0.00%
debt securities, issued by other undertakings in which the insurer has a shareholding, as well as the loans provided to them	0	0.00 %	15,000	2.23 %	-100.00%
<b>III. Other financial investments, including:</b>	<b>594,380</b>	<b>77.76 %</b>	<b>547,591</b>	<b>81.45 %</b>	<b>8.54%</b>
shares and other variable income securities and units in investment funds	23,046	3.02 %	30,921	4.60 %	-25.47%
debt securities and other fixed income securities	291,506	38.14 %	226,420	33.68 %	28.75%
including securities issued and guaranteed by the state	143,356	18.76 %	139,729	20.78 %	2.60%
participation in investment pools	0	0.00 %	0	0.00 %	0.00%
loans guaranteed by mortgages	0	0.00 %	0	0.00 %	0.00%
other loans	26,768	3.50 %	20,793	3.09 %	28.74%
bank deposits	252,026	32.97 %	268,478	39.94 %	-6.13%
other	1,034	0.14 %	980	0.15 %	5.51%
<b>IV. Deposits in cedants</b>	<b>0</b>	<b>0.00 %</b>	<b>0</b>	<b>0.00 %</b>	<b>0.00%</b>
<b>INVESTMENTS TO THE BENEFIT OF POLICIES OF UNIT-LINKED LIFE INSURANCE</b>	<b>51,016</b>	<b>6.67 %</b>	<b>48,205</b>	<b>7.17 %</b>	<b>5.83%</b>
<b>TOTAL:</b>	<b>764,349</b>	<b>100.00 %</b>	<b>672,279</b>	<b>100.00 %</b>	<b>13.70%</b>

A 25.47 % decrease was recorded in the amount of investments in shares and other variable income securities and units in investment funds. Decline was registered by all life insurance companies investing in such financial instruments, only ZAD ALLIANZ BULGARIA LIFE reported a 13.7 % growth in the amount of investments in units and shares of investment funds.

The amount of investments to the benefit of Unit-linked Life Insurance climbed by 5.83 % and reached BGN 51,016 thousand. These investments constituted 6.67 % of the total amount of investments in the life insurance sector.

The investments in shares and units in subsidiary, joint and associated undertakings grew by 179.84 % on an annual basis

and at the end of 2008 they were at the amount of BGN 88,243 thousand. The growth in these investments was as a result of increase in the subscribed capital of DZI – GENERAL INSURANCE AD (from BGN 26,000 thousand at the end of 2007 to BGN 81,000 thousand at the end of 2008), in which ZAD DZI held a shareholding of 99.29 %.

As of 31 Dec., 2008 the investments of ZAD DZI accounted for 46.2 % of the total amount of investments in the life insurance sector.

The investment income of insurers pursuing business in the field of life insurance picked up by 5.5 % on annual basis and at the end of 2008 amounted to BGN 74,475 thousand, while the investment expenses in the sector were at the amount of BGN 48,540 thousand, increasing almost three-fold for the year. Detailed information on the income and expense related to life insurers' investments is given in **Appendix 13.3.5B**.

In the investment income structure 39.6 %, or BGN 29,524 thousand were the positive differences from revaluation of the investments value, and 36.2 %, or BGN 26,942 thousand, were the profits from investments realization. The biggest positive differences from revaluation of the investments values were reported by ZAD ALIANZ BULGARIA LIFE (BGN 17,602 thousand) and ZAD DZI (BGN 10,665 thousand). A major share of the profits from realization of the investments in the life insurance sector was achieved by ZAD DZI (BGN 24,617 thousand).

The negative differences from revaluation of the investments value were 76.1 % of the investments expenses, or BGN 36,937 thousand, and the losses from the investments realization were 22.8 %, or BGN 11,088 thousand. The biggest negative differences from revaluation were reported by ZAD ALLIANZ BULGARIA LIFE (BGN 18,759 thousand), ZAD DZI (BGN 10,136 thousand), ZAD BULSTRAD LIFE (BGN 3,331 thousand) and ZK UNIKA LIFE AD (BGN 2,037 thousand). Most significant losses from realization of the investments suffered ZPAD DZI – BGN 10,708 thousand.

## 13.4 ANALYSIS OF THE ACTIVITIES OF VOLUNTARY HEALTH INSURANCE COMPANIES AS OF THE END OF 2008

### 13.4.1 PREMIUM INCOME AND MARKET SHARE

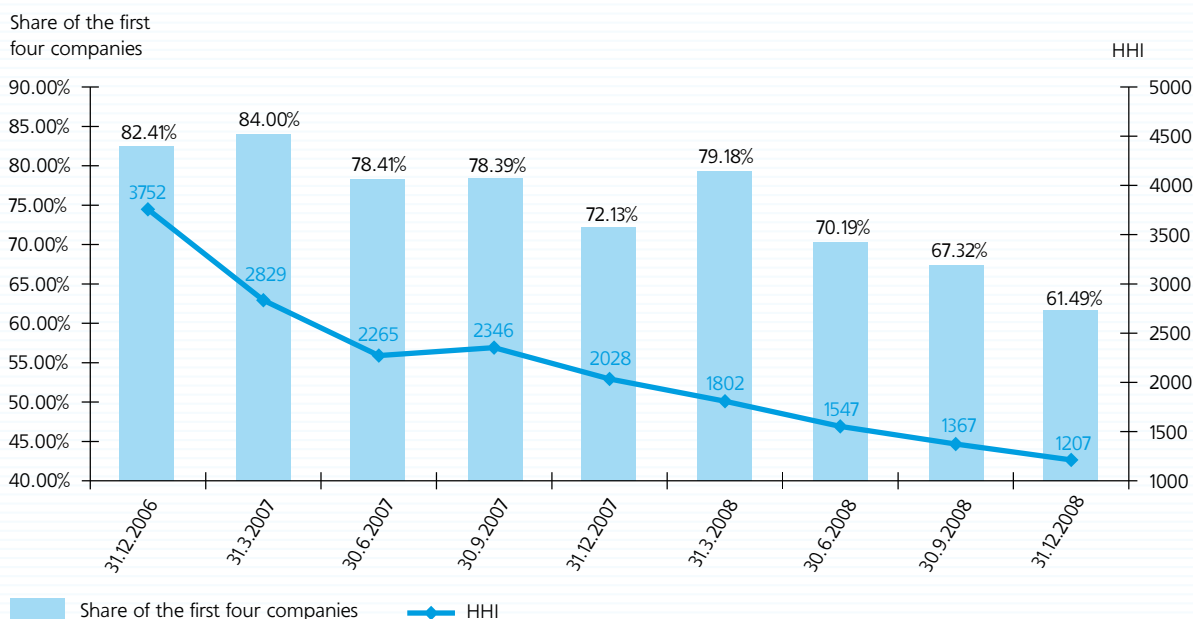
As of the end of 2008 the premium income generated by the voluntary health insurance companies amounted to BGN 30,302 thousand, compared to BGN 25,314 thousand for 2007, recording a growth of 19.70 % on a year-on-year basis (**Appendix 13.4.1**).

A large part of the health insurance companies generated a positive growth in the premium income on an annual basis, with the exception of HIC VSEOTDAINOST AD (-53.39 %), HIC PLANETA AD (-41.50 %), GENERALI ZAKRILA HEALTH INSURANCE AD (-41.26 %) and HIC BULSTRAD HEALTH AD (-12.44 %). The biggest drop in the premium income in absolute value was observed with GENERALI ZAKRILA HEALTH INSURANCE AD – BGN 4,080 thousand. The highest growth in the premium income on an annual basis was reported by TOKUDA HEALTH INSURANCE FUND AD by 694.94 % and HEALTH INSURANCE INSTITUTE AD by 325 %, or in absolute value respectively with BGN 549 thousand and BGN 273 thousand.

The market share of the four health insurance companies with the highest realized premium income (VHIN – ZDRAVE AD, GENERALI ZAKRILA HEALTH INSURANCE AD, HIF MEDICO - 21 AD and DZI – HEALTH INSURANCE AD) at 31 Dec., 2008 was 61.49 %.

The diagram below presents the extent of concentration on the voluntary health insurance market measured through HHI and the share of the first four companies.

## Concentration on the voluntary health insurance market measured through HHI and the share of the first four companies



The diagram shows that the HHI index gradually declined and at the end of the year it reached the value of 1,207, which showed weakening of the concentration and respectively enhancement of the competition between the companies operating on the voluntary health insurance market.

## Realized premium income by class of health insurance package

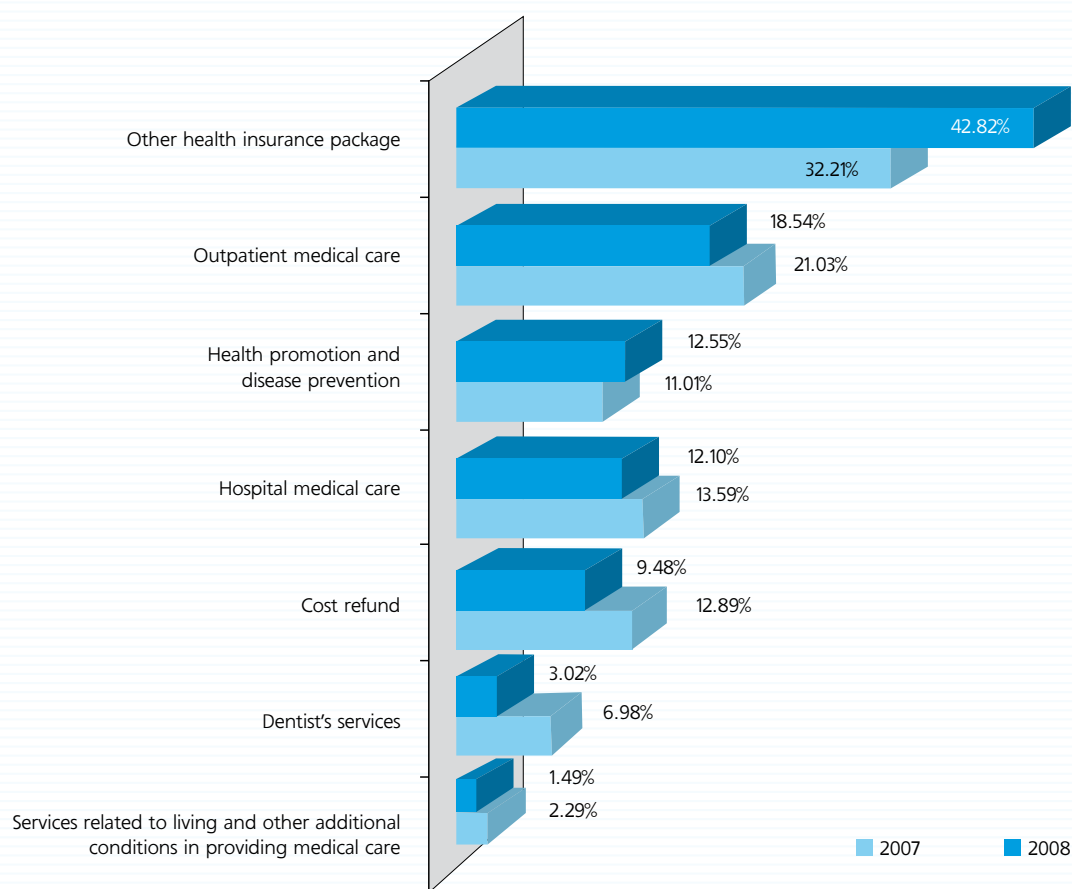
Type of Package	31.12.2008		31.12.2007		Growth/Drop
	BGN	Market share	BGN	Market share	
Health promotion and disease prevention	3,802,353	12.55 %	2,791,550	11.01 %	36.21%
Outpatient medical care	5,619,226	18.54 %	5,332,057	21.03 %	5.39%
Hospital medical care	3,666,572	12.10 %	3,444,919	13.59 %	6.43%
Dentist's services	914,093	3.02 %	1,768,874	6.98 %	-48.32%
Services related to living and other additional conditions in providing medical care	452,621	1.49 %	580,635	2.29 %	-22.05%
Cost refund	2,874,484	9.48 %	3,269,143	12.89 %	-12.07%
Other health insurance packages	12,978,073	42.82 %	8,166,601	32.21 %	58.92%
<b>TOTAL:</b>	<b>30,307,421</b>	<b>100.00 %</b>	<b>25,353,780</b>	<b>100.00 %</b>	<b>19.54%</b>

In the portfolio structure of the health insurance companies a predominant share was held by Other Health Insurance Packages with 42.82 %, followed by Outpatient Medical Care Package with 18.54 % and Health Promotion and Disease Prevention Package with 12.55 %.

A positive growth in the premium income on a year-on-year basis was recorded in packages Other Health Insurance Packages (58.92 %), Health Promotion and Disease Prevention (36.21%), Hospital Medical Care (6.43 %) and Outpatient Medical Care

(5.39 %). A decline in the premium income on a year-on-year basis was observed in the other health insurance packages.

### Portfolio structure of health insurance companies (in %)



As of 31 Dec., 2008 the number of the health insured persons with the voluntary health insurance companies was 356,863, compared to 263,754 at 31 Dec., 2007.

### Number of health insured persons by class of health insurance package

TYPE OF PACKAGE	31.12.2008	31.12.2007
Health promotion and disease prevention	72,747	87,058
Outpatient medical care	95,811	98,486
Hospital medical care	60,646	75,819
Dentist's services	14,903	37,065
Services related to living and other additional conditions in providing medical care	11,996	19,483
Cost refund	46,822	74,504
Other health insurance packages	116,389	75,478
<b>TOTAL:</b>	<b>356,863*</b>	<b>263,754*</b>

\* The total number of the health insured persons does not correspond to the sum of the health insured persons by type of packages because some persons are health insured simultaneously for several packages.



## ANALYSIS AND STRUCTURE OF PAID COMPENSATIONS AND COSTS RELATED TO HEALTH INSURANCE ACTIVITY

The sum of the compensations paid by the health insurance companies as of 31 Dec., 2008 amounted to BGN 21,105 thousand, against BGN 15,323 thousand paid as of 31 Dec., 2007, whereby a growth of 37.73 % was registered on an annual basis. The incurred claims were at the amount of BGN 21,149 thousand, registering a growth of 26.13 % on a year-on-year basis (**Appendix 13.4.2A**).

The highest relative share in the structure of the paid compensations on the market of voluntary health insurance belonged to GENERALI ZAKRILA HEALTH INSURANCE AD - 43.58 %, followed by VHIN – ZDRAVE AD - of 17.08 % and UHIF DOVERIE AD of 8.8 %.

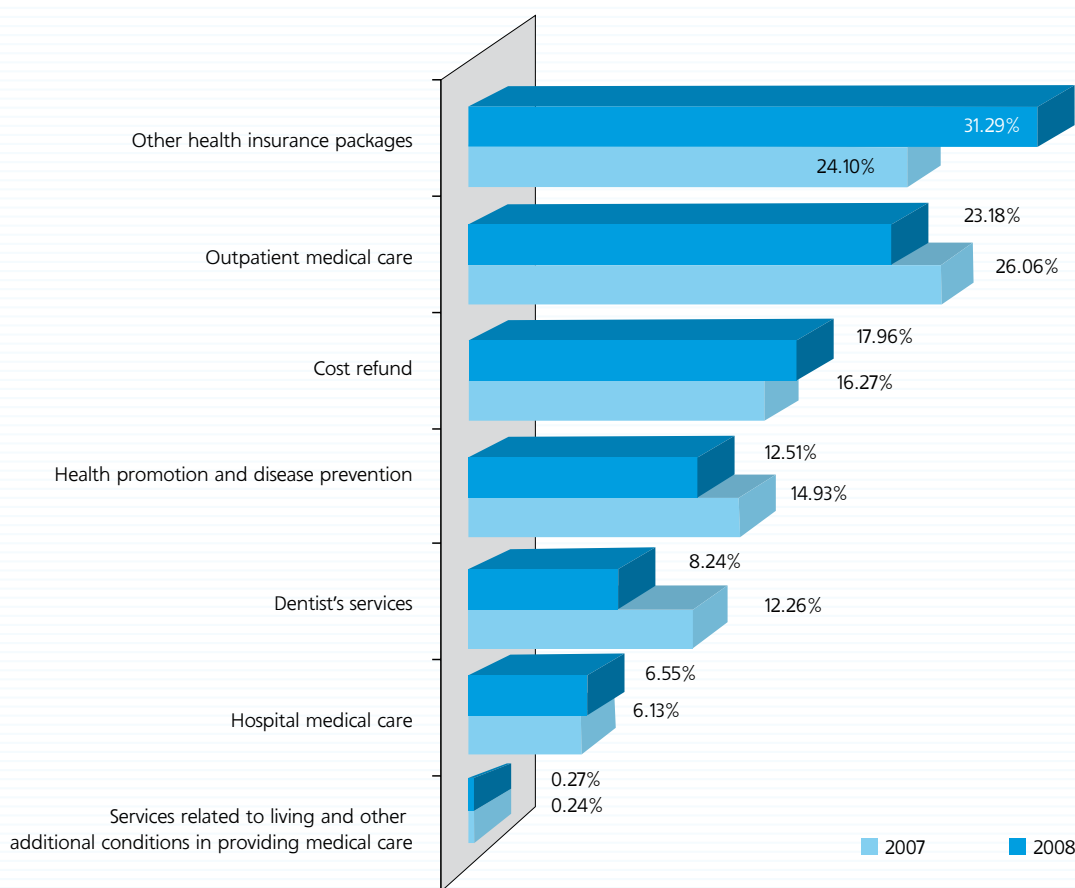
It is evident from **Appendix 13.4.2B** that with 9 of the health insurance companies, taken on an annual basis, the increase of the paid claims outstripped the growth of premium income. With HIC PLANETA AD simultaneously a drop of -41.5 % in the premium income was observed and big increase both in the paid compensations and the incurred claims by 438.5 %.

### Change in the charged (written) premiums, in the paid and incurred claims by class of package

TYPE OF PACKAGE	Growth/ drop of the written premiums as of 31.12.2008 compared to 31.12.2007	Increase/ decrease of the paid claims as of 31 12. 2008 compared to 31.12.2007	Increase/ decrease of the incurred claims as of 31.12.2008 compared to 31.12.2007
Health promotion and disease prevention	36.2 %	15.4 %	25.5 %
Outpatient medical care	5.4 %	22.5 %	6.9 %
Hospital medical care	6.4 %	47.1 %	50.9 %
Dentist's services	-48.3 %	-7.3 %	-23.9 %
Services related to living and other additional conditions in providing medical care	-22.0 %	53.5 %	75.0 %
Cost refund	-12.1 %	52.1 %	46.8 %
Other health insurance packages	58.9 %	78.9 %	55.8 %
<b>TOTAL:</b>	<b>19.5 %</b>	<b>37.8 %</b>	<b>26.9 %</b>

The increase of the paid claims in all health insurance packages outstripped the growth of the premium income, except for the Health Promotion and Disease Prevention Package. A decrease of the paid claims (-7.3 %) was observed in Dentist's Services Package, but that decrease was considerably less than the decline in the premium income (-48.3 %).

## Structure of paid claims by class of health insurance package



The greatest share in the structure of the paid claims was held by Other Health Insurance Packages with 31.29 % followed by Outpatient Medical Care Package with 23.18 % and the Cost Refund Package with 17.96 %.

GENERALI ZAKRILA HEALTH INSURANCE AD held the biggest share in the paid claims on all health insurance packages, save for Other Health Insurance Packages, where the larger part of the compensations were paid by VHIN – ZDRAVE AD (54.46 %).

The costs incurred by the voluntary health insurance companies as of 31 Dec., 2008 amounted to BGN 13,524 thousand (including BGN 343 thousand claim settlement costs) compared to BGN 11,094 thousand for the end of 2007, i.e. a growth of 21.91 % was registered on a year-on-year basis.

The actual costs incurred were 44.53 % of the premium income, realized for the period under review. The acquisition costs accounted for 30.27 % of the total costs incurred for the period, and the administrative – 66.88 %. The acquisition costs were 13.48 % of the premium income, and the administrative – 29.78 %.

The greatest share in the total costs incurred was held by those on Other Health Insurance Packages, which amounted to BGN 4,697 thousand, or 34.73 % of the total incurred costs. Next followed packages Outpatient Medical Care with BGN 3,117 thousand, or 23.05 % of the total costs and Hospital Medical Care with BGN 1,952 thousand, or 14.43 % of the total costs incurred in the sector.

GENERALI ZAKRILA HEALTH INSURANCE AD held biggest share in the actual costs incurred on all health insurance packages. Only in regard to Other Health Insurance Packages, the biggest share in the costs incurred was held by health insurance company VHIN – ZDRAVE AD (38.12 %).

The claim settlement costs were at the amount of BGN 343 thousand and represented 7.30 % of the total incurred costs.

The expense ratio at the end of the period was at the rate of 0.43, against 0.44 at 31 Dec., 2007.

**Paid claims, incurred claims and actual costs incurred by the voluntary health insurance companies by class of package (in BGN)**

TYPE OF PACKAGE	31.12.2008			31.12.2007		
	Paid claims	Incurred claims	Actual costs incurred (acquisition and administrative, excluding claim settlement costs)	Paid claims	Incurred claims	Actual costs incurred (acquisition and administrative, excluding claim settlement costs)
Health promotion and disease prevention	2,639,969	2,951,339	1,714,136	2,286,792	2,352,037	1,269,813
Outpatient medical care	4,892,092	4,892,071	3,071,939	3,992,310	4,575,201	2,942,224
Hospital medical care	1,381,763	1,501,785	1,943,324	939,524	995,158	1,566,009
Dentist's services	1,740,325	1,640,401	483,690	1,878,322	2,156,283	765,747
Services related to living and other additional conditions in providing medical care	57,263	65,928	309,953	37,303	37,666	303,639
Cash refund	3,791,122	3,927,813	1,200,731	2,492,941	2,675,566	1,328,934
Other health insurance packages	6,605,858	6,776,592	4,457,445	3,692,696	4,350,162	2,716,869
<b>TOTAL:</b>	<b>21,108,391</b>	<b>21,755,929</b>	<b>13,181,216</b>	<b>15,319,890</b>	<b>17,142,073</b>	<b>10,893,235</b>

## Main indicators by class of package offered by health insurance companies

TYPE OF PACKAGE	31.12.2008				31.12.2007			
	Loss ratio	Expense ratio	Combined ratio	Technical result	Loss ratio	Expense ratio	Combined ratio	Technical result
Health promotion and disease prevention	0.72	0.45	1.16	-567,678	1.07	0.47	1.55	-1,463,373
Outpatient medical care	0.85	0.54	1.40	-2,673,481	0.83	0.57	1.40	-2,078,221
Hospital medical care	0.37	0.53	0.90	590,169	0.34	0.46	0.80	375,073
Dentist's services	1.65	0.53	2.18	-1,090,889	1.30	0.44	1.76	-1,282,045
Services related to living and other additional services in providing medical care	0.12	0.67	0.80	156,381	0.06	0.52	0.58	274,857
Cost refund	1.32	0.41	1.73	-2,216,280	0.89	0.42	1.32	-1,039,456
Other health insurance packages	0.58	0.34	0.92	453,276	0.60	0.34	0.95	4,288
<b>TOTAL:</b>	<b>0.72</b>	<b>0.43</b>	<b>1.16*</b>	<b>-5,348,504*</b>	<b>0.72</b>	<b>0.44</b>	<b>1.17*</b>	<b>-5,208,880*</b>

\* The values are obtained on the basis of accounting for the immediately inherent income and expense by class of insurances, without taking into consideration any other technical expenses and distributed investment income, reported in the Income Statement.

The technical result realized by the health insurance companies by class of package as from 31 Dec., 2008 was negative at the amount of BGN -5,349 thousand. A positive technical result was recorded on packages Hospital Medical Care (BGN 590 thousand), Services Related to Living and Other Additional Condition in Providing Medical Care (BGN 156 thousand) and on Other Health Insurance Packages (BGN 453 thousand).

## ANALYSIS AND STRUCTURE OF THE HEALTH INSURANCE PROVISIONS AND THE ASSETS FOR COVERING HEALTH INSURANCE PROVISIONS

### 13.4.3

### HEALTH INSURANCE PROVISIONS

The total amount of the health insurance provisions as of 31 Dec., 2008 amounted to BGN 13,067 thousand, showing an increase of 11.29 % as compared to the provisions set aside as of 31 Dec., 2007.

## Health insurance provisions (in BGN thousand)

TYPE OF HEALTH INSURANCE PROVISIONS	31.12. 2008	31.12. 2007	31.12. 2006	31.12. 2005	Change 2008 / 2007	Change 2007 / 2006	Change 2006 / 2005
	Unearned premium reserve	8,182	7,916	5,746	3,318	3.36%	37.77%
Unexpired risks reserve	1,287	685	33	0	87.88%	1,975.76%	-
Loss reserve	3,039	2,394	570	527	26.94%	320.00%	8.16%
Equalization reserve	523	585	481	396	-10.60%	21.62%	21.46%
Bonuses and rebates reserve	36	161	40	0	-77.64%	302.50%	-
Other provisions approved by FSC	0	0	0	0	-	-	-
<b>TOTAL:</b>	<b>13,067</b>	<b>11,741</b>	<b>6,870</b>	<b>4,241</b>	<b>11.29%</b>	<b>70.90%</b>	<b>61.99%</b>

The unearned premium reserve held a biggest share of 62.62 % in the total provisions set aside. The allocated amount of that reserve was BGN 8,182 thousand, with BGN 7,916 thousand at 31 Dec., 2007. Greatest increase in the unearned premium reserve was registered in the package Other Health Insurance Packages by 66.79 % on an annual basis, or in absolute value with BGN 1,289 thousand.

The loss reserve amounted to BGN 3,039 thousand and marked an increase by 26.94 on an annual basis. A considerable growth was also recorded by the loss reserve on the Services Related to Living and Other Additional Conditions in Providing Medical Care – by 406.40 % on a year-on-year basis. On annual basis, greatest increase was recorded in the unexpired risks reserve by 87.88 % and biggest decrease in the bonuses and rebates reserve by 77.64 %.

## ASSETS FOR COVERING HEALTH INSURANCE PROVISIONS

The sum of assets for covering of health insurance provisions at the end of 2008 was BGN 15,095 thousand, increasing by 26.29 % compared to the end of 2007. As of 31 December, 2008 the total sum of the assets for covering the health insurance provisions covered in full the amount of the technical provisions of BGN 13,067 thousand.

The table below presents the structure of the assets for cover of the health insurance provisions at the end of 2008:

### Assets for covering technical provisions

TYPE OF ASSET	31.12.2008		31.12.2007		Change
	BGN thousand	Share (%)	BGN thousand	Share (%)	
Government securities	8,902	58.97 %	4,746	39.71 %	87.57 %
Unencumbered real estate	0	0.00 %	62	0.52 %	
Bonds issued and guaranteed by the municipalities	43	0.28 %	40	0.33 %	7.50 %
Shares and bonds issued by commercial companies and admitted to trading on a stock exchange	791	5.24 %	2,583	21.61 %	-69.38 %
Bank deposits	4,869	32.26 %	4,325	36.18 %	12.58 %
Mortgage bonds	490	3.25 %	197	1.65 %	148.73 %
<b>TOTAL ASSETS FOR COVERING TECHNICAL PROVISIONS:</b>	<b>15,095</b>	<b>100.00%</b>	<b>11,953</b>	<b>100.00%</b>	<b>26.29 %</b>

The biggest share in the structure of the assets for covering health insurance provisions as of 31 Dec., 2008 was occupied by government securities (58.97 %), followed by bank deposits (32.26 %).

On annual basis, greatest increase of the assets for cover of the health insurance reserves was registered with the mortgage bonds (148.73 %), which on 31 December, 2008 amounted to BGN 490 thousand, against BGN 197 thousand at the end of 2007. The increase in the government securities was 87.57 % on a year-on-year basis, their share being 58.97 % of the total amount of the assets for covering the health insurance provisions.

## 13.4.4 TECHNICAL RESULT AND FINANCIAL RESULT

The result of voluntary health insurance activity for 2008 (**Appendix 13.4.4**) was negative and amounted to BGN -6,301 thousand compared to BGN -6,628 thousand at 31 Dec., 2007. The reason for the low technical result was the outpacing increase of the incurred claims (26.13 %) and of the net operating expenses (26.40 %) in comparison with the growth of the earned premiums (26.13 %).

Fifteen of the health insurance companies reported a negative result from the activity in 2008. Only five of the companies realized a positive result: HIC BULGARIA HEALTH AD (BGN 236 thousand), VHIN – ZDRAVE AD (BGN 777 thousand), HIC NADEZHDA AD (BGN 318 thousand), MUNICIPAL HEALTH INSURANCE FUND AD (BGN 546 thousand) and HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD (BGN 187 thousand).

GENERALI ZAKRILA HEALTH INSURANCE AD reported lowest technical result at the amount of BGN -4,968 thousand. With that company the amount of the incurred claims (BGN 8,747 thousand) and of the net operating expenses (BGN 2,989 thousand) exceeded the amount of the earned premiums (BGN 7,456 thousand) for 2008.

The voluntary health insurance companies closed the year with a negative financial result of BGN -7,767 thousand, compared to a negative result of BGN -4,229 thousand for 2007.

Only five of the health insurance companies realized profit – HIC BULGARIA HEALTH AD, HIC NADEZHDA AD, HEALTH INSURANCE INSTITUTE AD, MUNICIPAL HEALTH INSURANCE FUND AD and HIF DALLBOGG: ZHIVOT I ZDRAVE EAD. MUNICIPAL HEALTH INSURANCE FUND closed the year with the highest financial result (BGN 501 thousand). GENERALI ZAKRILA HEALTH INSURANCE AD registered the lowest financial result for the year of BGN -5,392 thousand.

## 13.4.5 MAIN BALANCE SHEET INDICATORS

### TOTAL AMOUNT OF ASSETS AND OWN CAPITAL OF THE HEALTH INSURANCE COMPANIES

At 31 December, 2008 the total amount of the assets of the health insurance companies amounted to BGN 59,692 thousand, registering a growth of 36.62 % on an annual basis. The assets and own capital amount of the health insurance companies are presented in **Appendix 13.4.5A**.

The own capital climbed up by 52.66 % and was at the amount of BGN 38,097 thousand. The reason for that increase was the bigger number of companies operating in the sector in 2008 in comparison with 2007.

The table below presents the own funds and the solvency margin of the voluntary health insurance companies, from which it is apparent that the own funds of all companies, reduced with the intangibles assets at the end of 2008 (amounting to BGN 35,812,593), covered in full their solvency margin (amounting to BGN 7,053,533).

### Solvency margin of health insurance companies

Health Insurance Companies	Own funds (in BGN)	Solvency margin (in BGN)	Solvency ratio
HIC BULSTRAD HEALTH AD	1,510,573	173,411	871.09 %
HIC BULGARIA HEALTH AD	4,478,398	141,594	3,162.85 %
UNITED HEALTH INSURANCE EAD	1,438,000	222,117	647.41 %

HIC VSEOTDAINOST AD	1,476,652	169,789	869.70 %
GENERALI ZAKRILA HEALTH INSURANCE AD	2,443,244	2,405,528	101.57 %
DZI-HEALTH INSURANCE AD	2,720,754	507,450	536.16 %
UHS DOVERIE AD	2,487,332	445,570	558.24 %
VHIN – ZDRAVE AD	2,460,018	1,141,833	215.44 %
HEALTH INSURANCE INSTITUTE AD	2,022,980	64,309	3,145.74 %
HIF MEDICO-21 AD	1,496,604	659,153	227.05 %
HIC NADEZHDA AD	2,981,000	320,711	929.50 %
HIC PLANETA AD	1,753,000	214,760	816.26 %
EUROINS-HEALTH INSURANCE EAD	2,221,183	149,845	1,482.32 %
TOKUDA HEALTH INSURANCE FUND AD	926,332	112,927	820.29 %
HIC CCB EAD	674,160	7,590	8,882.36 %
HEALTH INSURANCE FUND PRIME HEALTH AD	543,081	23,097	2,351.35 %
MUNICIPAL HEALTH INSURANCE FUND AD	850,383	195,552	434.86 %
HIF DALLBOGG: ZHIVOT I ZDRAVE EAD	989,900	98,297	1,007.05 %
HIF VICE MEDICA AD	453,000	0	-
HIF EUROPA AD	1,886,000	0	-
<b>TOTAL:</b>	<b>35,812,593</b>	<b>7,053,533</b>	<b>507.73 %</b>

## INVESTMENTS

At the end of 2008 the total amount of the investments in the health insurance sector was BGN 35,329 thousand, an increase by 53.82 % on an annual basis being reported. That growth was as a result predominantly of the increase of investments of the balance group Other Financial Investments by 49.47 %, or BGN 10,920 thousand, which at 31 December, 2008 constituted 93.39 % of the total amount of the investments in the sector. The biggest share in this group of investments was held by bank deposits (48.35 %) and by debt securities and other fixed income securities (34.04 %).

### Investments of voluntary health insurance companies as of 31 December, 2008

TYPE OF INVESTMENT	2008		2007		Change
	BGN thousand	Share (%)	BGN thousand	Share (%)	
<b>I. Land and buildings</b>	<b>376</b>	<b>1.06 %</b>	<b>0</b>	<b>0.00 %</b>	<b>0.00 %</b>
<b>II. Investments in subsidiary, joint and associated undertakings in which the company possesses a shareholding, including:</b>	<b>1,960</b>	<b>5.55 %</b>	<b>895</b>	<b>3.90 %</b>	<b>118.99 %</b>
shares and units in subsidiary, joint and associated undertakings	669	1.89 %	395	1.72 %	69.37 %
debt securities issued by subsidiary, joint and associated undertakings, as well as the loans granted to them	0	0.00 %	0	0.00 %	0.00 %
other shareholdings	1,291	3.65 %	500	2.18 %	158.20 %
debt securities issued by other undertakings in which the insurer possesses a shareholding, as well as loans granted to them	0	0.00 %	0	0.00 %	0.00 %

<b>III. Other financial investments, including:</b>	<b>32,993</b>	<b>93.39 %</b>	<b>22,073</b>	<b>96.10%</b>	<b>49.47 %</b>
shares and other variable-yield securities and units in investment fund	1,564	4.43 %	3,085	13.43 %	-49.30 %
debt securities and other fixed income securities	12,027	34.04 %	7,135	31.06 %	68.56 %
including securities issued and guaranteed by the state	8,792	24.89 %	5,589	24.33 %	57.31 %
participation in investment pools	0	0.00 %	0	0.00 %	0.00 %
loans guaranteed by mortgage	0	0.00 %	0	0.00 %	0.00 %
other loans	1,271	3.60 %	140	0.61 %	807.86 %
bank deposits	17,081	48.35 %	10,061	43.80 %	69.77 %
other	1,050	2.97 %	1,652	7.19 %	-36.44 %
<b>TOTAL:</b>	<b>35,329</b>	<b>100.00%</b>	<b>22,968</b>	<b>100.00%</b>	<b>53.82%</b>

On an annual basis the biggest increase was recorded by the investments of subgroup Other Loans - 807.86 %. That growth was due to HIC CCB EAD and HIF VICE MEDICA AD, which reported an increase respectively of BGN 636 thousand and BGN 450 thousand.

The investment incomes of the health insurance companies (**Appendix 13.4.5B**) amounted to BGN 1,802 thousand, compared to realized BGN 3,144 thousand in 2007. The biggest decrease in investment income was recorded by HIC PLANETA AD with 75.56 %, UHIF DOVERIE AD by 68.88 % and VHIN-ZDRAVE AD by 66.43 %. The biggest growth of the investments income was registered with UNITED HEALTH INSURANCE AD by 252.63 % and with HEALTH INSURANCE INSTITUTE AD by 231.58 %.

The total investment expenses for the voluntary health insurance companies were BGN 2,065 thousand, compared to BGN 717 thousand in the previous year, i.e. a growth of 188 % on annual basis was registered. Greatest increase in the investment expense was reported by EUROINS – HEALTH INSURANCE EAD by 849.02 %, UNITED HEALTH INSURANCE by 262.50 % and HIC BULSTRAD HEALTH AD by 225 %.

## 13.5

### INSURANCE INTERMEDIATION PURSUED THROUGH INSURANCE BROKERS TO THE BENEFIT OF INSURERS HAVING A LEGAL SEAT IN THE REPUBLIC OF BULGARIA

At the end of 2008 the total number of the registered insurance brokers was 275, and that of the insurance agents - 69,093. There were 4,208 insurance agents – legal entities, 3,326 – sole traders, and 61,559 – natural persons.

Seven brokers (PETROL AD, BROKERS BG – INTERCONNECTION OOD, AQUAINS BROKER OOD, APRIL RISK SOLUTIONS AD, KESTREL BROKER OOD, EURO BROKE INS EOOD and LEASING-BROKERAGE HOUSE – ISIRA EOOD) did not carry out activity during the period under review and reported zero premium income. One of the insurance brokers, that filed a report and statistics for 2008 (SCHENKER EOOD), was deleted from the maintained by FSC register of insurance brokers.

In 2008 the premium income generated through insurance brokers for the benefit of insurers having their seat in the Republic of Bulgaria amounted to BGN 635,963 thousand, i.e. 35.2 % of the gross premium income from insurance. From them BGN 587,720 thousand were realized in the non-life insurance (38.3 % of the gross premium income from non-life insurance<sup>36</sup>) and BGN 48,243 thousand in life insurance (17.9 % of the gross premium income from life insurance).

It should be noted that some of the insurance brokers reported the premium income on the basis of written premiums, and others on the basis of collected premiums. The same is also valid for the commissions, some of them corresponding to the whole written premium, and others only to the sum collected for the reporting period. *By reason of it, the comparison and matching of the data obtained from insurance brokers for 2008 with the same from a previous reporting period, as well as between the brokers themselves, does not provide sufficiently objective information.*

Within the structure of the generated through insurance brokers premium income in non-life insurance, the biggest share

<sup>36</sup> With the purpose of data comparability, the premium income from Accident insurance realized by the life insurance companies is deducted from their total gross premium income and is added to the gross premium income realized by the non-life insurance companies.



belonged to the motor vehicles insurances – Land Vehicles, excluding Railway Rolling Stock insurance (56.7 %) and Third Party Liability insurance related to the possession and use of motor vehicles (20.4 %), followed by Fire and Natural Forces insurance (6.8 %) and Property Damage insurance (6.7 %). In the field of life insurance, the generated through insurance brokers premium income was mainly from Life Insurance and Annuity (94.0 %).

The revenues from commission charges of insurance brokers amounted to BGN 155,484 thousand. From them BGN 143,253 thousand were revenues from commission charges in the non-life insurance and BGN 12,231 thousand – in life insurance. The brokers' commissions constituted 24.4 % of the realized through them premium income in the non-life insurance and 25.4 % of the realized through them premium income in life insurance. The premium income and the revenues from commission charges of the insurance brokers are given in **Appendix 13.5**. They do not include the premium income and revenues from commission charges realized through insurance brokers, carrying out intermediation in relation to contracts of voluntary health insurance, at the amount of BGN 2,821 thousand, and the premium income generated through Bulgarian insurance brokers to the benefit of insurers from third countries and insurers from other Member States, pursuing business under the right of establishment and freedom to provide services, which was to the amount of BGN 9,440 thousand.

The first four brokers which had the greatest share in the realized through all insurance brokers premium income for 2008 were MARSH EOOD with 6.79 %, RAIFFEISEN INSURANCE BROKER EOOD with 6.55 %, ING INSURANCE BROKERS OOD with 5.55 % and DELIVERY BROKER OOD with 4.43 %.

## 13.6

### GUARANTEE FUND

In 2008 the Guarantee Fund (GF) and the National Bureau of Bulgarian Motor Insurers (NBBMI) signed an agreement whereby they adopted rules on the settlement of the procedure for fulfillment of the obligations respectively of NBBMI and the GF, provided in the Insurance Code and the concluded international agreements, concerning refund of sums and compensations. These are the sums paid by the paying bureau in a Member State of the European Economic Area (other than the Republic of Bulgaria) to the affected persons from road traffic accident, that occurred on its territory through the fault of a motor vehicle with Bulgarian registration having no obligatory Third Party Liability insurance of motorists.

In 2008 an Annual Conference was held of the Guarantee Funds and Compensation Authorities of the EU Member States, among which the Bulgarian Guarantee Fund was as well. The following agreements were signed during the Conference: Agreement on regulation of relations in case of bankruptcy of an insurer, offering obligatory insurance of motor vehicles and operating in the single European market; Rules of application of the Agreement between the Guarantee Funds and the Compensation Authorities and Rules of work of the parties participating in this agreement.

On the basis of the presented report of the Guarantee Fund's operation for the period 1 January – 31 December 2008, which is given in **Appendix 13.6**, several trends regarding its financial situation were established.

The revenues of the Guarantee Fund, formed by contributions from insurers pursuing obligatory insurance, by fines and pecuniary sanctions, by income from investing the Fund's resources, etc., amounted to BGN 27,456 thousand, against BGN 19,504 thousand at the end of the preceding period. The revenues from the insurers' contributions, which accounted for the biggest share in the total structure of the Fund's revenues, amounted to BGN 24,159 thousand, which was by 35.6 % more than the revenues from contributions reported one year earlier.

The resources of the Guarantee Fund were spent for payment of compensations to affected persons, of administrative and other expenses related to its activity.

The biggest share in the total expense structure was held by the negative differences from revaluation of the Fund's investments value (35.1 %), followed by compensation expenses (33.1 %) and administrative costs (13.1 %). The Fund recorded much higher compared to one year earlier negative differences from revaluation of the investments' value, at the amount of BGN 3,812 thousand, as compared to BGN 513 thousand reported in 2007.

In 2008 totally 1,134 claims were submitted to the Fund (921 for pecuniary damages and 213 for non-pecuniary damages), of which 342 were denied, 305 were paid and 487 were pending and uncompleted.

917 of the pecuniary damages were for non-concluded Third Party Liability insurance of motorists, 3 concerned damages caused by unlicensed drivers, and one claim was for damages caused by a driver, who drove a misappropriated motor vehicle.

35 of the non-pecuniary damages were caused by an unknown driver, 160 were for non-concluded Third Party Liability insurance of motorists, 15 were for damages caused by unlicensed drivers and 3 were for damages caused by a motor vehicle, the possession over which was misappropriated by theft.

The expenses for compensations of the GF in 2008 marked a growth of 57.04 % in comparison with the previous year and reached BGN 3,588 thousand on total 473 claims, including:

- BGN 479 thousand on 363 pecuniary damages, from which BGN 103 thousand were on 116 claims from previous years;
- BGN 3,109 thousand on 110 non-pecuniary damages, from which BGN 1,966 thousand were on 52 claims from previous years.

The Guarantee Fund closed the period with a financial result, amounting to BGN 15,720 thousand, as compared to BGN 13,232 thousand one year earlier. The reason for the higher financial result for 2008 was the forestalling increase of the total amount of the revenues of the Fund (with BGN 7,985 thousand) towards the amount of the expenses (with BGN 5,927 thousand) and the smaller change in the gross amount of the loss reserve.

As of 31 December, 2008 the resources of the Guarantee Fund, formed by contributions from insurers carrying out obligatory insurance, by fines and pecuniary sanctions, by incomes from investment of the Fund's resources, and other, amounted to BGN 41,772 thousand. Reduced with the loss reserve (BGN 6,916 thousand), they came to BGN 34,856 thousand. The amount of available resources complied with the requirement under Art. 287, para 1 of the IC, according which their minimum amount was determined to be BGN 3,000 thousand.

The Fund's resources were invested in accordance with a decision taken by the Management Board, in compliance with the procedure for investment of the insurers' technical provisions, provided in the IC, and pursuant to the general investment principles adopted by the Board of the Fund.

As of 31 December, 2008 the resources of the Guarantee Fund were allocated as follows:

		Value (BGN)	Invested Resources (%)	Average Rate of Return (%)
<b>I.</b>	<b>INVESTED GF RESOURCES</b>	<b>40,557,404</b>	<b>97.09</b>	<b>6.00</b>
1	Government securities	9,542,782	22.85	4.41
2	Corporate bonds (eligible)	8,688,169	20.80	4.80
3	Corporate bonds (non-eligible)	5,227,914	12.52	8.00
4	Mortgage bonds	225,343	0.54	5.29
5	Shares	866,280	2.07	
6	Investments in units and shares of investment funds	978,710	2.34	
7	Bank deposits	15,028,206	35.98	6.60
	incl. deposits with investment intermediaries for fiduciary management	1,753,928		
<b>II.</b>	<b>CASH AVAILABILITY ON PAYMENT ACCOUNTS</b>	<b>1,214,235</b>		
	incl. cash with investment intermediaries for fiduciary management	209,568		
	<b>RESOURCES OF THE FUND</b>	<b>41,771,639</b>		

The total amount of the invested resources reached BGN 41,772 thousand, of which bank deposits held the biggest share (36 %), followed by investments in GS (22.8 %). A significant increase (71 %) was reported in the amount of the invested resources in comparison with the previous reporting period. The Fund's investments in bank deposits grew by 64 %, and

in GS - by 59 %. The amount of the invested resources in shares declined by 48 %, and in mortgage binds - by c 34 %.

At the end of 2008 the Guarantee Fund presented an annual financial statement of the Security Fund's operation. As evident from the table below the income of the Security Fund for the period January-December, 2008 amounted to BGN 1,367 thousand.

## Income Statement of the Security Fund

Content		As of 31 Dec., 2008 (BGN thousand)
<b>I.</b>	<b>INCOME</b>	<b>1,367</b>
1.	Income from insurers (Art.311j, Item 3 and Item 4 of IC)	1,115
2.	Income from insurers (Art. 311i, Item 1 and Item 2 of IC)	219
3.	Financial income	33
4.	Other income	0
<b>II.</b>	<b>EXPENSES</b>	<b>870</b>
1.	Operating expenses (paid guaranteed amounts of insurance claims on obligatory Third Party Liability insurance and Accident insurance)	870
1.1.	Expenses – paid sums to consumers of MZK EVROPA AD	370
1.2.	Expenses – paid sums to consumers of ZK HILDAN AD	500
<b>III.</b>	<b>RESULT OF THE FUND'S ACTIVITY</b>	<b>497</b>

Liabilities of the respective insurer to the insurance services consumers are paid from the Security Fund's resources, after the coming into effect of the decision for declaring the insurer's bankruptcy. The trustee of the insurer in bankruptcy presents a list of the submitted and accepted claims to the GF's Management Board immediately upon its preparation. In compliance with the provisions of the Insurance Code, the GF paid to the consumers of insurance services of MZK EVROPA AD (in bankruptcy) and of ZK HILDAN AD (in bankruptcy) the sum of the insurance claims, indicated in the final list of the accepted claims, approved by the court.

With regard to MZK EVROPA AD (in bankruptcy), in total 138 claims on the obligatory Third Party Liability Insurance of motorists, approved by the court, at the amount of BGN 623,150 were included in the final list.

In relation to ZK HILDAN AD (in bankruptcy) the claims approved by the court were 140, and their total amount was BGN 937,247.

As of 31 December, 2008 the expenses of the Security Fund amounted to BGN 870 thousand, of which:

- expenses for paid sums to consumers of MZK EVROPA AD (in bankruptcy) at the amount of BGN 370 thousand, from which 8 on pecuniary damages for BGN 16 thousand and 11 on non-pecuniary damages for BGN 354 thousand;
- expenses for paid sums to consumers of ZK HILDAN AD (in bankruptcy) at the amount of BGN 500 thousand, of which 16 on pecuniary damages for BGN 47 thousand and 30 on non-pecuniary damages for BGN 453 thousand.

## 14 SUPPLEMENTARY PENSION INSURANCE

### 14.1 DEVELOPMENT OF THE SUPPLEMENTARY PENSION INSURANCE MARKET IN 2008

The supplementary pension insurance as a part of the non-banking financial intermediation did not remain unaffected by the global financial crisis that caught up the Bulgarian capital market, as well. As of 31 December, 2008 the balance sheet assets of the pension funds were at the amount of BGN 2,303,294 thousand, whereby they realized an insignificant drop of 1.05 % on a year-on-year basis. The net assets of the supplementary pension insurance funds amounted to BGN 2,299,154 thousand and as a percentage of the GDP for the reporting period they were 3.45 % compared to 4.10 % in 2007.

During the reviewed period a favorable development continued to be observed of the social and economic indicators which influenced the development of the supplementary pension insurance. According to data provided by the National Statistical Institute (NSI), the average annual level of unemployment in 2008 decreased by 1.3 percent points, reaching 5.6 % of the country's labor force. The average total income of a person increased and according to the data provided by the NSI, during the reporting period it amounted to BGN 3,748 as compared to BGN 3,347 in 2007. Simultaneously, the share of the work salary in the average total income of a person also climbed, reaching 51.86 % compared to 47.7 % in 2007.

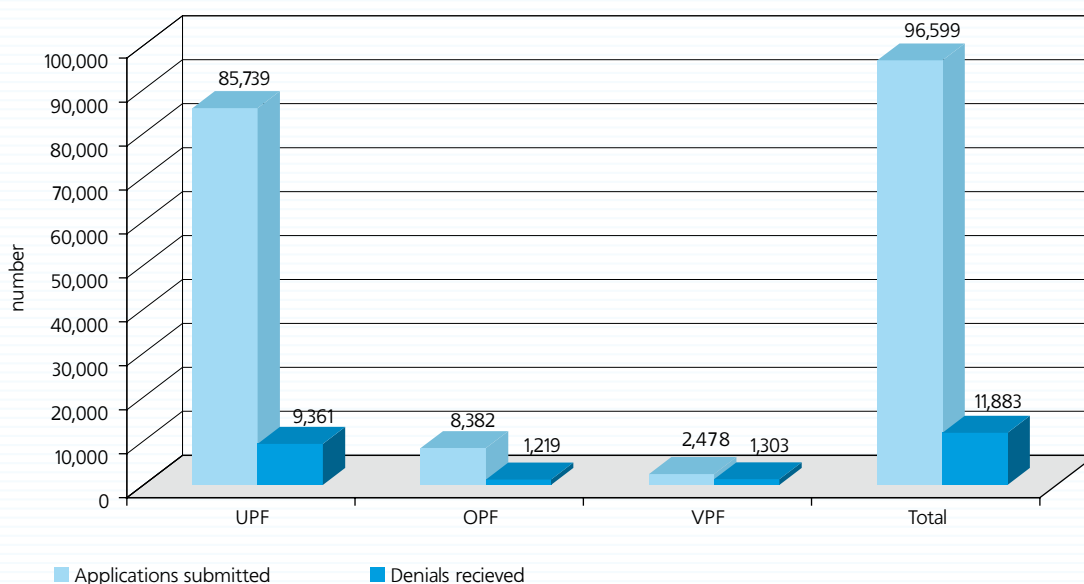
As of the end of 2008 ten companies carried out activities in the field of supplementary pension insurance, a license to pursue pension insurance business being issued to one new company. Each company had established and was managing both types of funds regarding supplementary mandatory pension insurance – universal and occupational fund, as well as a supplementary voluntary pension insurance. In connection with the introduction of social insurance under occupational schemes, which was effectuated upon Bulgaria's accession to the EU, two companies established voluntary pension funds under occupational schemes, but in 2008 only one of them undertook managing occupational schemes. **Appendix 14.1A** presents the balance sheet assets and own capital of PICs as well as the balance sheet assets and the number of insured persons in the supplementary pension insurance funds.

The typically high **concentration** on the market of services for supplementary pension insurance was retained – two of the companies held a share over 50 % in the net assets of the sector (60.74 %) and a share over 50 % in the number of persons insured in the supplementary pension insurance (57.44 %). The market concentration decreased compared to the end of 2007 – the aggregate market share of the two biggest companies shrank by 1.42 percent points on the basis of the net assets and by 2.34 percent points according the number of the insured persons.

**Appendix 14.1B** presents the major shareholders in the capital of the pension insurance companies as of 31 December, 2008, a part of which are either directly or indirectly held by foreign investors.

In 2008 the process of switching of participation and transfer of amounts in the supplementary pension insurance funds was not so intensive in comparison with the previous reporting period. For the period January - December 2008 the number of the filed applications for switching of participation and transfer of amounts reached 96,599, against 108,168 in 2007 and 68,815 in 2006. 12.30 % of the applications filed during the reporting period were rejected.

## Number of submitted applications for switching of participation and transfer of amounts from the supplementary pension insurance funds in 2008



The share of filed applications in the universal pension funds was the biggest. In these funds the share of the insured persons in the field of supplementary pension insurance was proportionately the highest.

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

	UPF		OPF		VPF		Total	
	2007	2008	2007	2008	2007	2008	2007	2008
Average number of insured persons	2,541,677	2,727,282	200,100	214,310	579,294	598,561	3,321,070	3,540,152
Total number of persons who switched participation	81,464	75,488	9,700	7,109	2,379	2,151	93,543	84,748
Share of the persons who switched their participation (%)	3.21	2.77	4.85	3.32	0.41	0.36	2.82	2.39
Average amount of the net assets for the period (BGN thousand)	968,130	1,339,050	362,844	389,311	586,922	580,179	1,917,896	2,308,540
Total amount of the transferred funds for the period (BGN thousand)	33,582	38,590	22,112	16,111	3,097	3,406	58,791	58,107
Share of the transferred funds (%)	3.47	2.88	6.09	4.14	0.53	0.59	3.07	2.52

The number of insured persons who switched their participation or transferred funds during the period, decreased with 8,795 persons, or by 9.40 % in comparison with 2007. The total amount of the transferred funds for the year also declined insignificantly. In the end of 2008 they were totally BGN 58,107 thousand, their value decreasing by 1.16 %, or BGN 684 thousand, compared to the previous year.

In 2008 the activities of monitoring and periodic evaluation of the status of the pension insurance companies and of the results of the management of the supplementary pension insurance funds were carried out both on the basis of day-to-day provision of information by PICs and the trustee banks at the FSC, and through verification and analysis of the interim financial statements and statistics regarding the activities of PICs and SPIFs, presented at FSC.

In the drawing up of reports on the activity of each PIC and the SPIFs managed by it, the levels of all normatively defined indicators were determined, such as capital adequacy of PICs, liquidity of PICs and the managed funds, percentage of the different types of assets in the investment portfolios of the pension funds from the assets of the relevant fund, size of the shareholding of the PICs and the pension funds in the capital of an issuer, amount of the set by law fees, deducted by the pension funds for the benefit of PICs (management fees and investment fees – for each type of SPIF), amount of the formed in PICs provisions guaranteeing the minimum rate of return in the supplementary mandatory pension insurance funds and other indicators. By determination of the normative indicators' levels, monitoring is carried over the lawful implementation of the supplementary pension insurance activity in view of the insured persons' interest protection and provision of transparency for the participants in the pension insurance system.

Besides the indicators having normatively determined levels, indicative indicators are also analyzed, related to the capital, assets, revenues and expenses of PICs and to the assets and participants in the pension funds, by means of which various aspects of the activity of PICs and the managed by them funds are assessed. A comparative analysis is made both regarding each individual company in its dynamics and between the separate companies within a given time period. In the course of the analysis of the common financial indicators characterizing the status of the companies and the pension funds managed by them, risks are being identified, emerging both in individual companies, and on the social security market or the financial markets as a whole.

### PENSION INSURANCE COMPANIES

The figures of the normative and indicative indicators for valuation of the results of PICs' activity as of 31 December, 2008 in comparison with those at the end of 2007 are presented in **Appendix 14.2.1**.

The pension insurance companies maintained a relatively high level of **capital adequacy**. The average rate of the indicator as of 31 December, 2008 was 155.15 %, with normatively defined rate of at least 50 per cent of the minimum capital, whereas it varied according to companies between 59.70 % and 369.60 %. Compared to the previous year, a decrease in the average value of the indicator was observed from 193.62 % to 155.15 %. The decrease in the indicator's value was as a result of reported higher losses by a larger part of the companies.

The minimum **liquid funds** of PICs and the managed SPIFs significantly exceeded the normatively regulated minimum amount. The amount of the set aside reserves with resources of PICs **for guaranteeing the minimum rate of return** in the supplementary mandatory pension insurance funds was in compliance with the statutory rules, and the funds from the reserves were invested according to the statutorily established procedure. The valuation of the assets, in which the funds of the reserves were invested, was made in compliance with the statutory requirements. In 2008 SMPIFs, managed by two PICs, set aside a reserve for guaranteeing the minimum rate of return, as the rate of return they achieved was higher than the announced upper limit for the rate of return of the respective funds with regard to the relevant 24-month periods.

The level of **registered capital coverage** for most of the companies was within the limits of 26.82 % and 154.78 %, with the exception of one PIC, whose own capital covered 342.68 % of the registered one. The average value of the indicator for 2008 was 123.85 % compared to 167.67 % in 2007, i.e. the coverage level of the registered capital decreased. The decrease in the indicator value was a result of the decrease of the reported profit or a reported loss for 2008 compared to the previous year. A decrease in the indicator value compared to the previous year was recorded with six PICs.

In 2008 five PICs realized profit and five realized loss, due to which the **profitability of the capital** of five PICs had a negative value. The highest capital return was 42.86 %, and the lowest was -210.13 %. The average value of the indicator for profitability

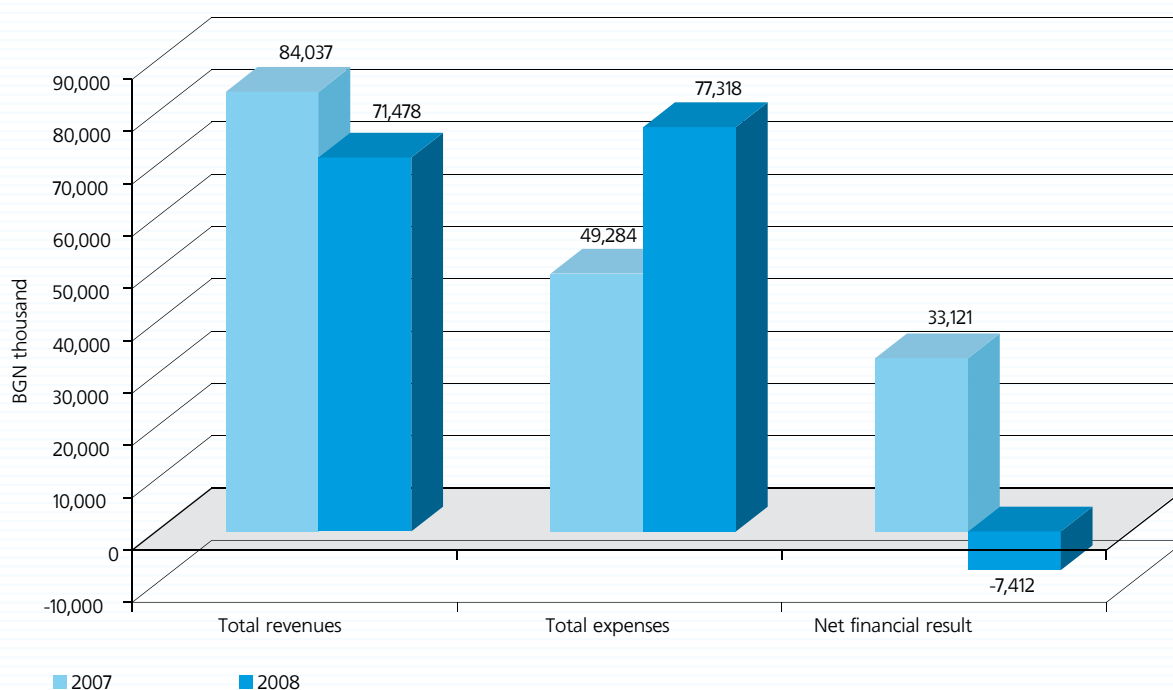
of the own capital in 2008 was -19.37 % compared to 23.15 % in 2007, i.e. a considerable drop of the profitability was recorded, which was due to the decrease of the profitability of almost all PICs as a result of reported losses or reduced profit in comparison with the preceding year.

The level of **asset coverage** of the managed SPIFs for most of the companies ranged between 2.50 % and 15.22 %, with the exception of one PIC, the assets of which covered 23.17 % of the managed funds' assets. The average value of the indicator for 2008 was 8.19 % compared to 14.42 % in 2007, i. e. there was a decrease in the level of asset coverage in the managed SPIFs, which was due to the higher rate of decrease of the assets of PICs compared to the assets of SPIFs. A decline in the indicator's value in comparison with the previous year was registered with six of the nine companies.

Owing to the positive current financial result of the activity in 2008, four of the PICs had positive **asset profitability**, and with five PICs the asset profitability was negative, which was a result of the reported annual loss. The average value of the indicator as of 31 December, 2008 was -21.41 % compared to 18.26 % in 2007 – a decrease of the profitability was observed due to reduction of the indicator's value of most of the companies as a result of the reported annual loss and the drop in the assets. The lowest profitability was -189.21 %, and the highest was 29.91 %.

For the year, two PICs had positive value of the indicator growth of the assets of PICs, and seven had negative one. The average value of the indicator was -9.03 % against 50.72 % in 2007. The indicator value decreased as a result of the decline in the PICs' assets in 2008 compared to their increase in 2007. Regarding the individual companies, the indicator asset growth was in the limits between -65.84 % and 4.91 %, with the exception of a single PIC, whose asset growth was 46.07 %.

## Financial indicators of pension insurance companies



In 2008 the **total revenues** of pension companies went down by 14.94 % as compared to those reported during the previous year. The share of the **revenues from fees and deductions** remained prevalent over the revenues from management of own funds. The value of the indicator „revenues from fees and deductions“ climbed insignificantly by 0.47 % compared to that for the previous year, reaching BGN 54,331 thousand, or 76.01 % of the total revenues. This was due mainly to the higher proceeds from pension insurance contributions as a result of the increased number of insured persons.

In comparison with 2007, the **PICs' revenues from fees and deductions from a single participant** in the pension funds decreased. The average amount for 2008 amounted to BGN 14.46 compared to BGN 15.18 for the previous year. The companies' revenues from fees and deductions in 2008 climbed up at slower rate than the increase of the participants in the



managed SPIFs, on account of which the indicator fell. The value of the indicator as regards the individual companies was in the limits of BGN 12.13 and BGN 17.02.

The **revenues from fees and deductions per BGN 100 of assets** of the funds as of 31 December, 2008 were between BGN 1.95 and BGN 3.32. The average value of the indicator amounted to BGN 2.55 towards BGN 2.44 in 2007. The increase of that indicator was insignificant, due to the small growth in the indicator's value with six of the nine PICs.

A considerable drop was reported in the other component of the PICs' total revenues, namely **the revenues from own funds management**. Their value at the end of 2008 reached BGN 14,241 thousand, marking a decrease by 50.12 % compared to the previous year. In the last two reporting periods the share of revenues from own funds management in the total revenues of PICs grew from 26.81 % for 2006 to 33.98 % for 2007, but in 2008 it dropped to 19.92 %.

The pension insurance companies, operating in 2008, incurred **total expenses** amounting to BGN 77,318 thousand. This value marked a growth on a year-on-year basis of 56.88 %. By contrast to the previous reporting period, in 2008 the total revenues did not cover the amount of the expenses of all companies.

The **expenses regarding PICs' activity per a single participant** in the managed pension funds as of 31 December, 2008 amounted to BGN 36.21 against BGN 21.30 in 2007, i.e. the indicator value marked an increase with BGN 14.91 compared to the previous period. As regards the individual companies, the value of the indicator for all companies grew because of an increase in the expenses by rate, outpacing the rate of increase of the participants.

The **expenses regarding the activity per BGN 100 of assets** of the funds as of 31 December, 2008 were between BGN 1.25 and BGN 29.53. The average value of the indicator amounted to BGN 7.19 compared to BGN 3.80 in 2007, i.e. a significant increase of the indicator's value was recorded due to decrease of the SPIFs assets and increase of the company's expenses for management of the SPIFs assets. The value of the indicator increased in seven of the nine PICs.

The ten licensed companies, carrying out activities in the field of supplementary pension insurance, closed the reporting period with a negative **total net financial result** amounting to BGN -7,412 thousand in contrast to 2007, when the total net financial result was positive. The period was closed with a positive financial result by five of the pension insurance companies, while in 2007 eight of the companies closed at profit. The financial crisis which affected the Bulgarian capital market as well was among the factors which contributed to the worsening of the financial result.

Five companies reported current loss from the activity for 2008. The average value of the indicator for **effectiveness** of the PICs' activity was 107.43 %, where compared to 2007 a decrease of 43.30 percentage points was recorded (as of 31 December, 2007 the average value of the indicator was 150.73 %), which was due to the higher rate of increase of expenses compared to that of revenues. The decrease in income was mainly as a result of not deducting investment fees by the VPIFs and the reported negative income from the investment of the companies' own funds. The value of the indicator as regards individual companies was in the limits between 26.84 % and 183.79 %, with the exception of a single PIC, whose activity effectiveness was 210.60 %.

In the exercised control over the activities of PICs in 2008 no deviations were established from the statutory requirements regarding the amount of the obligatory **fees, deducted by the supplementary voluntary pension insurance funds** (SVPIFs) for the benefit of PICs. The fees deducted by the SVPIF were lower than the statutorily defined maximum levels – the average level of the deductions from the pension insurance contributions reached 3.36 %. No investment fee was deducted because of the reported negative result of the investment of the VPF resources.

The compliance of the average level of the management fees and investment fees of the supplementary mandatory pension insurance funds (SMPIF) with the statutory requirements was controlled on the basis of the day-to-date information, provided via electronic channels by PICs to FSC. In the exercised control over the activities of PICs and SMPIFs in 2008 no deviations were established from the statutory requirements regarding the amount of the mandatory fees, deducted by SMPIF for the benefit of PICs.

The figures of the indices **VOLIDEX**, **PROFIDEX** and **UNIDEX** as of 31 December, 2008 were as follows:

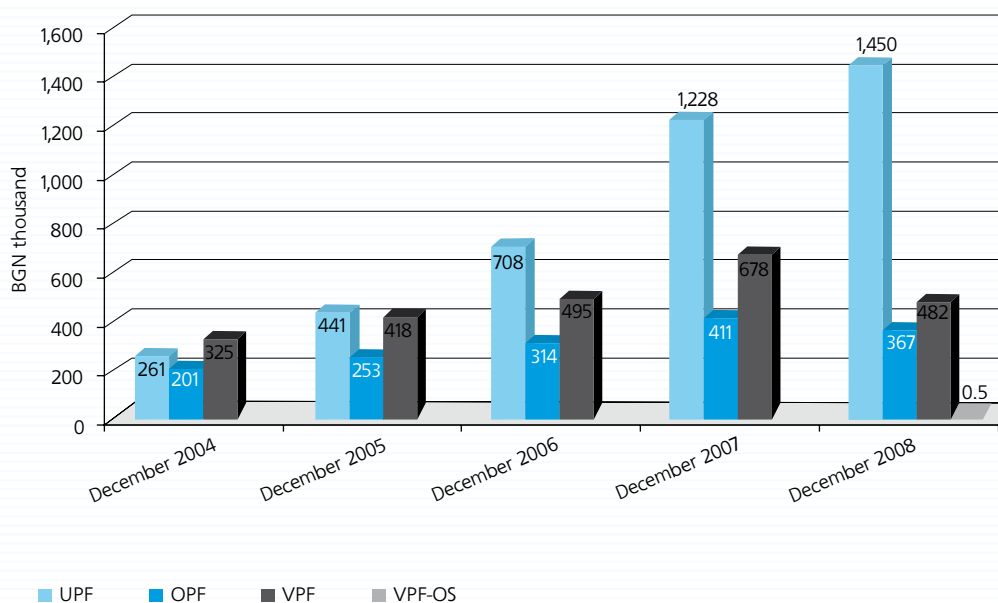
VOLIDEX	PROFIDEX	UNIDEX
1.09839	1.09269	1.14349



## 14.2.2 SUPPLEMENTARY PENSION INSURANCE FUNDS

As a result of the realized negative rate of return from investment of the resources, the amount of the net assets accumulated in the supplementary pension insurance funds decreased to BGN 2,299,154 thousand. Due to the revenues from pension insurance contributions, this amount marked a decline of only (-0.83 %) on a year-on-year basis.

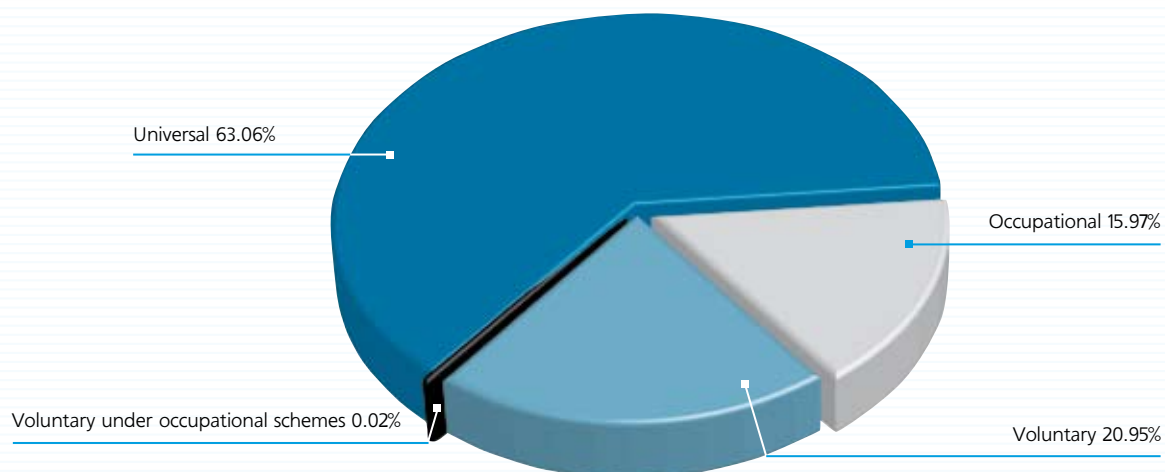
### Dynamics of the allocation of net assets by funds



A **growth of the net assets** was marked only by the universal funds whose value reached BGN 1,449,737 thousand in the end of 2008 and reported a growth of 18.02 % on a year-on-year basis. The growth was due mainly to the increase in the number of insured persons in that type of funds and the increase of the average monthly salary in the country.

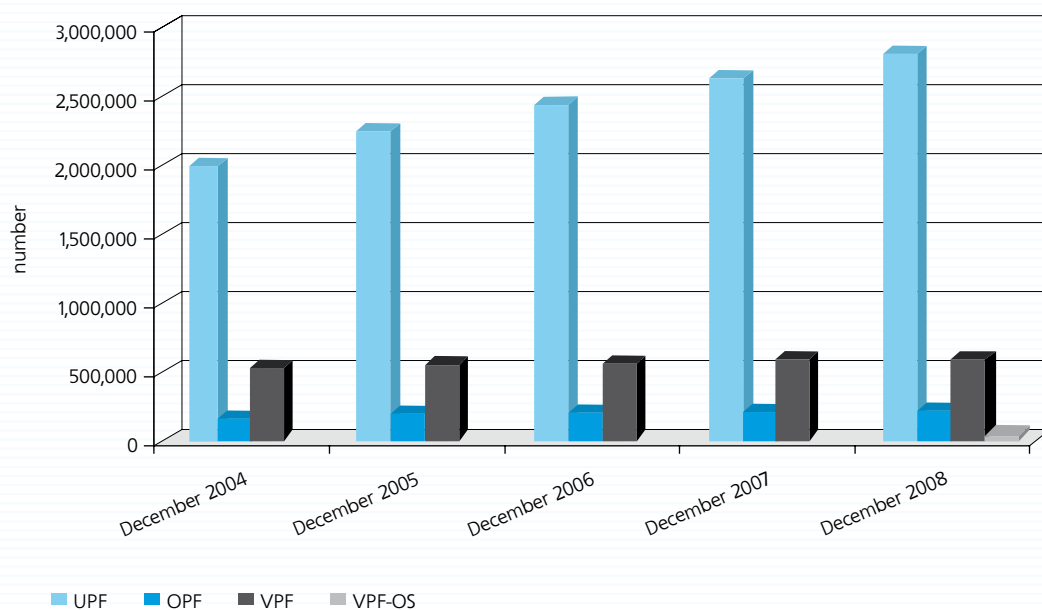
During the reporting year the amount of the balance sheet assets of SPIFs decreased due mainly to the reported negative result from investment of the accumulated resources, as a repercussion of the global financial crisis. An increase of the balance sheet assets was observed only with the universal funds, which was due mostly to the revenues from insurance contributions, while decline in the balance sheet assets was recorded with the occupational and voluntary finds. In 2008 the SPIFs balance sheet assets decreased in total with 1.05 %, while in 2007 SPIFs balance sheet assets increased totally by 52.90 %. According to type of funds, the rate of change of the assets for the year under review was as follows: regarding the universal funds – increase by 18.06 %, as regards the occupational funds – decrease by 11.44 %, and for the voluntary funds – decrease by 29.23 %. In comparison with 2007, a decrease was observed in the asset growth respectively: the universal pension funds – from 73.26 % to 18.06 % in 2008; occupational pension funds – from 31.95 % to -11.44 % in 2008; the voluntary pension funds – from 37.12 % to -29.23 % in 2008.

## Distribution of the net assets in the supplementary pension insurance funds



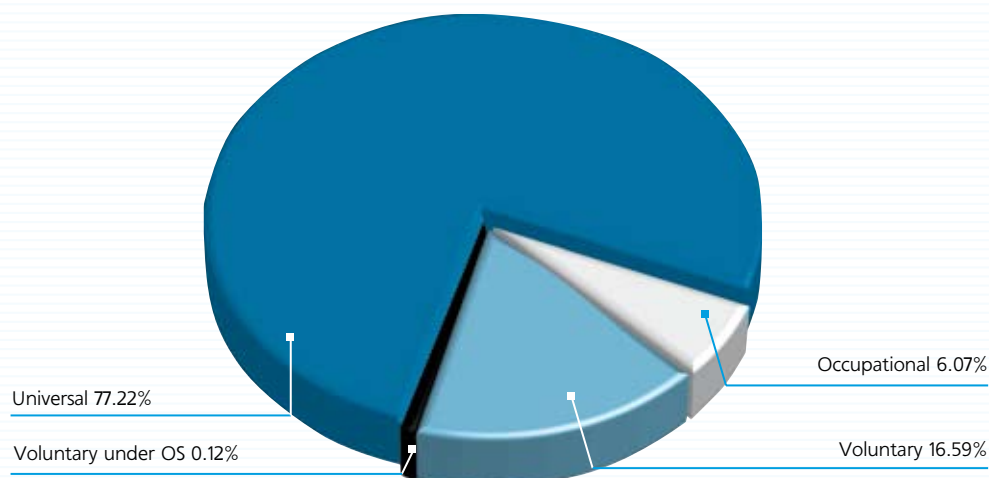
The **number of persons insured in the supplementary pension insurance funds** as of the end of 2008 reached 3,643,836 persons.

## Dynamics of the distribution of the insured persons by funds



The structure of the distribution of the insured persons among the supplementary pension insurance funds was retained relatively unchanged compared to the previous year. The greatest part of the insured persons was concentrated in the universal pension funds, where 2,813,914 persons (77.22 %) were insured, and the number of the persons, insured in occupational and voluntary pension funds was respectively 221,255 and 604,408 persons.

## Distribution of the insured persons among the supplementary pension insurance funds as of 31 December, 2008



In 2008 the participants in SPIFs increased in total by 5.89 % compared to 7.47 % in 2007. The increase of the participants in the universal and occupational pension funds was respectively by 6.56 % and 6.70 %, and in the voluntary funds by 1.93 %. The biggest decrease in the growth of the number participants during the reporting year in comparison with 2007 was that in the VPFs: from 4.75 % to 1.93 %. During 2008 the smallest decrease of 0.82 percentage points compared to 2007 was observed in the occupational pension funds (from 7.52 % to 6.70 %). There was a decrease of 1.54 percent points in the growth rate of the participants in the universal funds from 8.10 % in 2007 to 6.56 % in 2008.

The **average amount of the managed assets per a single participant** in SPIFs according to the type of fund at the end of 2008 was as follows: in UPFs – BGN 463.94 compared to BGN 425.78 in 2007; in OPFs – BGN 1,422.68 compared to BGN 1,677.74 in 2007; in VPF – BGN 740.33 compared to BGN 1,168.25 in 2007. The indicator value regarding VPFOS was BGN 109.42. There were deviations from the average levels observed within the companies – the managed assets per one participant in the UPFs were between BGN 311.30 and BGN 578.41; in the OPFs – between BGN 626.57 and BGN 2,025.79; in the VPFs – between BGN 234.82 and BGN 1,416.96. The average values of the indicator for the individual PICs were within the limits between BGN 581.12 and BGN 1,180.67.

The average value of the indicator **rate of return of the managed assets** for UPFs was -0.22 compared to 0.14 in 2007. Regarding OPF it was -0.24 compared to 0.15 in 2007 and for VPI it was -0.33 compared to 0.16 in 2007. The figures of the indicator for all three types of SPIFs with regard to the individual PICs ranged within the limits of -0.18 and -0.34, and for one PIC the rate of return of the managed assets in SPIF was -0.73. The indicator's value for the VPFOS was -1.07.

The **revenues from pension insurance contributions** of the supplementary pension insurance funds increased compared to those of the preceding year. The value of the indicator in 2008 reached BGN 732,386 thousand and marked a growth of 16.38 % on a year-on-year basis. The most significant, for next consecutive year, was the growth in revenues from pension insurance contributions in the universal pension funds, where their amount in 2008 reached BGN 549,770 thousand and generated a growth of 33.91 % in comparison with 2007. The revenues from insurance contributions in the occupational pension funds as of the end of 2008 was BGN 78,464 thousand. They climbed by 22.32 % compared to the previous year.

The **revenues from pension insurance contributions** in the voluntary pension funds during the reporting period dropped to BGN 103,634 thousand and respectively marked a decrease of 32.96 % on an annual basis. The structure of the contributions, according to the contributor of the insurances, changed in comparison with the previous reporting periods. The personal contributions became almost equal to the contributions paid by the employer. The predominant share of 51.16 % was occupied by the personal contributions, while the contributions paid by the employer increased to 48.27 %. The share of the contributions paid by other contributors remained the least. They represented only 0.57 % of the income in the voluntary pension funds. The income from insurance contributions in the voluntary pension funds under occupational schemes as of the end of 2008 was BGN 518 thousand.

The **rate of return** on annual basis during the past 24-month period, realized by the supplementary pension insurance funds, was negative. The declared minimum rate of return was for a specific two-year period during which the global crisis had a considerable impact. The pension funds are long-term investors and in this relation the achieved investment results for comparatively short periods of time are not determining for the final result which will be achieved in the process of the long-term investments of the insured persons' funds.

The supplementary mandatory pension insurance funds, except for UPF BADESHTE, reached rate of return for the period, which exceeded the minimum levels of -6.98 % as regards the universal funds and -8.51 % as regards the occupational funds. At the same time in 2008 the funds did not exceed the upper limit of the rate of return for the period.

The average weighted rate of return achieved by the universal pension funds on a year-on-year basis for the period from 29 December, 2006 to 30 December, 2008 was -3.98 %, where in the eight funds it recorded values between -1.41 % and -7.46 %. Four of the funds reached a rate of return above the average weighted value for the period – UPF LUKOIL GARANT BULGARIA, UPF DSK – RODINA, UPF ING and UPF DOVERIE.

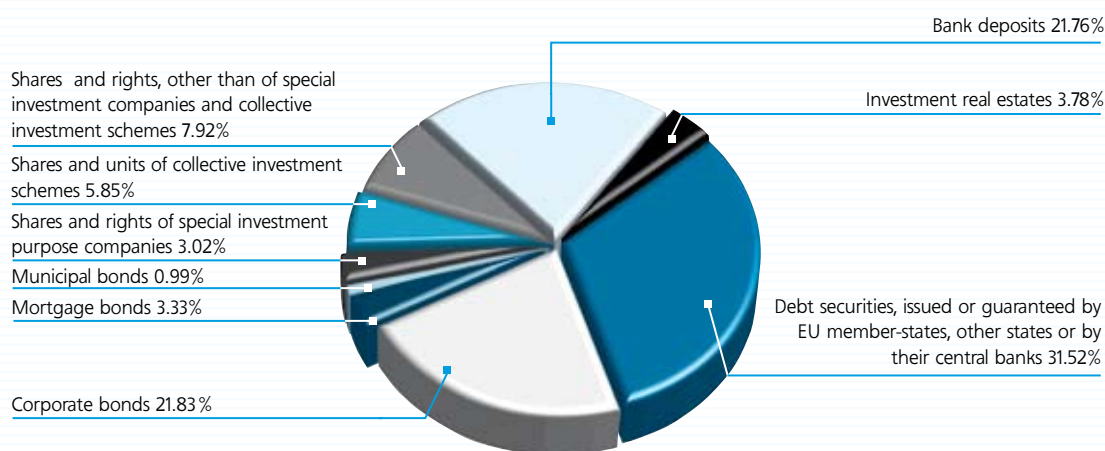
The average weighted rate of return of the occupational pension funds on a year-on-year basis for the period from 29 December, 2006 – 30 December, 2008 was -5.51%, varying within the different funds between -3.09 % and -7.71 %. Four of the PICs reached a rate of return of their occupational funds, which exceeded the average weighted rate of return, namely – OPF ING, OPF DSK - RODINA, OPF CCB – SILA and OPF LUKOIL GARANT BULGARIA.

The rate of return of the voluntary pension funds on a year-on-year basis for the period 29 December, 2006 – 30 December, 2008 was between -4.97 % and -19.61 %. The average weighted rate of return for the period was -6.28 %, which was exceeded by the rate of return of four of the funds– VPF DSK RODINA, VPF ING, VPF DOVERIE and VPF LUKOIL GARANT BULGARIA. The total value of the **investments** of the supplementary pension insurance funds as of 31 December, 2008 was BGN 2,189,059 thousand, their amount dropping by 1.59 % for the last 12 months. The invested resources of the supplementary pension insurance funds formed 95.04 % of the total value of the balance sheet assets.

The universal pension funds retained their predominant share in the total amount of the investments of the supplementary pension insurance funds. Their share as of the end of 2008 increased to 62.95 %. The resources invested by the voluntary pension funds accounted for 21.09 % of the total investments, the occupational funds remained with a share of 15.94 %, and the voluntary pension funds under occupational schemes were with a share of 0.02 % of the funds invested by the SPIFs.

The structure of the investments of the supplementary pension insurance funds as of 31 December, 2008 is presented in **Appendix 14.2.2.**

### Structure of the aggregate investment portfolio of the supplementary pension insurance funds as of 31 December, 2008



In the end of 2008 the share of the **debt securities, issued or guaranteed by EU Member States, other countries or their central banks** was 31.52 % compared to a rate of 24.42 % at the end of 2007. The percentages of the supplementary mandatory pension insurance funds were higher (34.42 % for the universal and 29.79 % for the occupational ones), while in

the voluntary funds the share was 24.13 %.

The portion of **shares, rights and units** declined from 32.55 % as of the end of 2007 to 16.79 % as of 31 December, 2008, while the share of the corporate bonds increased slightly to 21.83 % compared to 18.20 % as of the end of 2007. Thus in the end of 2008 the first place according to the size in the aggregate portfolio of SPIFs was occupied by the debt securities issued or guaranteed by EU Members States, other countries or their central banks.

As of 31 December, 2008 the resources of the supplementary pension insurance funds, held in the form of **bank deposits**, were 21.76 % of the total investments and marked a growth compared to 2007 by 5.5 percent points.

A considerable growth in their relative share for a third consecutive year was registered by the **investments in securities traded on foreign regulated markets**. In the end of 2008 they formed 28.37 % of the investments of the supplementary pension insurance funds, where their share was the largest in the voluntary pension funds (29.63 %). The increase was by 9.66 percent points as compared to 2007, when the share of investments abroad was 18.71 %.

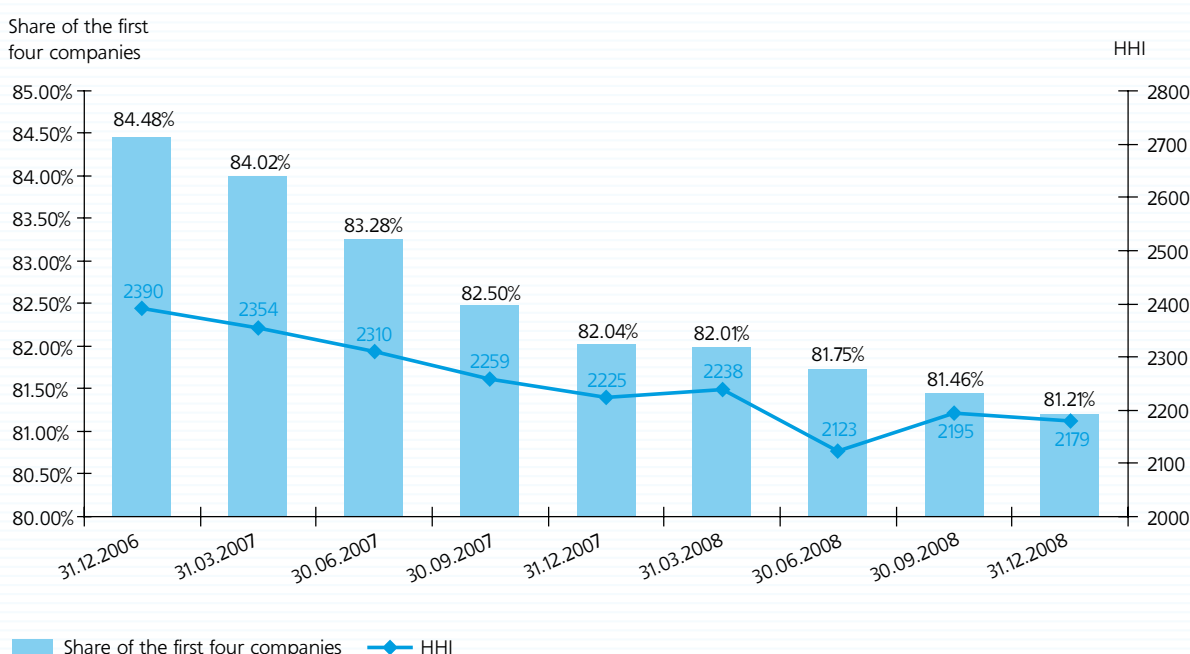
The share of the resources held in the form of **investment real estates** remained almost without a change. Nevertheless, their share of 3.78 % was still under the statutorily defined threshold for that instrument, namely 5 % for the mandatory funds, where the share remained even below 3 %. The voluntary funds with their 10.53 % passed over the statutory threshold of 10 % about them.

The resources of the supplementary pension insurance funds, invested in **mortgage bonds**, remained at the same level both as an absolute value and as percentage in the aggregate investment portfolio. At the end of 2008, 3.33 % of the supplementary pension insurance funds assets were held in the form of mortgage bonds, as compared to 3.36 % as of the end of 2007.

The relative share of **municipal bonds** in the aggregate investment portfolio of SPIFs remained insignificantly small (0.99 %), registering a decline compared to the preceding year, when that value was 1.71 %.

The chart below shows the index HHI (Herfindahl-Hirschman Index) and the share of the first leading companies on the supplementary pension insurance market.

### Concentration on the market of supplementary pension insurance, measured through HHI and the share of the first four companies



The chart shows a comparatively slight decrease in the two indices, measuring the concentration on the market of supplementary pension insurance, which is indicative of minimal increase of the competition among the market participants

and more even distribution of the assets in the companies.

The liberalization of the legal regulations for investment of the resources of the supplementary pension insurance funds, which took place in the beginning of 2006, gave impetus to the development of the supplementary pension insurance activity. The big challenge facing the sector are the proposed changes aiming to promote the competition between the pension companies in the interest of the persons insured in the managed pension funds. The changes refer to regulation of the possibility portfolios with different risk-based investment profile and respectively rate of return, to be managed in the voluntary pension insurance, providing an opportunity of investment choice to the persons insured in the supplementary pension insurance funds.



**APPENDIXES**





# APPENDIXES<sup>37</sup>

## 2.1.2A

### APPENDIX

#### Organization and management of new contractual funds by management companies

Management company	Contractual fund
BENCHMARK ASSET MANAGEMENT	BENCHMARK FUND – 5 CEE
BENCHMARK ASSET MANAGEMENT	BENCHMARK FUND – 4 ENERGY
ELANA FUND MANAGEMENT	ELANA DOLLAR FUND
UG MARKET FUND MANAGEMENT	UG MARKET OPTIMUM
DSK ASSET MANAGEMENT	DSK PROPERTIES
CCB ASSET MANAGEMENT	CCB FUND SHARES
CCB ASSET MANAGEMENT	CCB BALANCED FUND
EXPAT ASSET MANAGEMENT	EXPAT NEW EUROPE STOCKS
EXPAT ASSET MANAGEMENT	EXPAT NEW EUROPE PROPERTIES
BENCHMARK ASSET MANAGEMENT	BENCHMARK FUND-6 MONEY
DSK ASSET MANAGEMENT	DSK EURO ACTIVE
ASTRA ASSET MANAGEMENT	ASTRA PLUS
ASTRA ASSET MANAGEMENT	ASTRA BALANCE
ASTRA ASSET MANAGEMENT	ASTRA CASH
AVRORA CAPITAL	AURORA CAPITAL – SOUTHEAST EUROPE
ZLATEN LEV CAPITAL	ZLATEN LEV INDEX 30
UBB ASSET MANAGEMENT	UBB PATRIMONIUM LAND
CAPITAL MARKETS ASSET MANAGEMENT	CAPITAL MARKETS BALANCED FUND
CAPITAL MARKETS ASSET MANAGEMENT	CAPITAL MARKETS FUND SHARES
STANRAD ASSET MANAGEMENT	STANDARD INVESTMENT CONSERVATIVE FUND
OPTIMA ASSET MANAGEMENT	OPTIMA SELECT
SAEDINIE ASSET MANAGEMENT	POPULAR FUND BALANCE
EVER ASSET MANAGEMENT	EVER INVEST

## 2.1.2B

### APPENDIX

#### Individual administrative acts issued by the deputy chairperson of the FSC in charge of Investment Activity Supervision Division concerning collective investment schemes and special investment purpose companies in 2008

Company	Type
<b>Approval of amendments to the Articles of Association</b>	
BENCHMARK FUND – 2 AD	investment company
KD PELIKAN AD	investment company
TBI EUROBOND AD	investment company

<sup>37</sup> The numeration of the appendixes indicates the chapter from the text of the Annual Report on the Activity of FSC to which the specific appendix is related.

CAPMAN CAPITAL AD	investment company
ZLATEN LEV AD	investment company
NADEZHDA AD	investment company
ADVANCE INVEST AD	investment company
INDUSTRIAL FUND AD	investment company
ELANA EUROFUND AD	investment company
ELANA HIGH YIELD FUND AD	investment company
AGRO FINANCE	SIPC
BLACK SEA INVESTMENT	SIPC
BULGARI RESERVE PROPERTIES	SIPC
BULGARIAN INVESTMENT GROUP	SIPC
BULLAND INVESTMENTS	SIPC
GLOBEX ESTATE FUND	SIPC
EXCLUSIVE PROPERTY	SIPC
EXPAT PROPERTIES	SIPC
EXPAT BETA	SIPC
ELANA FUND AGRICULTURAL LAND	SIPC
EFFEKTEN UND FINANZ PROPERTIES	SIPC
ERG CAPITAL – 1	SIPC
ERG CAPITAL – 2	SIPC
ERG CAPITAL – 3	SIPC
CAPITAL DIRECT – 1	SIPC
KOLOS-1	SIPC
LEV INVEST	SIPC
REAL ESTATE SOFIA	SIPC
PARK	SIPC
PRC	SIPC
PROPERTIES CAPITAL INVESTMENTS	SIPC
ROY PROPERTY FUND	SIPC
SERDIKA PROPERTIES	SIPC
CEE PROPERTIES	SIPC
SINGULAR	SIPC
CITY PROPERTIES	SIPC
SOPHARMA BUILDINGS	SIPC
SOPHARMA PROPERTIES	SIPC
STATUS PROPERTIES	SIPC
TURIN PROPERTIES	SIPC
AGRICULTURAL LAND OPPORTUNITY FUND MEL INVEST	SIPC
REAL ESTATE INVESTMENT FUND	SIPC
HEALTH AND WELLNESS	SIPC
<b>Approval of amendments to the rules of portfolio assessment and net asset value determination</b>	
BENCHMARK FUND – 2 AD	investment company
ZLATEN LEV AD	investment company
CAPMAN CAPITAL AD	investment company
ADVANCE INVEST AD	investment company
ELANA HIGH YIELD FUND AD	investment company

KD PELIKAN AD	investment company
TBI EUROBOND AD	investment company
ELANA EUROFUND AD	investment company
NADEZHDA AD	investment company
UBB BALANCED FUND AD	investment company
AURORA CAPITAL – BALANCED	contractual fund
AURORA CAPITAL GLOBAL COMMODITY FUND	contractual fund
ADVANCE IPO FUND	contractual fund
ADVANCE EAST EUROPE	contractual fund
AKTIVA BALANCED FUND	contractual fund
AKTIVA HIGH YIELD FUND	contractual fund
ALFA SELECTED SHARES	contractual fund
ALFA INDEX PROPERTIES	contractual fund
ALFA INDEX TOP 20	contractual fund
BALKANS	contractual fund
BENCHMARK FUND – 1 SHARES AND BONDS	contractual fund
BENCHMARK FUND – 3 REAL ESTATE SECTOR	contractual fund
BENHMARK FUND – 4 ENERGY	contractual fund
BENCHMARK FUND – 5 CENTRAL AND EAST EUROPE	contractual fund
BENCHMARK FUND – 6 MONEY	contractual fund
BCM BALANCED CAPITAL	contractual fund
DSK BALANCE	contractual fund
DSK PROPERTIES	contractual fund
DSK GROWTH	contractual fund
DSK STANDARD	contractual fund
EUROPE	contractual fund
EXPAT NEW EUROPE PROPERTIES	contractual fund
EXPAT NEW EUROPE STOCKS	contractual fund
ELANA BALANCED \$ FUND	contractual fund
ELANA BALANCED EURO FUND	contractual fund
ELANA DOLLAR FUND	contractual fund
ELANA FUND MONEY MARKET	contractual fund
ZAGORA FINACORP BALANCED FUND	contractual fund
INVEST ACTIVE	contractual fund
INVEST CLASSIC	contractual fund
CAPMAN MAX	contractual fund
KD EQUITIES BULGARIA	contractual fund
KD BONDS BULGARIA	contractual fund
KTB BALANCED FUND	contractual fund
KTB FUND EQUITIES	contractual fund
UBB PLATINUM EQUITIES	contractual fund
UBB PREMIUM EQUITIES	contractual fund
FIB AVANGUARD	contractual fund
FIB GARANT	contractual fund
FIB CLASSIC	contractual fund
RAIFFEISEN (BULGARIA) BALANCED DOLLAR FUND	contractual fund

RAIFFEISEN (BULGARIA) BALANCED FUND	contractual fund
RAIFFEISEN (BULGARIA) EQUITY FUND	contractual fund
RAIFFEISEN (BULGARIA) BOND FUND	contractual fund
RAIFFEISEN (BULGARIA) MONEY MARKET FUND	contractual fund
REAL FINANCE BALANCED FUND	contractual fund
REAL FINANCE HIGH YIELD FUND	contractual fund
SENTINEL – PRINCIPAL	contractual fund
SENTINNEL – RAPID	contractual fund
SINERGON PRESTIGE	contractual fund
SINERGON PROFIT	contractual fund
SOMONY EUROSTABILITY	contractual fund
SOMONY PROGRESS	contractual fund
SOMONY STRATEGY	contractual fund
STANDARD INVESTMENT BALANCED FUND	contractual fund
STANDARD INVESTMENT HIGH YIELD FUND	contractual fund
STANDARD INVESTMENT INTERNATIONAL FUND	contractual fund
STATUS NEW EQUITIES	contractual fund
STATUS FINANCE	contractual fund
TBI DYNAMIC	contractual fund
TBI COMFORT	contractual fund
TBI TREASURE	contractual fund
TBI HARMONY	contractual fund
CCB ACTIVE	contractual fund
CCB GARANT	contractual fund
CCB LEADER	contractual fund
UG MARKET MAXIMUM	contractual fund
UG MARKET OPTIMUM	contractual fund
<b>Approval of amendments to the rules of contractual funds</b>	
ADVANCE EAST EUROPE	contractual fund
AKTIVA BALANCED FUND	contractual fund
AKTIVA HIGH YIELD FUND	contractual fund
ALFA SELECTED SHARES	contractual fund
ALFA INDEX PROPERTIES	contractual fund
ALFA INDEX TOP 20	contractual fund
BALKANS	contractual fund
BENCHMARK FUND – 1 SHARES AND BONDS	contractual fund
BENCHMARK FUND – 3 REAL ESTATE SECTOR	contractual fund
BENCHMARK FUND – 4 ENERGY	contractual fund
BENCHMARK FUND – 5 CENTRAL AND EAST EUROPE	contractual fund
BENCHMARK FUND – 6 MONEY	contractual fund
BCM BALANCED CAPITAL	contractual fund
DSK BALANCE	contractual fund
DSK PROPERTIES	contractual fund
DSK GROWTH	contractual fund
DSK STANDARD	contractual fund
ELANA BALANCED \$ FUND	contractual fund

ELANA BALANCED EURO FUND	contractual fund
ELANA DOLLAR FUND	contractual fund
ELANA FUND MONEY MARKET	contractual fund
EXPAT NEW EUROPE PROPERTIES	contractual fund
EXPAT NEW EUROPE STOCKS	contractual fund
ZAGORA FINACORP BALANCED FUND	contractual fund
CAPMAN MAX	contractual fund
KD EQUITIES BULGARIA	contractual fund
KD BONDS BULGARIA	contractual fund
KTB BALANCED FUND	contractual fund
KTB FUND EQUITIES	contractual fund
FIB AVANGUARD	contractual fund
FIB GARANT	contractual fund
FIB CLASSIC	contractual fund
RAIFFEISEN (BULGARIA) BALANCED DOLLAR FUND	contractual fund
RAIFFEISEN (BULGARIA) BALANCED FUND	contractual fund
RAISSEISEN (BULGARIA) EQUITY FUND	contractual fund
RAIFFEISEN (BULGARIA) BOND FUND	contractual fund
RAIFFEISEN (BULGARIA) MONEY MARKET FUND	contractual fund
REAL FINANCE BALANCED FUND	contractual fund
REAL FINANCE HIGH YIELD FUND	contractual fund
SENTINEL – PRINCIPAL	contractual fund
SENTINEL – RAPID	contractual fund
SINERGON PRESTIGE	contractual fund
SINERGON PROFIT	contractual fund
SOMONY EUROSTABILITY	contractual fund
SOMONY PROGRESS	contractual fund
SOMONY STRATEGY	contractual fund
STANDARD INVESTMENT BALANCED FUND	contractual fund
STANDARD INVESTMENT HIGH YIELD FUND	contractual fund
STANDARD INVESTMENT INTERNATIONAL FUND	contractual fund
STATUS NEW EQUITIES	contractual fund
STATUS FINANCE	contractual fund
TBI DYNAMIC	contractual fund
TBI COMFORT	contractual fund
TBI TREASURE	contractual fund
TBI HARMONY	contractual fund
CCB ACTIVE	contractual fund
CCB GARANT	contractual fund
CCB LEADER	contractual fund
UG MARKET MAXIMUM	contractual fund
UG MARKET OPTIMUM	contractual fund
<b>Approval of rules of risk assessment and management</b>	
BENCHMARK FUND – 2 AD	investment company
KD PELIKAN AD	investment company
INDUSTRIAL FUND AD	investment company

NADEZHDA AD	investment company
AKTIVA BALANCED FUND	contractual fund
AKTIVA HIGH YIELD FUND	contractual fund
BENCHMARK FUND – 1 SHARES AND BONDS	contractual fund
BENCHMARK FUND – 3 REAL ESTATE SECTOR	contractual fund
BENCHMARK FUND – 4 ENERGY	contractual fund
BENCHMARK FUND – 5 CEE	contractual fund
BENCHMARK FUND – 6 MONEY	contractual fund
BCM BALANCED CAPITAL	contractual fund
DSK BALANCE	contractual fund
DSK PROPERTIES	contractual fund
DSK GROWTH	contractual fund
DSK STANDARD	contractual fund
EXPAT NEW EUROPE PROPERTIES	contractual fund
EXPAT NEW EUROPE STOCKS	contractual fund
ZAGORA FINACORP BALANCED FUND	contractual fund
KTB BALANCED FUND	contractual fund
KTB FUND EQUITIES	contractual fund
FIB AVANGUARD	contractual fund
FIB GARANT	contractual fund
FIB CLASSIC	contractual fund
RAIFFEISEN (BULGARIA) BALANCED DOLLAR FUND	contractual fund
RAIFFEISEN (BULGARIA) BALANCED FUND	contractual fund
RAIFFEISEN (BULGARIA) EQUITY FUND	contractual fund
RAIFFEISEN (BULGARIA) BOND FUND	contractual fund
RAIFFEISEN (BULGARIA) MONEY MARKET FUND	contractual fund
REAL FINANCE BALANCED FUND	contractual fund
REAL FINANCE HIGH YIELD FUND	contractual fund
STANDARD INVESTMENT BALANCED FUND	contractual fund
STANDARD INVESTMENT HIGH YIELD FUND	contractual fund
STANDARD INVESTMENT INTERNATIONAL FUND	contractual fund
<b>Approval of plan with measures for bringing the assets in compliance with the legal requirements</b>	
AURORA CAPITAL GLOBAL COMMODITY FUND	contractual fund

## 2.1.3A

### APPENDIX

#### Prospectuses for public offering of securities

Company	Public offering	Type of securities
<b>Approved prospectuses in 2008</b>		
ALFA WOOD BULGARIA AD	initial	shares
SILA HOLDING AD	initial	shares
INVESTBANK AD	initial	shares
DARVOBRABOTVANE –VT AD	initial	shares
IC NADEZHDA AD	initial	shares
DOVERIE – UNITED HOLDING AD	initial	shares

BLACK SEA INVESTMENT REIT	initial	shares
ALFA CREDIT SPV	initial	shares
VHIM – ZDRAVE AD	initial	shares
BISER OLIVA AD	initial	shares
AGRICULTURAL LAND OPPORTUNITY FUND MEL INVEST REIT	initial	shares
FORUCOM FUND REAL ESTATES REIT	initial	shares
ZHELEZOPATNA INFRASTRUKTURA – HOLDINGOVO DRUZHESTVO AD	initial	shares
EXCLUSIVE PROPERTY REIT	initial	shares
BALKANTOURIST ELITE AD	initial	shares
PRC REIT	initial	shares
ADVANCE TERRAFUND REIT	initial	shares
LOMSKO PIVO AD	initial	shares
ARCO TOWERS REIT	initial	shares
FAIRPLAY AGRICULTURAL FUND	initial	shares
ALU-PLAST AD	initial	shares
HOLDING VARNA AD	initial	shares
SEVER – HOLDING AD	initial	shares
ZMM METALIK AD	initial	shares
ZD EUROINS AD	initial	shares
BALKANCAR – RECORD AD	initial	shares
PRC REIT	initial	shares
SILA HOLDING AD	initial	shares
SPARKY AD	admission to trading	shares
ASTERA COSMETICS AD	admission to trading	shares
BG AGRO AD	admission to trading	shares
BIOIASIS AD	admission to trading	shares
SOPHARMA TRADING AD	admission to trading	shares
MART BULGARIA AD	admission to trading	shares
DALIA EAD	admission to trading	shares
BALKAN PROGETTI MANAGEMENT EAD	admission to trading	shares
EUROPA LINE GROUP AD	admission to trading	shares
SLANTCHO AD	admission to trading	shares
UNIPHARM AD	admission to trading	shares
VINAS AD	admission to trading	shares
BGI GROUP AD	admission to trading	shares
CAPMAN GREEN ENERGY FUND AD	admission to trading	shares
MDCC BIOCHEK AD	admission to trading	shares
SEPTONA – BULGARIA AD	admission to trading	shares
FLORINA – BULGARIA AD	admission to trading	secured corporate bonds
ELANA AGRICULTURAL LAND OPPORTUNITY FUND REIT	admission to trading	unsecured corporate bonds
ETROPAL AD	admission to trading	secured corporate bonds
HYPOCREDIT AD	admission to trading	secured corporate bonds

INTERCAPITAL PROPERTY DEVELOPMENT REIT	admission to trading	secured corporate bonds
EUROLEASING EAD	admission to trading	secured corporate bonds
ARKUS AD	admission to trading	secured corporate bonds
SPORT DEPO AD	admission to trading	secured corporate bonds
TRANSINVESTMENT SPV	admission to trading	unsecured corporate bonds
AGRO FINANCE REIT	admission to trading	unsecured corporate bonds
ALU-PLAST EAD	admission to trading	secured corporate bonds
TBI CREDIT EAD	admission to trading	secured corporate bonds
HYPOCREDIT AD	admission to trading	secured corporate bonds
WEB MEDIA GROUP AD	admission to trading	secured corporate bonds
ARTEX ENGINEERING AD	admission to trading	secured corporate bonds
CB INVESTBANK AD	admission to trading	mortgage bonds
SERDIKA PROPERTIES REIT	admission to trading	unsecured corporate bonds
BULGARIA PLATINUM GROUP EAD	admission to trading	secured corporate bonds
CB BULGARIAN-AMERICAN CREDIT BANK AD	admission to trading	secured corporate bonds
HLEBNI IZDELIA – PODUYANE AD	admission to trading	secured corporate bonds
B. L. LEASING AD	admission to trading	secured corporate bonds
ALLIANZ LEASING BULGARIA AD	admission to trading	secured corporate bonds
QUANTUM DEVELOPMENTS REIT	admission to trading	unsecured corporate bonds
PALDIN LION GROUP REIT	admission to trading	unsecured corporate bonds
FAIRPLAY AGRICULTURAL FUND AD	admission to trading	secured corporate bonds
INDUSTRIAL HOLDING BULGARIA AD	initial	convertible unsecured corporate bonds
<b>Prospectuses to which refusal for approval was issued</b>		
FINANCE ENGINEERING EAD	admission to trading	shares
BALKAN PROGETTI MANAGEMENT EAD	admission to trading	shares
POLIMERI AD	admission to trading	shares
DELTA STOCK AD	initial	shares
MARITSATEX AD	initial	shares

## 2.1.3B APPENDIX

### Issues of securities entered in and deleted in 2008 from the public register, kept by the Financial Supervision Commission

Company	Type	Securities
<b>Issues registered upon approval of a prospectus for public offering</b>		
FLORINA – BULGARIA AD	admission to trading	secured corporate bonds
ELANA AGRICULTURAL LAND OPPORTUNITY FUND REIT	admission to trading	unsecured corporate bonds
ETROPAL AD	admission to trading	secured corporate bonds
HYPOCREDIT AD	admission to trading	secured corporate bonds
INTERCAPITAL PROPERTY DEVELOPMENT REIT	admission to trading	secured corporate bonds
EUROLEASING AD	admission to trading	secured corporate bonds
ARKUS AD	admission to trading	secured corporate bonds
SPORT DEPO AD	admission to trading	secured corporate bonds
TRANSINVESTMENT REIT	admission to trading	unsecured corporate bonds



AGRO FINANCE REIT	admission to trading	unsecured corporate bonds
ALU-PLAST EAD	admission to trading	secured corporate bonds
TBI CREDIT EAD	admission to trading	secured corporate bonds
HYPOCREDIT AD	admission to trading	secured corporate bonds
WEB MEDIA GROUP AD	admission to trading	secured corporate bonds
ARTEX ENGINEERING AD	admission to trading	secured corporate bonds
CB INVESTBANK AD	admission to trading	mortgage bonds
SERDIKA PROPERTIES REIT	admission to trading	unsecured corporate bonds
BULGARIA PLATINUM GROUP EAD	admission to trading	secured corporate bonds
CB BULGARIAN-AMERICAN CREDIT BANK AD	admission to trading	secured corporate bonds
HLEBNI IZDELIA – PODUYANE AD	admission to trading	secured corporate bonds
B. L. LEASING AD	admission to trading	secured corporate bonds
ALLIANZ LEASING BULGARIA AD	admission to trading	secured corporate bonds
QUANTUM DEVELOPMENTS REIT	admission to trading	unsecured corporate bonds
PALDIN LION GROUP REIT	admission to trading	unsecured corporate bonds
FAIRPLAY AGRICULTURAL FUND AD	admission to trading	secured corporate bonds
INDUSTRIAL HOLDING BULGARIA AD	initial	convertible unsecured corporate bonds
SPARKY AD	admission to trading	shares
ASTERA COSMETICS AD	admission to trading	shares
BG AGRO AD	admission to trading	shares
BIOIASIS AD	admission to trading	shares
SOPHARMA TRADING AD	admission to trading	shares
MART BULGARIA AD	admission to trading	shares
DALIA EAD	admission to trading	shares
BALKAN PROGETTI MANAGEMENT EAD	admission to trading	shares
EUROPE LINE GROUP AD	admission to trading	shares
SLANCHO AD	admission to trading	shares
UNIPHARM AD	admission to trading	shares
VINAS AD	admission to trading	shares
BGI GROUP AD	admission to trading	shares
CAPMAN GREEN ENERGY FUND AD	admission to trading	shares
MDCC BIOCHECK AD	admission to trading	shares
SEPTONA – BULGARIA AD	admission to trading	shares
<b>Registered issues of shares with the purpose of trading on a regulated market</b>		
<i>Issues registered by FSC upon entry of the public company</i>		
TURIN PROPERTIES REIT		shares
LEV INVEST SPV		shares
ZET PROPERTIES INVESTMENT FUND REIT		shares
BULGARI RESERVE PROPERTIES REIT		shares
BALKAN PROPERTY INSTRUMENTS REIT		shares
AGROENERGY REIT		shares
EXPAT BETA REIT		shares
MOUNTAIN PARADISE INVEST REIT		shares
BALKANIKA ESTATE REIT		shares

Registered issues of shares with the purpose of trading on a regulated market	
<i>Subsequent issues issued as a result of increase in the capital</i>	
SPARKY ELTOS AD	shares
HOLDING NOV VEK AD	shares
INDUSTRIAL HOLDING BULGARIA AD	shares
BULGARSKA ROZA SEVTOPOLIS AD	shares
MEL INVEST AGRICULTURAL LAND FUND REIT	shares
HOLDING VARNA AD	shares
CB CENTRAL COOPERATIVE BANK AD	shares
AGRIA GROUP HOLDING AD	shares
FAIRPLAY PROPERTIES REIT	shares
AROMA AD	shares
PETAR KARAMINCHEV AD	shares
DOVERIE – UNITED HOLDING AD	shares
MEDICA AD	shares
ALFA WOOD BULGARIA AD	shares
SILA HOLDING AD	shares
MEL INVEST AGRICULTURAL LAND FUND REIT	shares
BLACK SEA INVESTMENT REIT	shares
EMKA AD	shares
MONBAT AD	shares
ENERGETICS AND ENERGY SAVINGS FUND– EESV REIT	shares
AGRO FINANCE REIT	shares
BILLBOARD AD	shares
PRC REIT	shares
MOMINA KREPOST AD	shares
HOLDING ROADS AD	shares
DRUZHBA STAKLARSKI ZAVODI AD	shares
SPARKY AD	shares
BALKANTOURIST ELITE AD	shares
FORUCOM FUND REAL ESTATES REIT	shares
ZMM METALIK AD	shares
OPTELA – LASER TECHNOLOGIES AD	shares
EUROTERRA BULGARIA AD	shares
EXCLUSIVE PROPERTY REIT	shares
SLANCHEV DEN AD	shares
TECHNOLOGIES AND INNOVATIONS CORPORATION SAEDINENIE AD	shares
YAVOR AD	shares
MOSTSTROI AD	shares
ADVANCE TERRAFUND REIT	shares
Issues of securities deleted from the FSC public register	
AUTOBOHEMIA AD	corporate bonds
CB BULGARIAN-AMERICAN CREDIT BANK AD	mortgage bonds
CB BULGARIAN-AMERICAN CREDIT BANK AD	corporate bonds
TBI CREDIT EAD	corporate bonds
EUROLEASING EAD	corporate bonds

OVERGAS INC. AD	corporate bonds
HYPOCREDIT AD	corporate bonds
CB INVESTBANK AD	mortgage bonds
HYPOCREDIT AD	corporate bonds
TBI CREDIT EAD	corporate bonds
INTERLEASE AUTO EAD	corporate bonds
SOPHARMA AD	corporate bonds
CB UNITED BULGARIAN BANK AD	corporate bonds
HYPOCREDIT AD	corporate bonds
CB EUROBANK EFG BULGARIA AD	mortgage bonds
BM LEASING AD	corporate bonds
ALLIANZ BULGARIA FINANCIER EAD	corporate bonds
LEASING COMPANY AD	corporate bonds
CB FIRST INVESTMENT BANK AD	mortgage bonds
CB EUROBANK EFG BULGARIA AD	mortgage bonds
CB EUROBANK EFG BULGARIA AD	mortgage bonds

## 2.1.3C

### APPENDIX

#### Public companies, issuers and SIPCs filed into or deleted from the public register, kept by FSC, in 2008

Company	Type
<b>Companies filed as public in the register kept by FSC</b>	
BILLBOARD AD	public company
PROPERTIES CAPITAL INVESTMENTS REIT	public company
ENEMONA AD	public company
AGRIA GROUP HOLDING AD	public company
GLOBEX ESTATE FUND REIT	public company
REAL ESTATE INVESTMENT FUND – REIF REIT	public company
EXPAT PROPERTIES REIT	public company
BG AGRO AD	public company
PRC REIT	public company
CITY PROPERTIES REIT	public company
SOPHARMA BUILDINGS REIT	public company
LEV INVEST SPV	public company
TURIN PROPERTIES REIT	public company
HERTI AD	public company
MECOM AD	public company
ROY PROPERTY FUND REIT	public company
BULGARI RESERVE PROPERTIES REIT	public company
ZHELEZOPATNA INFRASTRUKTURA – HOLDINGOVO DRUZHESTVO AD	public company
BALKAN PROPERTY INSTRUMENTS REIT	public company
ULPINA SPV	public company
ZET PROPERTIES INVESTMENT FUND REIT	public company

AGROENERGY REIT	public company
BALKANIKA ESTATE REIT	public company
EXPAT BETA REIT	public company
<b>Companies which were granted a license to carry out activity as SIPC simultaneously with the filing of the issues of shares from the initial obligatory increase in capital</b>	
TURIN PROPERTIES REIT	public company
LEV INVEST SPV	public company
ZET PROPERTIES INVESTMENT FUND REIT	public company
BULGARI RESERVE PROPERTIES REIT	public company
BALKAN PROPERTY INSTRUMENTS REIT	public company
AGROENERGY REIT	public company
EXPAT BETA REIT	public company
MOUNTAIN PARADISE INVEST REIT	public company
BALKANIKA ESTATE REIT	public company
<b>Companies deleted from the FSC's register</b>	
<i>Deleted after deletion from the Commercial Register due to completion of procedure of liquidation or bankruptcy</i>	
EKARISAZH – TENEVO AD	public company
LATEX GROUP AD	public company
<i>Deleted after a tender offer carried out under Art. 119, para 1, Item 3 of LPOS</i>	
NONVOTEX AD	public company
EAZ AD	public company
SVINEVADSTVO-PRESLAVETS AD	public company
ELEKTRONIKA AD	public company
<i>Deleted in view of the circumstance that the issue of securities was deleted from the FSC's register and the issuer had no other issue of securities entered in the register under Art. 17, para 1, Item 1 of Ordinance N° 22</i>	
BM LEASING AD	issuer
ALLIANZ BULGARIA FINANCIER EAD	issuer
LEASING COMPANY AD	issuer
<i>Deleted on their own initiative in the existence of some of the circumstances under Art. 18 of Ordinance N° 22</i>	
ECOFILTER AD	public company
ANGER AD	public company
STROYTEKNIKA AD	public company
<i>Deleted on the initiative of the Deputy Chairperson, § 4, para 2 of the Additional Provisions of Ordinance N° 22</i>	
BISER OLIVA AD	issuer
<i>Canceled decision for entry as a public company in the register under Art. 30, para 1, item 3 of FSCA</i>	
NAVIGATION MARITIME BULGARE	public company

### Number of drawn up acts for established administrative violations (AEAV) in 2008 (Supervision of Investment Activity Division)

Established violations of the legal provisions	Drawn up AEA V
Art. 92 a, para 2 of Law on Public Offering of Securities (LPOS)	1
Art. 100s of LPOS	2
Art. 100 y, para 2 in relation to para 1, Item 1 and 2 of LPOS	2
Art. 112 e of LPOS	2
Art. 114, para 1, Item 1, letter „b“ of LPOS, in relation to Art. 114, para 5, Item 3 of LPOS	9
Art. 115, para 2 of LPOS	7
Art. 145, para 1 in relation to Art. 148, para 3 of LPOS	10
Art. 148, para 3 in relation to Art. 145, para 1 of LPOS	6
Art. 149, para 8 of LPOS	2
Art. 196, para 2 of LPOS	1
Art. 221. para 6 of LPOS	30
Art. 12, para 1 in relation to Art. 12, para 3 of Markets in Financial Instruments Act (MFIA)	1
Art. 16 of MFIA	1
Art. 22, para 3 of Act on the Special Investment Purpose Companies (ASIPC)	1
Art. 27, para 2 of Ordinance N° 2 in relation to Art. 14, para 1, item 10 of Ordinance N° 15	1
Art. 31 of Ordinance N° 2	37
Art. 32, para 1 of Ordinance N° 2	1
Art. 40, Item 1 of Ordinance N° 2	7
Art. 43, para 1 of Ordinance N° 2	2
Art. 54 of Ordinance N° 25	1
Art. 6, Item 2 of Ordinance N° 26	1
Art. 37, Item 2 of Ordinance N° 26	3
Art. 38, para 2 of Ordinance N° 26	2
Art. 35, para 2, proposition 3 of Ordinance N° 38	1
Art. 38, para 2, proposition 3 of Ordinance N° 38	1
<b>TOTAL:</b>	<b>132</b>

### Number of drawn up acts for established administrative violations (AEAV) in 2008 (Insurance Supervision Division)

Type of violation according to supervised persons	Drawn up AEA V	Ground
<i>Insurers</i>	265	
Failure to pay in time submitted claims for payment of insurance compensations	114	Art. 107 of the Insurance Code (IC)
Failure to provide in time information on the concluded contracts on the obligatory Third Party Liability insurance of motorists	59	Art. 294 and 317a of IC
Non-observed time-limit for pronouncement of a decision on claims concerning the obligatory Third Party Liability insurance of motorists	27	Art. 271 of IC
Non-observance by the insurer of the set time-limit for requiring of additional information from the consumer of an insurance service in relation to a submitted claim	8	Art. 105 of IC
Provision of false information	8	Art. 317 of IC
Failure to form reserve for incurred but unsubmitted claims without a rationale to be given in the actuarial report	7	Art. 9 of Ordinance N° 27 from 2006 on the procedure and methodology of formation of the technical reserves by insurers and reinsurers, and of the health insurance reserves (Ordinance N° 27)
Impeding FSC in the exercising of supervisory functions	5	Art. 32 of the Financial Supervision Commission Act (FSCA)
Non-compliance with the requirements related to formation of technical provisions	5	Art. 68 of IC and Art. 12 of Ordinance N° 27
Incorrect determination of the amount of the unearned premium reserve	2	Art. 11 of Ordinance N° 27
Violated rules in the formation of technical provisions	1	Art. 69 of IC
Non-observance of the rules of diversification in the technical provisions' investment	4	Art. 74 of IC
Failure to observe the time-limit for repairing damages, incurred as a result of occurred insurance event	4	Art. 209 of IC
Non-observance of the time-limit for submission of information for filing of particulars in the register of the insurance agents	3	Art. 170 of IC

Failure to present a plan for achieving the required solvency	3	Art. 86 of IC
Failure to pay compensation on the obligatory Third Party Liability insurance of motorists within the time-limit set	3	Art. 18 of Ordinance N° 24 from 2006 on the compulsory insurance pursuant to Items 1 and 2 of Article 249 of the Insurance Code and on the procedure of settlement of claims for compensation of damages caused to motor vehicles
Failure to submit the envisaged annual statistics and reports	2	Art. 6 of Ordinance N° 30 from 2006 on the requirements for the accounting, form and contents of the financial statements, statistics, reports and supplements of insurers, reinsurers and health insurance companies (Ordinance N° 30)
Non-compliance with the set form and contents of the financial statements submitted for supervisory purposes	2	Art. 7 of Ordinance N° 30
Non-observed time-limit for pronouncement on claims of regress between insurers	2	Art. 213a of IC
Non-observance by an insurer of the set time-limit for presentation of a file on a submitted claim to the Guarantee Fund	1	Art. 288, para 9 of IC
Non-observed time-limit for notification of a change in circumstances, which are subject to entry	1	Art. 101 of IC
Failure to present in due time internal rules of claims settlement	1	Art. 104 of IC
Non-fulfillment of an order of the FSC's Deputy Chairperson in charge of Insurance Supervision Division	1	Art. 319 of IC
Failure to submit an annual financial statement within the envisaged time-limits	1	Art. 99 of IC
Non-compliance with the requirement for a preliminary approval of the persons having the right to manage or represent the insurer, prior to entry in the Commercial Register	1	Art. 13 of IC
<i>Guarantee Fund</i>	<i>2</i>	
Non-pronouncement on a submitted claim in due time	2	Art. 31 of the Rules for the Structure and Operations of the Guarantee Fund
<i>Health insurance companies</i>	<i>34</i>	
Non-compliance with the requirements for diversification in the investment of the health insurance reserves	24	Art. 90e of the Health Insurance Act (HIA)
Failure to form unexpired risk reserves in case of a negative result for the last three years	4	Art. 12 of Ordinance N° 27

Impeding the exercising of supervisory powers in the conducting of inspections in a health insurance company	1	Art. 19 of FSCA
Non-compliance with the requirement for a minimum amount of the paid-in capital	1	Art. 93 of HIA
Non-compliance with the requirement for a preliminary approval of the members of management and supervisory bodies before entry in the Commercial Register	1	Art. 97 of HIA
Impeding FSC in the exercising of supervisory functions	1	Art. 32 of FSCA
Offering of a health insurance package without preliminary approval	1	Art. 98 of HIA
Non-observance of the defined for supervisory purposes form of a balance sheet	1	Item 6 of Order N° 39 from 22 Feb., 2008 of the Deputy Chairperson in charge of Insurance Supervision Division whereby standard forms are determined of annual and periodic statistics, reports and supplements, submitted by the health insurance companies
<i>Insurance intermediaries</i>	<b>82</b>	
Carrying out activity of insurance intermediation by an insurance agent for more than one insurance company	47	Art. 166 of IC
Non-observance of the time-limit for notification and for the submission of annual and periodic reports and statistics by insurance brokers	26	Art. 162 of IC
Carrying out activity of insurance intermediation without making the required registration	6	Art. 312 of IC
Non-compliance with the requirement for completion of the obligatory requisites of an insurance contract	2	Art. 184 of IC
Impeding FSC in the exercising of supervisory functions	1	Art. 32 of FSCA
<i>Responsible actuaries</i>	<b>3</b>	
Non-fulfillment by a responsible actuary of the obligation for development of sufficient in amount premiums	3	Art. 97 of IC
<i>Other persons</i>	<b>4</b>	
Impeding FSC in the exercising of supervisory functions	2	Art. 32 of FSCA
Carrying out of insurance activity without a license and forbidden use of the word „insurance“ in the company's business name	1	Art. 11 of IC



Acquisition of a shareholding in an insurer, without FSC to be preliminarily informed of it	1	Art. 16 of IC
<b>TOTAL:</b>	<b>390</b>	

## Initiatives for training and extension of the FSC's personnel qualification carried out in 2008

Topic	Type of training	Duration		Organizer/ Lector	Number of Employees
		Days	Time		
<b>Internal Financial Control</b>					
Practical problems in the application of the requirements of the Financial Management and Control Act in the public sector	Program "Financial Management and Economic Activity in the Public Sector"	2	21-22 February, 2008	SIP-2000 Petev and Radeva OOD	1
Topical problems of the internal audit and risk management	Program "Financial Management and Economic Activity in the Public Sector"	2	19-20 March, 2008	Institute of Internal Auditors in Bulgaria	2
Implementation of the internal audit legislation and methodology in the fulfillment of an audit engagement	Program "Financial Management and Economic Activity in the Public Sector"	1	4 April, 2008	SiCon Group Consult EOOD	1
Training course on CIA program Part I	Program "Financial Management and Economic Activity in the Public Sector"	2	7-8 April, 2008		2
Documenting an internal audit engagement	Program "Financial Management and Economic Activity in the Public Sector"	2	22-23 April, 2008	Institute of Internal Auditors in Bulgaria	1
Audit of the information technologies	Program "Financial Management and Economic Activity in the Public Sector"	2	12-13 May, 2008		1
How the internal audit is to improve the processes of management, control and risk management	Program "Specialized Training"	2	26-27 June, 2008		1
Planning of the internal audit	Program "Financial Management and Economic Activity in the Public Sector"	1	3 October, 2008		1

Audit of the activities and processes	Program "Financial Management and Economic Activity in the Public Sector"	2	17-18 November, 2008		1
Methodology and requirements of the Financial Management in the Public Sector Act	Program "Financial Management and Economic Activity in the Public Sector"	1	4 December, 2008	SIP-2000 Petev and Radeva OOD	1
<b>Labor and Social Security Law</b>					
New developments in the social security and in labor relations in 2008	Program "Specialized Training"	3	20-22 February, 2008	NCC Reshenie OOD	2
<b>Fight against Fraud and Abuse</b>					
Methods and techniques for detection of fraud and abuse	Program "Ethics and Prevention of Corruption"	1	19 March, 2008	Association for Counteraction to Economic Fraud	2
Methods and techniques of administrative investigation of fraud and abuse	Program "Ethics and Prevention of Corruption"	1	22 April, 2008	Association for Counteraction to Economic Fraud	2
<b>Administrative Law</b>					
New developments in the Administrative Procedure Code and subsidiary application of the Civil Procedure Code in the administrative proceedings	Program "Legal Regulations and Organization of the Administrative Activity"	3	30 May –1 June, 2008		4
International arbitration with ICC with the participation of state institutions	Program "Legal Regulations and Organization of the Administrative Activity"	1	24 November, 2008		1
<b>Civil Law</b>					
The civil proceedings according the new Civil Procedure Code	Program "Specialized Training"	2	19-20 March, 2008	CIELA Soft and Publishing AD	11
The changes in the civil proceedings according the new Civil Procedure Code	Program "Specialized Training"	3	19-21 March, 2008	Publishing House Sibi	7

The civil proceedings according to the new Civil Procedure Code. Legislative changes	Program "Legal Regulations and Organization of the Administrative Activity"	3	28-30 May, 2008		3
Topical issues concerning the new Civil Procedure Code	Program "Legal Regulations and Organization of the Administrative Activity"	1	25 June, 2008		3
<b>Financial and Economic Analysis</b>					
Commercial undertakings appraisal	Program "Financial Management and Economic Activity in the Public Sector"	10	7-16 April, 2008	Privatization Agency	3
Real estate appraisal	Program "Financial Management and Economic Activity in the Public Sector"	10	7-16 May, 2008	Privatization Agency	4
Carrying out of professional training for actuaries	Program "Specialized Training"	1	17 October, 2008		6
<b>Management Skills</b>					
Management of the talented in the global community - attraction, development, retaining	Program "Management Skills and Human Resources Management"	3	15-17 May, 2008		1
<b>Information Technologies</b>					
Spring seminar of BGOUG	Program "Other on Information Technologies"	2	30 May – 1 June, 2008		1
<b>Joint trainings with International Organizations</b>					
Toronto Center Regional program on securities	seminar	5	23-27 June, 2008	Toronto Center	32
Preliminary assessment of the acquisitions and increase in shareholdings in the financial sector, Directive 2007/44/EC	seminar	1	9 December, 2008	TALEX	25

## Dividend distributed for 2007 and reported earnings of REITs and SPVs in 2008

Company	Dividend distributed for 2007 (BGN per 1 share)	Reported earnings for 2008	Earnings per 1 share	Specific activity
CAPITAL DIRECT -1 SPV	48.52	75,000	11.54	securitization of receivables
CAPITAL MANAGEMENT SPV	4.10	3,088,000	4.75	securitization of receivables
HYPOCAPITAL SPV	-	6,000	0.09	securitization of receivables
TRANSINVESTMENT SPV	0.16	449,000	0.69	securitization of receivables
ENERGETICS AND ENERGY SAVINGS FUND – EESF SPV	-	-361,000	-0.37	securitization of receivables
ALFA CREDIT SPV	-	920,000	1.42	securitization of receivables
HYUNDAI FINANCE SPV	-	-	-	securitization of receivables
ULPINA SPV	-	106,000	0.16	securitization of receivables
LEV INVEST SPV	-	74,000	0.11	securitization of receivables
BULGARIA REAL ESTATE FUND REIT	0.025	12,296,000	0.20	securitization of real estate /agr. land/
ELANA AGRICULTURAL LAND OPPORTUNITY FUND REIT	-	-1,746,000	-0.03	securitization of real estate /agr. land/
ADVANCE-TERRAFUND REIT	-	-74,000	-0.001	securitization of real estate /agr. land/
BULLAND INVESTMENTS REIT	-	849,930	0.07	securitization of real estate /agr. land/
AGRICULTURAL LAND OPPORTUNITY FUND MEL INVEST REIT	-	2,006,000	0.07	securitization of real estate /agr. land/
AGRO FINANCE REIT	-	4,263,000	0.13	securitization of real estate /agr. land/
ZENITH PROPERTIES REIT	-	44,000	0.07	securitization of real estate /agr. land/
AGROENERGY REIT	-	-	-	securitization of real estate /agr. land/
PRIME PROPERTY BG REIT	-	-5,486,594	-0.15	securitization of real estate
BENCHMARK PROPERTIES FUND REIT	0.40	-5,939,000	-0.25	securitization of real estate
INVESTMENT PROPERTIES REIT (former KOLOS-1 REIT)	-	1,300,000	8.11	securitization of real estate

ERG CAPITAL-1 REIT	0.2369	73,000	0.02	securitization of real estate
AKTIV PROPERTIES REIT	-	-1,533,000	-0.08	securitization of real estate
PARK REIT	0.0010	-52,000	-0.01	securitization of real estate
INTERCAPITAL PROPERTY DEVELOPMENT REIT	1.50	5,986,000	1.24	securitization of real estate
QUANTUM DEVELOPMENTS REIT	-	1,511,000	2.32	securitization of real estate
ERG CAPITAL-2 REIT	0.2636	90,000	0.03	securitization of real estate
CCB REAL ESTATE FUND REIT	-	1,328,000	2.04	securitization of real estate
FAIRPLAY PROPERTIES REIT	0.13	17,689,000	0.32	securitization of real estate
BULGARIAN INVESTMENT GROUP REIT	-	78,000	0.12	securitization of real estate
PREMIER FUND REIT	-	-1,246	-0.002	securitization of real estate
BLACK SEA INVESTMENT REIT	0.3675	3,101,000	0.21	securitization of real estate
CEE ESTATES REIT	0.0025	-3,000	-0.005	securitization of real estate
SOPHARMA PROPERTIES REIT	0.0572	193,000	0.02	securitization of real estate
UNIVERSAL PROPERTIES REIT	-	31,958,000	4.92	securitization of real estate
LIAM REIT	-	-302,000	-0.18	securitization of real estate
LUKE REIT	-	2,299,000	1.53	securitization of real estate
INVEST PROPERTY REIT	-	-515,000	-0.31	securitization of real estate
SUPER BOROVETS PROPERTY FUND REIT	4.631	-1,874,000	-2.88	securitization of real estate
ALFA PROPERTY 1 REIT	-	1,235,675	1.90	securitization of real estate
FORUCOM FUND REAL ESTATES REIT	-	-	-	securitization of real estate
STATUS PROPERTIES REIT	-	-68,000	-0.10	securitization of real estate
EXCLUSIVE PROPERTY REIT	-	-4,035,000	-0.43	securitization of real estate
HEALTH AND WELLNESS REIT	-	-3,157,000	-32.38	securitization of real estate
SOLID INVEST REIT	-	-350,000	-0.54	securitization of real estate
REAL ESTATE SOFIA REIT	10.65	670,000	1.03	securitization of real estate
SERDIKA PROPERTIES REIT	-	3,815,000	5.87	securitization of real estate
BALKAN AND SEA PROPERTIES REIT	-	2,689,000	4.14	securitization of real estate

PALDIN LION GROUP REIT	6.7702	332,000	0.51	securitization of real estate
HBG INVESTMENT PROPERTY FUND REIT	-	-18,400	-0.03	securitization of real estate
ARCO TOWERS REIT (former SINGULAR REIT)	-	-	-	securitization of real estate
ERG CAPITAL-3 REIT	0.1578	-1,573,000	-0.75	securitization of real estate
UNITED PROPERTIES REIT	-	-92,000	-0.14	securitization of real estate
ZENITH PROPERTIES REIT	-	44,000	0.07	securitization of real estate
GLOBEX ESTATE FUND REIT	-	-128,000	-0.20	securitization of real estate
CITY DEVELOPMENT REIT	-	-426,000	-1.94	securitization of real estate
PROPERTIES CAPITAL INVESTMENTS REIT	-	-16,000	-0.02	securitization of real estate
REAL ESTATE INVESTMENT FUND – REIF REIT	-	60,000	0.09	securitization of real estate
EFFEKTEN UND FINANZ – PROPERTIES REIT	-	-50,000	-0.08	securitization of real estate
EXPAT PROPERTIES REIT	-	-122,000	-0.06	securitization of real estate
PRC REIT	-	2,054,000	3.51	securitization of real estate
DIT PROPERTY REIT	-	687,000	0.92	securitization of real estate
CITY PROPERTIES REIT	-	-320,000	-0.49	securitization of real estate
ROY PROPERTY FUND REIT	-	-62,000	-0.10	securitization of real estate
SOPHARMA BUILDINGS REIT	-	-25,000	-0.04	securitization of real estate
TURIN PROPERTIES REIT	-	440,000	0.68	securitization of real estate
BULGARI RESERVE PROPERTIES REIT	-	12,711,000	19.56	securitization of real estate
ZET PROPERTIES INVESTMENT FUND REIT	-	-197,000	-0.30	securitization of real estate
BALKAN PROPERTY INSTRUMENTS REIT	-	-109,000	-0.22	securitization of real estate
EXPAT BETA REIT	-	-1,000	-0.0002	securitization of real estate
BALKANIKA ESTATE REIT	-	-47,000	-0.07	securitization of real estate
MOUNTAIN PARADISE INVEST REIT	-	-	-	securitization of real estate
ALTERON REIT	-	-	-	securitization of real estate

## 12.2.3 APPENDIX

### Foreign shareholders in the investment intermediaries' equity as of 31 December 2008

BBG SIMEX – BULGARIA OOD	INTERNATIONAL BUSINESS ADVISORS EOOD, Czech Republic BBG FINANCE AD, Czech Republic	20.00% 68.00 %
BULFIN INVEST AD	KRESTAN PROPERTIES AD, USA LANGFORD FINANCIAL SERVICES, USA (indirectly)	50 % 40 %
TBI INVEST EAD	TBIF BULGARIA EAD, Netherlands (indirectly)	100%
CEE SECURITIES AD	VOIKO ODLAZEK, Slovenia MIRAN MENTZEY, Slovenia	33.2 % 66.8 %
KD SECURITIES EAD	KD HOLDING, Slovenia	100 %
CAPITAL FINANCE OOD	NIVIA LIMITED, Cyprus	69.23 %
FH FINA – S AD	AFLIK LIMITED, United Kingdom (indirectly)	100 %
DZI INVEST AD	KBC INSURANCE NV, Belgium (indirectly)	100 %
CAPMAN AD	WOODGREEN LIMITED, Cyprus	90 %
EFG SECURITIES BULGARIA EAD	EFG NEW EUROPE HOLDING B.V., Netherlands	100 %
FACTORI AD	RAHITI MEIR CLASSIC, Israel (indirectly) YAAD PIRZUL-1984, Israel (indirectly)	20.89 % 16.27 %
FFBH	PRATIKO INTER AD, Switzerland (indirectly)	99.99 %
FAVORIT	ROMAN POLLAK, Czech Republic (indirectly)	13 %
ZLATEN LEV BROKERS OOD	ISOLA ENTERPRISES OOD, Cyprus (indirectly)	20 %
BALKAN SECURITIES EOOD	PRAVIN BANKER, USA (indirectly)	97.45 %
GLOBAL MARKETS OOD	PAVEL KOCHALKA, Czech Republic	95 %
BULBROKERS AD	HYPO INVESTBANK AG, Austria (indirectly)	29.4 %

## 12.2.4A APPENDIX

### Balance sheet of the Investors Compensation Fund as of 31 December, 2008

	31.12.2008	31.12.2007
	(BGN thousand)	(BGN thousand)
<b>Assets</b>		
Non-current assets	23	11
Property, plant and equipment	10	10
Intangible assets	13	1
Current assets	4,571	2,515
Short-term financial assets	1,159	37
Cash and cash equivalent	33	13
Granted deposits	3,376	2,465



Advances	3	
<b>TOTAL ASSETS</b>	<b>4,594</b>	<b>2,526</b>
<b>Own capital and liabilities</b>		
Own capital	4,563	2,501
Accumulated profit from past years <sup>38</sup>	2,501	1,443
Undistributed profit <sup>38</sup>	2,062	1,058
<b>TOTAL OWN CAPITAL</b>	<b>4,563</b>	<b>2,501</b>
Liabilities	31	25
Trade liabilities	1	
Liabilities to the staff and insurance institutions	4	
Other liabilities	26	25
<b>TOTAL LIABILITIES</b>	<b>31</b>	<b>25</b>
<b>TOTAL OWN CAPITAL AND LIABILITIES</b>	<b>4,594</b>	<b>2,526</b>

## 12.2.4B

### APPENDIX

#### Income statement of the Investors Compensation Fund as of 31 December, 2008

	31.12.2008	31.12.2007
	(BGN thousand)	(BGN thousand)
<b>Revenues</b>		
Revenues from annual contributions	2,067	1,155
Other revenues		1
<b>TOTAL REVENUES</b>	<b>2,067</b>	<b>1,156</b>
<b>Expenses</b>		
Expenses for materials	(7)	(7)
Expenses for outside services	(65)	(61)
Expenses regarding the staff	(137)	(110)
Depreciation costs	(6)	(12)
Other expenses	(8)	(6)
<b>TOTAL NON-FINANCIAL EXPENSES</b>	<b>223</b>	<b>196</b>
Operating profit <sup>38</sup>	1,844	960
Revenues related to investments	219	98
Financial expenses	(1)	
Pre-tax profit <sup>38</sup>	218	98
Profit for the year <sup>38</sup>	2,062	1,058

<sup>38</sup> The Investors Compensation Fund is a tax liable person only with regard to the income received under Art. 12 para 2 of the Corporate Income Tax Act. In relation to the income formed from cash contributions of investment intermediaries under Art. 77a, para 3 of LPOS, the Fund is not a tax liable person.

## 12.2.4C APPENDIX

### Statement of the changes in the own capital of the Investors Compensation Fund for the period 1 January 2008 – 31 December 2008

	Register- ed capital	Premium reserve	Revalua- tion reserve	Other reserves	Undistri- buted profit <sup>39</sup>	Total capital
	(BGN thousand)	(BGN thousand)	(BGN thousand)	(BGN thousand)	(BGN thousand)	(BGN thousand)
<b>Balance as of 01.01.2007</b>					<b>1,443</b>	<b>1,443</b>
Recalculated balance as of 1 January, 2007					1,443	1,443
<b>Total recognized revenues and expenses for the year</b>					<b>1,058</b>	<b>1,058</b>
<b>Balance as of 31.12.2007</b>					<b>2,501</b>	<b>2,501</b>
<b>Balance as of 01.01.2008</b>					<b>2,501</b>	<b>2,501</b>
Profit for the year till 31 December, 2008 <sup>39</sup>					2,062	2,062
<b>Total recognized revenues and expenses for the period</b>					<b>2,062</b>	<b>2,062</b>
<b>Balance as of 31.12.2008</b>					<b>4,563</b>	<b>4,563</b>

## 12.2.4D APPENDIX

### Cash flow statement of the Investors Compensation Fund as of 31 December, 2008

Cash flows	31.12.2008	31.12.2007
	(BGN thousand)	(BGN thousand)
<b>Operating activities</b>		
Cash flows from initial and annual contributions by investment intermediaries	2,068	1,155
Payments to suppliers	(86)	(66)
Payments to staff and social insurance institutions	(147)	(120)
Other cash flows from operating activities	(1)	(18)
<b>Net cash flow from operating activities</b>	<b>1,834</b>	<b>951</b>
<b>Investment activities</b>		
Received interest	162	81
<b>Net cash flow from investment activities</b>	<b>162</b>	<b>81</b>

<sup>39</sup> The Investors Compensation Fund is a tax liable person only with regard to the income received under Art. 12 para 2 of the Corporate Income Tax Act. In relation to the income formed from cash contributions of investment intermediaries under Art. 77a, para 3 of LPOS, the Fund is not a tax liable person.

<b>Net change in cash and cash equivalents</b>	<b>1,996</b>	<b>1,032</b>
Cash and cash equivalents at the beginning of the year	2,478	1,446
Cash and cash equivalents at the end of the year	4,474	2,478

## 13.2.1A

### APPENDIX

#### Gross premiums charged (written) of non-life insurance companies (in BGN thousand)

INSURERS	2008		2007		Growth
	Gross premiums charged (written)	Market share	Gross premiums charged (written)	Market share	
ZAD BULSTRAD	221,938	14.5%	177,576	14.0%	25.0%
DZI – GENERAL INSURANCE	202,151	13.2%	186,729	14.7%	8.3%
ZAD ALLIANZ BULGARIA	165,031	10.8%	149,183	11.8%	10.6%
ZK LEV INS AD	158,561	10.3%	101,681	8.01%	55.9%
ZD BUL INS AD	155,002	10.1%	146,573	11.55%	5.8%
ZAD ARMEEZ AD	145,968	9.5%	90,725	7.15%	60.9%
ZK UNIKA AD	95,974	6.3%	87,724	6.9%	9.4%
INSURANCE COMPANY EURO INS AD	82,345	5.4%	66,578	5.24%	23.7%
GENERALI INSURANCE AD	62,381	4.1%	64,920	5.1%	-3.9%
ZAD ENERGIA	57,799	3.8%	52,784	4.2%	9.5%
INSURANCE COMPANY BULGARSKI IMOTI AD	52,202	3.4%	50,866	4.0%	2.6%
ZAD VICTORIA	44,127	2.9%	30,911	2.4%	42.8%
INTERAMERICAN BULGARIA ZEAD	20,258	1.3%	14,003	1.1%	44.7%
HDI ZAD	18,860	1.2%	13,845	1.1%	36.2%
AIG BULGARIA INSURANCE COMPANY EAD	18,216	1.2%	17,417	1.37%	4.6%
MUNICIPAL INSURANCE COMPANY AD	14,203	0.9%	7,397	0.58%	92.0%
ZK DSK GARANTZIA AD	8,328	0.5%	4,942	0.4%	68.5%
UBB-AIG ZD AD	5,936	0.4%	2,903	0.23%	104.5%
BULGARIAN EXPORT INSURANCE AGENCY EAD	5,042	0.3%	2,789	0.22%	80.8%
GRAWE BULGARIA GENERAL INSURANCE EAD	73	0.0%	-	-	-
<b>TOTAL:</b>	<b>1,534,395</b>	<b>100.00%</b>	<b>1,269,546</b>	<b>100.00%</b>	<b>20.9%</b>





## Paid compensations and incurred claims of non-life insurance companies (in BGN thousand)

INSURERS	2008				2007			
	Paid compensations	Share (%)	Incurred claims	Share (%)	Paid compensations	Share (%)	Incurred claims	Share (%)
ZAD BULSTRAD	115,389	19.4%	126,155	16.3%	97,503	21.6%	104,403	18.6%
DZI – GENERAL INSURANCE AD	95,084	16.0%	131,031	17.0%	68,815	15.2%	93,714	16.7%
ZAD ALLIANZ BULGARIA	62,502	10.5%	79,839	10.3%	56,040	12.4%	63,733	11.4%
ZD BUL INS AD	60,553	10.2%	66,658	8.6%	62,493	13.8%	73,558	13.1%
ZK UNIKA AD	57,020	9.6%	66,100	8.6%	37,893	8.4%	46,210	8.2%
ZAD ARMEEZ AD	45,794	7.7%	59,319	7.7%	25,277	5.6%	33,961	6.1%
ZK LEV INS AD	37,751	6.4%	57,879	7.5%	30,171	6.7%	38,207	6.8%
ZD EUROINS AD	34,305	5.8%	46,162	6.0%	23,752	5.3%	29,139	5.2%
GENERALI INSURANCE AD	25,377	4.3%	42,766	5.5%	16,519	3.7%	24,369	4.4%
INSURANCE COMPANY BULGARSKI IMOTI AD	22,449	3.8%	40,779	5.3%	12,588	2.8%	25,708	4.6%
ZAD VICTORIA	13,943	2.3%	22,191	2.9%	7,654	1.7%	11,021	2.0%
HDI ZAD	6,994	1.2%	9,385	1.2%	3,847	0.9%	5,799	1.0%
INTERAMERICAN BULGARIA ZEAD	5,846	1.0%	9,852	1.3%	2,862	0.6%	3,390	0.6%
AIG BULGARIA ZD EAD	3,830	0.6%	4,903	0.6%	1,058	0.2%	1,462	0.3%
ZAD ENERGIA	2,945	0.5%	3,988	0.5%	2,589	0.6%	2,807	0.5%
MUNICIPAL INSURANCE COMPANY AD	2,480	0.4%	2,869	0.4%	1,877	0.4%	2,144	0.4%
BULGARIAN EXPORT INSURANCE AGENCY EAD	1,492	0.3%	1,387	0.2%	259	0.1%	-44	0.0%
ZK DSK GARANTZIA AD	290	0.0%	737	0.1%	244	0.1%	261	0.0%
UBB-AIG ZD AD	217	0.0%	614	0.1%	64	0.0%	296	0.1%
GRAWE BULGARIA GENERAL INSURANCE EAD	2	0.0%	4	0.0%	0	0.0%	0	0.0%
<b>TOTAL:</b>	<b>594,263</b>	<b>100.0%</b>	<b>772,618</b>	<b>100.0%</b>	<b>451,504</b>	<b>100.00%</b>	<b>560,139</b>	<b>100,00%</b>

### Growth/drop of the gross charged (written) premiums, increase/decrease of the paid compensations and of the incurred claims of non-life insurance companies

INSURERS	Growth/ drop of gross charged (written) premiums for 2008 compared to 2007	Increase/ decrease of the paid compensations for 2008 compared to 2007	Increase/ decrease of the incurred claims for 2008 compared to 2007
ZAD BULSTRAD	24.98%	18.34%	20.83%
DZI – GENERAL INSURANCE AD	8.26%	38.17%	39.82%
ZAD ALLIANZ BULGARIA	10.62%	11.53%	25.27%
ZD BUL INS AD	5.75%	-3.10%	-9.38%
ZAD ARMEEZ AD	60.89%	81.17%	74.67%
ZK LEV INS AD	55.94%	25.12%	51.49%
ZK UNIKA AD	9.40%	50.48%	43.04%
ZD EUROINS AD	23.68%	44.43%	58.42%
GENERALI INSURANCE AD	-3.91%	53.62%	75.49%
ZAD ENERGIA	9.50%	13.75%	42.07%
IC BULGARSKI IMOTY AD	2.63%	78.34%	58.62%
ZAD VICTORIA	42.76%	82.17%	101.35%
INTERAMERICAN BULGARIA ZEAD	44.67%	104.26%	190.62%
AIG BULGARIA ZD EAD	4.59%	262.19%	235.28%
HDI ZAD	36.22%	81.80%	61.84%
MUNICIPAL INSURANCE COMPANY AD	92.01%	32.13%	33.82%
ZK DSK GARANTZIA AD	68.51%	19.06%	181.93%
UBB-AIG ZD AD	104.48%	239.06%	107.43%
BULGARIAN EXPORT INSURANCE AGENCY EAD	80.78%	476.06%	-
GRAWE BULGARIA GENERAL INSURANCE EAD	-	-	-
<b>TOTAL:</b>	<b>20.86%</b>	<b>31.62%</b>	<b>37.93%</b>

**Paid compensations, incurred claims and actually made expenses (without claims settlement expenses) of the non-life insurance companies by class of insurance (in BGN thousand)**

CLASS OF INSURANCE	2008			2007		
	Paid compensations	Incurred claims	Actually incurred expenses (acquisition, administrative and contributions to funds, without claims settlement expenses)	Paid compensations	Incurred claims	Actually incurred expenses (acquisition, administrative and contributions to funds, without claims settlement expenses)
1. Accident	5,295	6,019	13,501	3,534	4,489	10,098
including obligatory Accident insurance of passengers in public transport vehicles	495	291	1,738	622	824	1,785
2. Sickness	16	17	17	33	34	4
3. Land vehicles, excluding railway rolling stock	341,327	365,147	253,362	254,178	275,265	215,697
4. Railway rolling stock	126	-360	2,621	0	282	1,183
5. Aircrafts	1,376	1,397	882	560	2,302	1,092
6. Vessels	17,471	17,677	7,245	6,586	11,687	7,026
7. Loads in transit	3,268	3,516	7,820	4,381	4,083	7,752
8. Fire and natural forces	31,751	33,339	63,056	30,375	34,140	56,595
9. Property damage	8,141	9,264	26,908	6,094	4,615	23,470
10. Third party liability insurance related to the possession and use of motor vehicles, including:	161,273	298,766	142,413	123,273	202,863	116,402
Third party liability insurance of motorists	141,466	287,416	140,055	95,931	179,182	113,167
Green card	18,769	8,793	814	26,395	22,175	2,582
Border insurance TPL	391	548	897	10	96	181
Third party liability insurance of carriers	647	2,008	647	938	1,412	471



11. Third party liability insurance related to the possession and use of aircrafts	131	37	976	112	-16	922
12. Third party liability insurance related to the possession and use of vessels	618	2,407	935	9	14	422
13. General third party liability	10,727	15,027	8,818	11,955	12,414	7,118
14. Credits	5,006	5,437	7,500	1,819	1,403	3,698
15. Suretyship	739	527	973	203	-2,170	1,163
16. Miscellaneous financial loss	4,643	10,131	14,076	6,261	5,299	9,652
17. Legal expenses	0	0	0	0	0	0
18. Travel assistance	1,981	2,189	5,376	1,938	1,229	5,332
<b>TOTAL:</b>	<b>593,890</b>	<b>770,537</b>	<b>556,479</b>	<b>451,310</b>	<b>557,806</b>	<b>467,625</b>

## 13.2.2D

### APPENDIX

#### Change in the gross charged (written) premiums, paid compensations and incurred claims by class of insurance on annual basis

CLASS OF INSURANCE	Growth/ drop of gross charged (written) premiums for 2008 compared to 2007	Increase/ decrease of the paid compensations for 2008 compared to 2007	Increase/ decrease of the incurred claims for 2008 compared to 2007
1. Accident	25.23%	49.85%	34.09%
including obligatory Accident insurance of passengers in public transport vehicles	1.67%	-20.43%	-64.73%
2. Sickness	82.77%	-51.60%	-51.34%
3. Land vehicles, excluding railway rolling stock	23.25%	34.29%	32.65%
4. Railway rolling stock	100.33%	-	-227.74%
5. Aircrafts	-22.17%	145.65%	-39.30%
6. Vessels	29.34%	165.29%	51.26%
7. Loads in transit	-3.13%	-25.41%	-13.90%
8. Fire and natural forces	10.22%	4.53%	-2.35%
9. Property damage	-0.67%	33.59%	100.71%
10. Third party liability insurance related to the possession and use of motor vehicles, including:	23.97%	30.83%	47.28%
Third party liability insurance of motorists	23.25%	47.47%	60.40%
Green card	34.95%	-28.89%	-60.35%
Border insurance TPL	230.53%	-	471.42%

Third party liability insurance of carriers	17.46%	-30.97%	42.20%
11. Third party liability insurance related to the possession and use of aircrafts	-9.40%	17.30%	-335.38%
12. Third party liability insurance related to the possession and use of vessels	-9.24%	6,766.61%	17,387.02%
13. General third party liability	2.96%	-10.28%	21.05%
14. Credits	221.82%	175.25%	287.40%
15. Suretyship	3.53%	264.86%	-124.28%
16. Miscellaneous financial loss	34.09%	-25.83%	91.19%
17. Legal expenses	712.56%	-	0.00%
18. Travel assistance	8.89%	2.18%	78.08%
<b>TOTAL:</b>	<b>20.80%</b>	<b>31.59%</b>	<b>38.11%</b>

## 13.2.3

### APPENDIX

#### Indicators total for the three classes of insurances (Credits, Suretyship and Miscellaneous Financial Loss) as of the end of 2008 (in BGN)

Insurers	Premium income	Incurred claims	Technical provisions	Technical result
ZAD ARMEEZ AD	1,585,372	760,771	1,611,711	100,243
ZAD ALLIANZ BULGARIA AD	5,284,720	4,111,366	13,252,406	3,509,465
ZAD BULSTRAD AD	782,032	124,501	879,609	526,758
ZD BUL INS AD	4,405,744	1,571,512	3,612,114	1,272,225
IC BULGARSKI IMOTI AD	1,843	-	68,087	1,554
BULGARIAN EXPORT INSURANCE AGENCY EAD	3,082,543	1,097,717	3,214,334	450,755
ZK UNIKA AD	348,267	8,173	403,731	158,059
DZI – GENERAL INSURANCE AD	3,796,246	3,169,350	4,535,557	-1,979,636
ZD EURO INS AD	4,127,491	957,899	971,878	-1,242,209
ZAD ENERGIA	-	-	-	-
AIG BULGARIA INSURANCE COMPANY EAD	782,176	79,492	641,389	279,475
INTERAMERICAN BULGARIA ZAD	310,677	52,807	-	-167,089
ZK LEV INS AD	37,283,882	3,885,735	9,403,119	19,377,083
ZAD VICTORIA	443,688	35,146	257,216	97,890
MUNICIPAL INSURANCE COMPANY AD	63,277	-6,319	24,898	25,270
GENERALI INSURANCE AD	547,450	-30,488	148,751	351,039
HDI ZAD	116,464	60,746	190,549	58,954
ZK DSK GARANTZIA AD	-	-	-	-
UBB-AIG ZD AD	1,581,000	216,300	1,028,715	10,226
GRAWE BULGARIA GENERAL INSURANCE EAD	-	-	-	-
<b>TOTAL:</b>	<b>64,542,871</b>	<b>16,094,708</b>	<b>40,244,065</b>	<b>22,830,062</b>

## 13.2.4 APPENDIX

### Technical and financial result of the non-life insurance companies (in BGN thousand)

Insurers	Technical result		Financial result	
	2008	2007	2008	2007
ZAD ARMEEZ AD	318	1,164	1,937	14,910
ZAD ALLIANZ BULGARIA	9,928	19,272	9,070	15,805
ZAD BULSTRAD	1,751	1,215	2,075	1,693
ZD BUL INS AD	17,043	2,961	9,864	58
INSURANCE COMPANY BULGARSKI IMOTI AD	-5,017	73	-3,642	416
BULGARIAN EXPORT INSURANCE AGENCY EAD	1,425	759	1,722	1,379
ZK UNIKA AD	-4,954	-2,301	-3,526	-1,162
DZI – GENERAL INSURANCE AD	-33,956	-22,018	-23,588	-3,479
ZD EUROINS AD	-10,526	6,319	-13,407	5,374
ZAD ENERGIA	25,147	20,604	20,695	20,656
AIG BULGARIA ZD EAD	3,301	3,868	3,944	3,690
INTERAMERICAN BULGARIA ZEAD	-2,924	-1,847	-2,863	-1,138
ZK LEV INS AD	12,378	8,547	11,842	10,317
ZAD VICTORIA	-1,525	-179	6	724
MUNICIPAL INSURANCE COMPANY AD	118	566	380	125
GENERALI INSURANCE AD	-16,432	-3,243	-16,509	-3,306
HDI ZAD	-231	-166	199	125
UBB-AIG ZD AD	-875	-1,196	-1,363	17
ZK DSK GARANTZIA AD	556	-69	750	134
GRAWE BULGARIA GENERAL INSURANCE EAD	-219	-	48	-
<b>TOTAL:</b>	<b>-4,694</b>	<b>34,328</b>	<b>-2,366</b>	<b>66,338</b>

## 13.2.5A APPENDIX

### Asset amount and equity of the non-life insurance companies (in BGN thousand)

Insurers	Asset amount		Change	Equity		Change
	2008	2007		2008	2007	
ZAD ARMEEZ AD	140,920	116,900	20.55%	31,644	48,388	-34.60%
ZAD ALLIANZ BULGARIA	178,075	165,731	7.45%	43,320	50,142	-13.61%
ZAD BULSTRAD	225,621	184,518	22.28%	49,382	45,971	7.42%
ZD BUL INS AD	137,555	117,045	17.52%	36,530	26,604	37.31%
INSURANCE COMPANY BULGARSKI IMOTI AD	60,619	51,881	16.84%	6,552	10,645	-38.45%
BULGARIAN EXPORT INSURANCE AGENCY EAD	17,794	15,852	12.25%	14,807	13,600	8.88%
ZK UNIKA AD	72,372	81,416	-11.11%	17,809	19,585	-9.07%
DZI – GENERAL INSURANCE AD	278,690	226,649	22.96%	56,313	29,953	88.00%

ZD EUROINS AD	63,200	52,887	19.50%	14,997	21,389	-29.88%
ZAD ENERGIA	78,569	71,891	9.29%	51,629	51,375	0.49%
AIG BULGARIA ZD EAD	27,310	23,376	16.83%	17,625	14,154	24.53%
INTERAMERICAN BULGARIA ZEAD	18,496	16,151	14.52%	6,894	7,858	-12.27%
ZK LEV INS AD	156,257	99,916	56.39%	50,632	38,790	30.53%
ZAD VICTORIA	41,037	31,532	30.14%	11,335	11,267	0.60%
MUNICIPAL INSURANCE COMPANY AD	21,698	14,545	49.18%	10,349	9,393	10.18%
GENERALI INSURANCE AD	80,207	51,896	54.55%	6,180	-7,885	-178.38%
HDI ZAD	20,653	16,177	27.67%	7,653	7,454	2.67%
ZK DSK GARANTZIA AD	11,200	9,981	12.21%	7,821	7,534	3.80%
UBB-AIG ZD AD	11,725	8,476	38.33%	7,692	6,601	16.53%
GRAWE BULGARIA GENERAL INSURANCE EAD	7,007	-	-	6,946	-	-
<b>TOTAL:</b>	<b>1,649,005</b>	<b>1,356,821</b>	<b>21.53%</b>	<b>456,110</b>	<b>412,818</b>	<b>10.49%</b>

## 13.2.5B

### APPENDIX

#### Investment revenue and investment expense realized by the non-life insurance companies as of the end of 2008 (in BGN thousand)

Insurers	Investment revenue		Investment expense			Total net result (1) - (4)	Net result from revaluation of investments (2) - (5)	Net result from realization of investments (3) - (6)	
	TOTAL	incl. positive differences from revaluation of the investments value	incl. profits from the realization of investments	TOTAL	incl. negative differences from revaluation of the investments value				incl. losses from the realization of investments
ZAD ARMEEZ AD	43,646	23,990	9,980	37,436	37,436	6,210	-13,446	9,980	
ZAD ALLIANZ BULGARIA	6,457	1,137	107	5,985	5,429	472	-4,292	-302	
ZAD BULSTRAD	22,803	17,238	362	15,405	15,262	7,398	1,976	342	
ZD BUL INS AD	6,088	2,664	21	6,108	5,578	-20	-2,914	-249	
INSURANCE COMPANY BULGARIAN EXPORT	1,968	1,071	0	946	871	1,022	200	0	
INSURANCE AGENCY EAD	1,174	391	0	699	624	475	-233	0	
ZK UNIKA AD	7,690	0	0	6,404	295	1,286	-295	-5,534	
DZI – GENERAL INSURANCE AD	14,604	1,158	0	3,498	984	11,106	174	-2,514	
ZD EURO INS AD	1,130	479	36	4,840	4,640	-3,710	-4,161	-121	
ZAD ENERGIA	2,618	311	93	392	354	2,226	-43	58	
AIG BULGARIA ZD EAD	869	59	0	64	22	806	37	-41	
INTERAMERICAN BULGARIA ZEAD	604	53	0	507	505	97	-452	0	
ZK LEV INS AD	3,400	1,297	1	2,744	2,534	656	-1,237	-141	

ZAD VICTORIA	2,587	1,482	0	754	647	0	1,833	835	0
MUNICIPAL INSURANCE COMPANY AD	1,256	681	0	86	68	0	1,170	613	0
GENERALI INSURANCE AD	661	0	0	398	276	0	263	-276	0
HDI ZAD	611	0	0	95	95	0	516	-95	0
UBB-AIG ZD AD	641	323	0	1,126	1,126	0	-485	-803	0
ZK DSK GARANTZIA AD	0	0	0	0	0	0	0	0	0
GRAWE BULGARIA GENERAL INSURANCE EAD	273	0	0	4	0	0	269	0	0
<b>TOTAL:</b>	<b>119,080</b>	<b>52,334</b>	<b>10,600</b>	<b>87,491</b>	<b>76,746</b>	<b>9,122</b>	<b>31,590</b>	<b>-24,412</b>	<b>1,478</b>

## Investments in shares of the non-life insurance companies (in BGN)

Insurance companies	as of 31.12.2007		as of 30.06.2008		as of 30.09.2008		as of 31.12.2008	
	Investments in shares	Investments in SOFIX	Investments in shares	Investments in SOFIX	Investments in shares	Investments in SOFIX	Investments in shares	Investments in SOFIX
ZAD ARMEEZ AD	41,745,221	28,643,377	44,018,468	20,882,063	34,412,843	12,783,106	21,985,089	5,424,010
ZAD BULSTRAD	21,471,285	3,768,038	12,111,802	3,052,594	9,774,182	2,034,836	4,863,591	605,436
ZD BUL INS AD	1,419,092	545,799	1,123,889	253,759	794,743	256,461	161,026	9,220
ZK UNIKA AD	2,110,089	0	0	0	0	0	0	0
ZD EURO INS AD	2,692,815	156,280	2,850,829	133,798	2,367,786	71,484	1,858,755	27,694
ZAD ENERGIA	219,004	219,004	216,904	216,904	158,803	158,803	89,302	89,302
ZK LEV INS AD	1,045,819	740,705	198,674	54,639	97,354	0	62,497	600
ZAD VICTORIA	0	0	1,778,465	1,778,465	1,913,519	1,913,519	1,480,481	1,480,481
MUNICIPAL INSURANCE COMPANY AD	50,000	0	50,000	0	50,000	0	50,000	0
GENERALI INSURANCE AD	159,340	159,340	96,311	96,311	67,656	67,656	35,244	35,244
<b>TOTAL:</b>	<b>70,912,666</b>	<b>34,232,543</b>	<b>62,445,342</b>	<b>26,468,533</b>	<b>49,636,886</b>	<b>17,285,866</b>	<b>30,585,985</b>	<b>7,671,986</b>

## GROSS PREMIUM INCOME OF LIFE INSURANCE COMPANIES

Insurers	31.12.2008		31.12.2007		Growth
	BGN thousand	Market share	BGN thousand	Market share	
ZAD ALLIANZ BULGARIA LIFE AD	58,948	21.81 %	56,127	23.83 %	5.03%
ZAD DZI	40,972	15.16 %	40,649	17.26 %	0.79%
ZK UNIKA LIFE AD	37,784	13.98 %	30,685	13.03 %	23.14%
AIG LIFE BULGARIA ZHZD EAD	31,818	11.77 %	23,989	10.19 %	32.64%
ZAD BULSTRAD LIFE AD	24,397	9.03 %	21,748	9.23 %	12.18%
GENERALI LIFE INSURANCE AD	18,509	6.85 %	24,463	10.39 %	-24.34%
GRAWE BULGARIA LIFE INSURANCE AD	16,887	6.25 %	13,952	5.92 %	21.04%
UBB – AIG LIFE INSURANCE COMPANY AD	13,074	4.84 %	5,236	2.22 %	149.69%
ZHZK DSK GARANTZIA AD	9,344	3.46 %	5,921	2.51 %	57.82%
SINDIKALNA VZK	7,425	2.75 %	5,614	2.38 %	32.26%
ZHZK BULGARSKI IMOTI AD	4,152	1.54 %	4,829	2.05 %	-14.02%
ZD KD LIFE AD	2,803	1.04 %	716	0.30 %	291.48%

ZAD SOGELIFE BULGARIA AD	1,768	0.65 %	20	0.01 %	8,740.00%
LIFE INSURANCE INSTITUTE	1,137	0.42 %	1,074	0.46 %	5.87%
ZEAD CCB LIFE	910	0.34 %	0	0.00 %	-
VZK DOBRUDZHA - M - LIFE	259	0.10 %	501	0.21 %	-48.30%
INTERAMERICAN BULGARIA LIFE INSURANCE EAD	60	0.02 %	0	0.00 %	-
<b>TOTAL:</b>	<b>270,247</b>	<b>100.00 %</b>	<b>235,524</b>	<b>100.00 %</b>	<b>14.74%</b>

## 13.3.2A APPENDIX

### Paid claims by life insurance companies

Insurers	31.12.2008		31.12.2007		Change 2008/ 2007
	BGN thousand	Share (%)	BGN thousand	Share (%)	
ZAD DZI	27,825	30.17 %	26,755	34.40 %	4.00%
ZK UNIKA LIFE AD	16,434	17.82 %	12,955	16.66 %	26.85%
ZAD ALLIANZ BULGARIA LIFE	15,254	16.54 %	10,195	13.11 %	49.62%
GENERALI LIFE INSURANCE AD	12,984	14.08 %	14,371	18.48 %	-9.65%
ZAD BULSTRAD LIFE	7,842	8.50 %	8,225	10.58 %	-4.66%
AIG LIFE BULGARIA ZHZD EAD	3,704	4.02 %	1,713	2.20 %	116.23%
UBB – AIG LIFE INSURANCE COMPANY AD	2,056	2.23 %	534	0.69 %	285.02%
ZHZK BULGARSLI IMOTI AD	1,623	1.76 %	1,251	1.61 %	29.74%
GRAWE BULGARIA LIFE INSURANCE AD	1,187	1.29 %	568	0.73 %	108.98%
ZHZK DSK GARANTZIA AD	1,158	1.26 %	456	0.59 %	153.99%
LIFE INSURANCE INSTITUTE AD	744	0.81 %	5	0.01 %	14,780.00%
SINDIKALNA VZK	624	0.68 %	672	0.86 %	-7.14%
VZK DOBRUDZHA-M-LIFE	468	0.51 %	67	0.09 %	598.51%
ZED CCB LIFE	275	0.30 %	0	0.00 %	-
ZAD SOGELIFE BULGARIA AD	60	0.07 %	0	0.00 %	-
ZD KD LIFE AD	2	0.00 %	0	0.00 %	-
INTERAMERICAN LIFE INSURANCE EAD	0	0.00 %	0	0.00 %	-
<b>TOTAL:</b>	<b>92,240</b>	<b>100.00%</b>	<b>77,767</b>	<b>100.00 %</b>	<b>18.61%</b>

## 13.3.2B APPENDIX

### Insurance payments of life insurance companies by class of insurance in 2008

Class of insurance	Insurance payments				Growth
	31.12.2008		31.12.2007		
	BGN thousand	Share (%)	BGN thousand	Share (%)	
1. Life insurance and annuities	74,187	78.92%	60,796	77.65%	22.03%
a) Life insurance	66,084	70.30%	53,390	68.19%	23.78%
- Life insurance – mixed	61,342	65.26%	49,959	63.81%	22.78%



- Risk life insurance (with only risk of death covered)	4,756	5.06%	3,431	4.38%	38.63%
b) Pension or annuity insurance	8,090	8.61%	7,406	9.46%	9.23%
2. Marriage and child insurance	1,656	1.76%	1,463	1.87%	13.21%
3. Unit-linked life insurance	6,926	7.37%	5,822	7.44%	18.96%
4. Permanent health insurance	1,202	1.28%	1,169	1.49%	2.82%
5. Capital redemption	0	0.00%	0	0.00%	0.00%
6. Supplementary insurance	3,841	4.09%	4,871	6.22%	-21.14%
7. Accident insurance	6,187	6.58%	4,171	5.33%	48.34%
incl. obligatory Accident insurance of passengers in public transport vehicles	76	0.08%	28	0.04%	174.82%
<b>TOTAL:</b>	<b>93,999</b>	<b>100.00%</b>	<b>78,292</b>	<b>100.00%</b>	<b>20.06%</b>

## 13.3.2C

### APPENDIX

#### Paid amounts and compensations of life insurance companies by class of insurance in 2008 (in BGN thousand)

Class of insurance	Paid claims *	incl. under contracts with expired term or overdue maturity	Incl. surrenders	incl. upon death	incl. other amounts and compensations
1. Life insurance and annuities	73,663	42,886	8,562	7,052	15,163
a) Life insurance	65,613	36,443	7,269	6,978	14,923
- Life insurance – mixed	60,888	36,443	7,269	4,082	13,094
- Risk life insurance (with only risk of death covered)	4,726	0	0	2,896	1,830
b) Pension or annuity insurance	8,050	6,443	1,294	74	239
2. Marriage and child insurance	1,653	1,143	449	18	43
3. Unit-linked life insurance	6,839	3,140	3,551	109	39
4. Permanent life insurance	1,187	0	0	12	1,175
5. Capital redemption	0	0	0	0	0
6. Supplementary insurance	3,834	0	0	1,325	2,508
7. Accident insurance	6,009	0	0	2,727	3,282
incl. obligatory Accident insurance of passengers in public transport vehicles	76	0	0	5	71
<b>TOTAL:</b>	<b>93,186</b>	<b>47,170</b>	<b>12,563</b>	<b>11,243</b>	<b>22,210</b>

\*The difference from the above stated paid claims is due to the accounting policy adopted by some insurance companies which involves separation of the deposit component of the premium of Unit-linked Life Insurance, and respectively the paid compensations and sums are not incurred as expense, but they reduce the reserve on that class of insurance.

## 13.3.4 APPENDIX

### Technical and financial result of life insurance companies (in BGN thousand)

Insurers	Technical result		Financial result	
	2008	2007	2008	2007
ZAD ALLIANZ BULGARIA LIFE	5,855	7,546	5,396	8,687
AIG LIFE BULGARIA ZHZD EAD	5,302	4,904	4,761	4,402
UBB – AIG LIFE INSURANCE COMPANY AD	2,974	1,065	2,668	954
ZK UNIKA LIFE AD	2,009	1,533	1,737	1,231
GRAWE BULGARIA LIFE INSURANCE AD	1,227	241	1,535	762
LIFE INSURANCE INSTITUTE AD	399	396	2	379
ZHZK BULGARSKI IMOTI AD	358	-688	313	-570
SINDIKALNA VZK	168	127	149	112
ZED CCB LIFE	-122	0	12	1
VZK DOBRUDZHA - M - LIFE	-159	-16	-159	8
ZAD SOGELIFE BULGARIA AD	-1,669	-691	-1,533	-532
GENERALI LIFE INSURANCE AD	-2,049	-1,779	-2,026	-1,811
INTERAMERICAN BULGARIA LIFE INSURANCE EAD	-2,170	-78	-1,716	-42
ZAD BULSTRAD LIFE	-2,340	1,464	-2,195	1,702
ZD KD LIFE AD	-2,872	-1,475	-2,859	-1,483
ZHZK DSK GARANTZIA AD	-3,849	-468	-3,849	-468
ZAD DZI	-4,704	-722	4,354	36,727
<b>TOTAL:</b>	<b>-1,642</b>	<b>11,359</b>	<b>6,590</b>	<b>50,059</b>

## 13.3.5A APPENDIX

### Asset amount and equity of life insurance companies (in BGN thousand)

Insurers	Asset amount			Equity		
	2008	2007	Change	2008	2007	Change
ZAD DZI	382,616	378,308	1.14%	277,679	281,311	-1.29%
ZAD ALLIANZ BULGARIA LIFE	207,986	182,918	13.70%	23,637	24,907	-5.10%
AIG LIFE BULGARIA ZHZD EAD	57,087	43,508	31.21%	17,364	12,976	33.82%
GRAWE BULGARIA LIFE INSURANCE AD	48,948	39,539	23.80%	8,459	8,845	-4.36%
ZAD BULSTRAD LIFE	39,177	30,779	27.28%	9,584	10,367	-7.55%
ZK UNIKA LIFE AD	33,704	25,458	32.39%	10,526	8,789	19.76%
GENERALI LIFE INSURANCE AD	26,069	20,547	26.87%	6,511	650	901.69%
ZHZK DSK GARANTZIA AD	17,693	12,668	39.66%	6,663	7,146	-6.76%
UBB – AIG LIFE INSURANCE COMPANY AD	14,632	10,368	41.13%	10,482	7,954	31.78%
ZHZK BULGARSKI IMOTI AD	13,845	12,904	7.29%	7,767	6,769	14.74%
SINDIKALNA VZK	12,877	7,264	77.27%	796	653	21.90%
ZAD SOGELIFE BULGARIA AD	9,701	7,025	38.09%	8,132	6,668	21.96%

ZD KD LIFE AD	9,685	8,859	9.32%	7,414	8,034	-7.72%
INTERAMERICAN BULGARIA LIFE INSURANCE EAD	8,660	10,207	-15.16%	8,413	10,129	-16.94%
LIFE INSURANCE INSTITUTE AD	7,909	7,800	1.40%	6,900	6,898	0.03%
ZED CCB LIFE	7,050	6,401	10.14%	6,413	6,401	0.19%
VZK DOBRUDZHA - M - LIFE	2,350	2,793	-15.86%	749	908	-17.51%
<b>TOTAL:</b>	<b>899,989</b>	<b>807,346</b>	<b>11.47%</b>	<b>417,489</b>	<b>409,405</b>	<b>1.97%</b>

## Investment revenue and investment expense of life insurance companies as of the end of 2008 (in BGN thousand)

INSURERS	Investment revenue		Investment expense		Net result (1) - (4)	Net result (2) - (5)	Net result (3) - (6)		
	TOTAL	incl. positive differences from revaluation of the investments value	incl. profits from the realization of investments	TOTAL				incl. negative differences from revaluation of the investments value	incl. losses from the realization of investments
	(1)	(2)	(3)	(4)				(5)	(6)
ZAD ALLIANZ BULGARIA LIFE	24,484	17,602	194	18,985	18,759	193	5,499	-1,157	1
ZAD DZI	37,174	10,665	24,617	20,846	10,136	10,708	16,328	529	13,909
ZAD BULSTRAD LIFE	1,898	890	0	3,363	3,331	0	-1,465	-2,441	0
ZK UNIKA LIFE AD	2,090	0	2,090	2,037	2,037	0	53	-2,037	2,090
ZD KD LIFE AD	252	0	0	471	471	0	-219	-471	0
ZHZK BULGARSKI IMOTI AD	454	35	0	225	215	0	229	-180	0
GENERALI LIFE INSURANCE AD	619	169	1	937	876	9	-318	-707	-8
ZEAD CCB LIFE	222	48	0	221	221	0	1	-173	0
VZK DOBRUDZHA - M - LIFE	65	11	0	118	113	0	-53	-102	0
AIG LIFE BULGARIA ZHZD EAD	2,790	14	40	187	9	178	2,603	5	-138
ZHZK DSK GARANTZIA AD	598	88	0	727	704	0	-129	-616	0
UBB – AIG LIFE INSURANCE COMPANY AD	717	0	0	0	0	0	717	0	0
GRAWE BULGARIA LIFE INSURANCE AD	2,040	0	0	293	0	0	1,747	0	0
LIFE INSURANCE INSTITUTE AD	345	0	0	65	0	0	280	0	0
ZAD SOGELIFE BULGARIA AD	274	0	0	0	0	0	274	0	0
INTERAMERICAN BULGARIA LIFE INSURANCE EAD	451	0	0	65	65	0	386	-65	0
SINDIKALNA VZK	2	2	0	0	0	0	2	2	0
<b>TOTAL:</b>	<b>74,475</b>	<b>29,524</b>	<b>26,942</b>	<b>48,540</b>	<b>36,937</b>	<b>11,088</b>	<b>25,935</b>	<b>-7,413</b>	<b>15,854</b>

## 13.4.1 APPENDIX

### Premium income realized by voluntary health insurance companies

HEALTH INSURANCE COMPANIES	31.12.2008		31.12.2007		Growth
	BGN thousand	Market share (%)	BGN thousand	Market share (%)	
VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	6,344	20.94 %	3,751	14.82 %	69.13 %
GENERALI ZAKRILA HEALTH INSURANCE AD	5,809	19.17 %	9,889	39.07 %	-41.26 %
HEALTH INSURANCE FUND MEDICO-21 AD	3,662	12.09 %	2,449	9.67 %	49.53 %
DZI- HEALTH INSURANCE AD	2,819	9.30 %	2,170	8.57 %	29.91 %
UNITED HEALTH INSURANCE FUND DOVERIE AD	2,475	8.17 %	1,368	5.40 %	80.92 %
HEALTH INSURANCE COMPANY NADEZHDA AD	1,779	5.87 %	1,369	5.41 %	29.95 %
UNITED HEALTH INSURANCE EAD	1,234	4.07 %	390	1.54 %	216.41 %
MUNICIPAL HEALTH INSURANCE FUND AD	1,088	3.59 %			
HEALTH INSURANCE COMPANY BULSTRAD ZDRAVE AD	950	3.14 %	1,085	4.29 %	-12.44 %
EUROINS-HEALTH INSURANCE EAD	832	2.75 %	683	2.70 %	21.82 %
HEALTH INSURANCE COMPANY BULGARIA ZDRAVE AD	783	2.58 %	330	1.30 %	137.27 %
TOKUDA HEALTH INSURANCE FUND AD	628	2.07 %	79	0.31 %	694.94 %
HEALTH INSURANCE COMPANY VSEOTDAINOST AD	585	1.93 %	1,255	4.96 %	-53.39 %
HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	546	1.80 %			
HEALTH INSURANCE INSTITUTE AD	357	1.18 %	84	0.33 %	325.00 %
HEALTH INSURANCE COMPANY PLANETA AD	241	0.80 %	412	1.63 %	-41.50 %
HEALTH INSURANCE FUND PRIME HEALTH AD	128	0.42 %	0	0.00 %	-
HEALTH INSURANCE COMPANY CCB EAD	42	0.14 %	0	0.00 %	-
HEALTH INSURANCE FUND VICE MEDICA AD	0	0.00 %	0	0.00 %	-
HEALTH INSURANCE FUND EUROPA AD	0	0.00 %	0	0.00 %	-
<b>TOTAL:</b>	<b>30,302</b>	<b>100.00 %</b>	<b>25,314</b>	<b>100.00 %</b>	<b>19.70 %</b>

## 13.4.2A APPENDIX

### Paid and incurred claims by the voluntary health insurance companies

HEALTH INSURANCE COMPANIES	31.12.2008				31.12.2007			
	Paid claims	Share (%)	Incurred claims	Share (%)	Paid claims	Share (%)	Incurred claims	Share (%)
GENERALI ZAKRILA HEALTH INSURANCE AD	9,197	43.58 %	8,747	41.36 %	9,399	61.34 %	9,985	59.55 %
VOLUNTARY HEALTH INSURANCE NETWORK– ZDRAVE AD	3,604	17.08 %	3,803	17.98 %	1,444	9.42 %	1,962	11.70 %

UNITED HEALTH INSURANCE FUND DOVERIE AD	1,858	8.80 %	1,930	9.13 %	654	4.27 %	697	4.16 %
HEALTH INSURANCE FUND MEDICO-21 AD	1,821	8.63 %	1,823	8.62 %	1,870	12.20 %	1,886	11.25 %
DZI-HEALTH INSURANCE AD	1,715	8.13 %	1,734	8.20 %	645	4.21 %	871	5.19 %
HEALTH INSURANCE COMPANY NADEZHDA AD	764	3.62 %	856	4.05 %	278	1.81 %	270	1.61 %
HEALTH INSURANCE COMPANY BULSTRAD ZDRAVE AD	471	2.23 %	462	2.18 %	520	3.39 %	518	3.09 %
HEALTH INSURANCE COMPANY VSEOTDAINOST AD	407	1.93 %	400	1.89 %	161	1.05 %	192	1.15 %
EUROINS - HEALTH INSURANCE EAD	356	1.69 %	367	1.74 %	206	1.34 %	230	1.37 %
UNITED HEALTH INSURANCE EAD	301	1.43 %	349	1.65 %	110	0.72 %	119	0.71 %
HEALTH INSURANCE INSTITUTE AD	241	1.14 %	257	1.22 %	3	0.02 %	3	0.02 %
HEALTH INSURANCE COMPANY PLANETA AD	140	0.66 %	140	0.66 %	26	0.17 %	26	0.16 %
TOKUDA HEALTH INSURANCE FUND AD	105	0.50 %	143	0.68 %		0.00 %	3	0.02 %
HEALTH INSURANCE COMPANY BULGARIA ZDRAVE AD	78	0.37 %	80	0.38 %	7	0.05 %	6	0.04 %
MUNICIPAL HEALTH INSURANCE FUND AD	46	0.22 %	51	0.24 %	0	0.00 %	0	0.00 %
HEALTH INSURANCE FUND PRIME HEALTH AD	1	0.00 %	4	0.02 %	0	0.00 %	0	0.00 %
HEALTH INSURANCE COMPANY CCB EAD	0	0.00 %	1	0.00 %	0	0.00 %	0	0.00 %
HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	0	0.00 %	2	0.01 %	0	0.00 %	0	0.00 %
HEALTH INSURANCE FUND VICE MEDICA AD	0	0.00 %	0	0.00 %	0	0.00 %	0	0.00 %
HEALTH INSURANCE FUND EUROPA AD	0	0.00 %	0	0.00 %	0	0.00 %	0	0.00 %
<b>TOTAL:</b>	<b>21,105</b>	<b>100.00%</b>	<b>21,149</b>	<b>100.00%</b>	<b>15,323</b>	<b>100.00%</b>	<b>16,768</b>	<b>100.00%</b>

### Change in the written premiums, of the paid and of the incurred claims by the voluntary health insurance companies

HEALTH INSURANCE COMPANIES	Growth/drop of the written premiums as of 31.12.2008 compared to 31.12.2007	Increase/ decrease of the paid claims as of 31.12.2008 compared to 31.12.2007	Increase/ decrease of the incurred claims as of 31.12.2008 compared to 31.12.2007
GENERALI ZAKRILA HEALTH INSURANCE AD	-41.3 %	-2.1 %	-12.4 %
VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	69.1 %	149.6 %	93.8 %
UNITED HEALTH INSURANCE FUND DOVERIE AD	80.9 %	184.1 %	176.9 %
HEALTH INSURANCE FUND MEDICO-21 AD	49.5 %	-2.6 %	-3.3 %
DZI - HEALTH INSURANCE AD	29.9 %	165.9 %	99.1 %
HEALTH INSURANCE COMPANY NADEZHDA AD	29.9 %	174.8 %	217.0 %
HEALTH INSURANCE COMPANY BULSTRAD ZDRAVE AD	-12.4 %	-9.4 %	-10.8 %
HEALTH INSURANCE COMPANY VSEOTDAINOST AD	-53.4 %	152.8 %	108.3 %
EUROINS - HEALTH INSURANCE EAD	21.8 %	72.8 %	59.6 %
UNITED HEALTH INSURANCE EAD	216.4 %	173.6 %	193.3 %
HEALTH INSURANCE INSTITUTE AD	325.0 %	7,933.3 %	8,466.7 %
HEALTH INSURANCE COMPANY PLANETA AD	-41.5 %	438.5 %	438.5 %
TOKUDA HEALTH INSURANCE FUND AD	694.9 %	0.0 %	4,666.7 %
HEALTH INSURANCE COMPANY BULGARIA ZDRAVE AD	137.3 %	1,014.3 %	1,233.3 %
MUNICIPAL HEALTH INSURANCE FUND AD	-	-	-
HEALTH INSURANCE FUND PRIME HEALTH AD	-	-	-
HEALTH INSURANCE COMPANY CCB EAD	-	-	-
HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	-	-	-
HEALTH INSURANCE FUND VICE MEDICA AD	-	-	-
HEALTH INSURANCE FUND EUROPA AD	-	-	-
<b>TOTAL:</b>	<b>19.7 %</b>	<b>37.7 %</b>	<b>26.1 %</b>

### Technical and financial result of the health insurance companies (in BGN thousand)

HEALTH INSURANCE COMPANIES	Technical result		Financial result	
	2008	2007	2008	2007
GENERALI ZAKRILA HEALTH INSURANCE AD	-4,968	-6,025	-5,392	-5,110
UNITED HEALTH INSURANCE FUND DOVERIE AD	-415	80	-143	490
HEALTH INSURANCE COMPANY BULSTRAD ZDRAVE AD	-252	-290	-269	-145
DZI - HEALTH INSURANCE AD	-153	-79	-52	-84
HEALTH INSURANCE FUND MEDICO-21 AD	-525	89	-501	156
UNITED HEALTH INSURANCE EAD	-235	-514	-173	-447
HEALTH INSURANCE COMPANY BULGARIA ZDRAVE AD	236	-2	417	54
VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	777	394	-661	272
HEALTH INSURANCE COMPANY NADEZHDA AD	318	326	274	333
HEALTH INSURANCE COMPANY PLANETA AD	-220	-218	-195	283
EUROINS - HEALTH INSURANCE EAD	-710	-309	-866	9
HEALTH INSURANCE INSTITUTE AD	-61	7	2	23
HEALTH INSURANCE COMPANY VSEOTDAINOST AD	-387	-24	-352	-11
TOKUDA HEALTH INSURANCE FUND AD	-65	-50	-29	-44
HEALTH INSURANCE COMPANY CCB EAD	-172	-13	-178	-8
HEALTH INSURANCE FUND PRIME HEALTH AD	-8	-	0	-
MUNICIPAL HEALTH INSURANCE FUND AD	546	-	501	-
HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	187	-	3	-
HEALTH INSURANCE FUND VICE MEDICA AD	-75	-	-39	-
HEALTH INSURANCE FUND EUROPA AD	-119	-	-114	-
<b>TOTAL:</b>	<b>-6,301</b>	<b>-6,628</b>	<b>-7,767</b>	<b>-4,229</b>

### Asset amount and equity of health insurance companies (in BGN thousand)

Health insurance companies	Asset amount		Change	Equity		Change
	2008	2007		2008	2007	
GENERALI ZAKRILA HEALTH INSURANCE AD	11,231	9,311	20.62%	1,831	-1,856	-198.65%
UNITED HEALTH INSURANCE FUND DOVERIE AD	3,298	3,169	4.07%	2,503	2,646	-5.40%
HEALTH INSURANCE COMPANY BULSTRAD ZDRAVE AD	2,129	2,259	-5.75%	1,582	1,580	0.13%
DZI - HEALTH INSURANCE AD	4,363	3,016	44.66%	2,721	1,783	52.61%
HEALTH INSURANCE FUND MEDICO-21 AD	4,128	2,728	51.32%	1,602	2,243	-28.58%
UNITED HEALTH INSURANCE EAD	2,405	1,928	24.74%	1,896	1,669	13.60%



HEALTH INSURANCE COMPANY BULGARIA ZDRAVE AD	5,325	2,376	124.12%	4,896	2,079	135.50%
VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	4,379	4,023	8.85%	2,787	2,679	4.03%
HEALTH INSURANCE COMPANY NADEZHDA AD	4,264	3,043	40.12%	3,325	2,348	41.61%
HEALTH INSURANCE COMPANY PLANETA AD	2,051	2,943	-30.31%	1,838	2,290	-19.74%
EUROINS - HEALTH INSURANCE EAD	3,008	2,506	20.03%	2,247	2,113	6.34%
HEALTH INSURANCE INSTITUTE AD	2,114	2,053	2.97%	2,025	2,023	0.10%
HEALTH INSURANCE COMPANY VSEOTDAINOST AD	2,233	2,777	-19.59%	1,559	1,911	-18.42%
TOKUDA HEALTH INSURANCE FUND AD	1,252	514	143.58%	927	456	103.29%
HEALTH INSURANCE COMPANY CCB EAD	1,039	1,045	-0.57%	814	992	-17.94%
HEALTH INSURANCE FUND PRIME HEALTH AD	683	-	-	591	-	-
MUNICIPAL HEALTH INSURANCE FUND AD	1,882	-	-	1,501	-	-
HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	1,541	-	-	1,105	-	-
HEALTH INSURANCE FUND VICE MEDICA AD	480	-	-	461	-	-
HEALTH INSURANCE FUND EUROPA AD	1,887	-	-	1,886	-	-
<b>TOTAL:</b>	<b>59,692</b>	<b>43,691</b>	<b>36.62%</b>	<b>38,097</b>	<b>24,956</b>	<b>52.66%</b>

## Investment revenue and expense of the health insurance companies as of 31.12.2008

HEALTH INSURANCE COMPANIES	Investment revenue		Investment expense			Total net result (1) - (4)	Net result from revaluation of investments (2) - (5)	Net result from realization of investments (3) - (6)	
	Total	incl. positive differences from revaluation of the investments value	incl. profits from the realization of investments	Total	incl. negative differences from revaluation of the investments value				incl. losses from the realization of investments
HEALTH INSURANCE COMPANY BULSTRAD ZDRAVE AD	75	12	-	65	65	-	-53	-	
HEALTH INSURANCE COMPANY BULGARIA ZDRAVE AD	185	-	-	4	-	-	-	-	
UNITED HEALTH INSURANCE FUND DOVERIE AD	67	14	-	29	29	-	-15	-	
HEALTH INSURANCE COMPANY VSEOTDAINOST AD	19	19	-	2	2	-	17	-	
GENERALI ZAKRILA HEALTH INSURANCE AD	207	5	141	293	142	123	-137	18	
DZI - HEALTH INSURANCE AD	100	1	-	-	-	-	1	-	
UNITED HEALTH INSURANCE FUND DOVERIE AD	159	14	-	20	17	-	-3	-	
VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	282	227	-	747	699	48	-472	-48	
HEALTH INSURANCE INSTITUTE AD	63	-	-	1	-	-	-	-	

HEALTH INSURANCE FUND MEDICO-21 AD	69	-	-	-	-	-	-	-	69	-	-	-
HEALTH INSURANCE COMPANY NADEZHDA AD	25	-	-	-	-	-	-	25	-	-	-	-
HEALTH INSURANCE COMPANY PLANETA AD	154	30	-	-	129	128	-	25	-98	-	-	-
EUROINS - HEALTH INSURANCE EAD	274	180	-	-	484	484	-	-210	-304	-	-	-
TOKUDA HEALTH INSURANCE FUND AD	5	5	-	-	1	1	-	4	4	-	-	-
HEALTH INSURANCE COMPANY CCB EAD	109	72	-	-	117	117	-	-8	-45	-	-	-
HEALTH INSURANCE FUND PRIME HEALTH AD	-	-	-	-	-	-	-	-	-	-	-	-
MUNICIPAL HEALTH INSURANCE FUND AD	11	-	-	-	-	-	-	11	-	-	-	-
HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	11	-	-	-	173	-	-	-162	-	-	-	-
HEALTH INSURANCE FUND VICE MEDICA AD	-	-	-	-	-	-	-	-	-	-	-	-
HEALTH INSURANCE FUND EUROPA AD	5	-	-	-	-	-	-	5	-	-	-	-
<b>TOTAL:</b>	<b>1,820</b>	<b>579</b>	<b>141</b>	<b>2,065</b>	<b>1,684</b>	<b>171</b>	<b>-245</b>	<b>-1,105</b>	<b>-30</b>			

### Premium income earned through insurance brokers and revenues from commissions of the insurance brokers in 2008

CLASS OF INSURANCE	Premium income (in BGN)	Revenue from commissions (in BGN)	Commissions share of the premium income (%)
Accident	12,154,924	3,893,445	32.0 %
Sickness	48,225	14,982	31.1 %
Land vehicle, excluding railway rolling stock	332,979,940	82,785,697	24.9 %
Railway rolling stock	6,288,193	1,048,762	16.7 %
Aircrafts	775,264	38,993	5.0 %
Vessels	2,859,578	362,161	12.7 %
Loads in transit	5,196,844	1,087,001	20.9 %
Fire and natural forces	39,744,439	9,384,351	23.6 %
Property damage	39,422,331	7,149,273	18.1 %
Third party liability insurance related to the possession and use of motor vehicles	120,159,415	33,076,206	27.5 %
Third party liability insurance related to the possession and use of aircrafts	316,855	58,702	18.5 %
Third party liability insurance related to the possession and use of vessels	497,792	82,499	16.6 %
General third party liability	15,765,278	1,890,110	12.0 %
Credits	1,414,874	277,163	19.6 %
Suretyship	658,443	169,532	25.7 %
Miscellaneous financial loss	7,723,787	1,316,621	17.0 %
Legal expenses	17,281	3,178	18.4 %
Travel assistance	1,696,271	614,055	36.2 %
Life insurance and annuities	45,371,869	11,383,998	25.1 %
Marriage and child insurance	85,834	34,324	40.0 %
Unit linked life insurance	1,493,936	489,259	32.7 %
Permanent health insurance	424,638	105,448	24.8 %
Capital redemption	0	0	0.0 %
Supplementary insurance	866,966	217,886	25.1 %
<b>TOTAL:</b>	<b>635,962,978</b>	<b>155,483,646</b>	<b>24.4 %</b>

## Income statement of the Guarantee Fund

INCOME STATEMENT		2008 (BGN thousand)	2007 (BGN thousand)
<b>I.</b>	<b>INCOME</b>	<b>28,558</b>	<b>20,573</b>
1.	Income from contributions of insurers	24,159	17,812
2.	Income from regress claims	190	122
3.	Income from fines and property sanctions	1,173	387
4.	Financial income	1,664	947
5.	Gains on revaluation of investments value	612	559
6.	Other income	760	746
<b>II.</b>	<b>EXPENSES</b>	<b>10,850</b>	<b>4,923</b>
1.	Expenses of activities	5,415	3,309
1.1.	Indemnity expenses	3,587	2,284
1.2.	Liquidation costs	121	67
1.3.	Legal costs	146	75
1.4.	Expenses of reinsurance contract	553	883
1.5.	Expenses on an information center	122	
1.6.	Expenses of actions, Art. 288b of IC	886	
2.	Administrative expenses	1,421	1,019
3.	Financial expenses	195	82
4.	Losses from revaluation of investment value	3,812	513
5.	Other expenses	7	
<b>III.</b>	<b>RESULT OF THE FUND'S OPERATION</b>	<b>17,708</b>	<b>15,650</b>
	Change in the gross amount of the Outstanding claims reserves	-1,988	-2,418
<b>IV.</b>	<b>FINANCIAL RESULT OF THE FUND</b>	<b>15,720</b>	<b>13,232</b>

### Equity and balance sheet assets of pension insurance companies (PICs). Balance sheet assets and number of persons insured in supplementary pension insurance funds as of 31.12.2008

Pension insurance company	Equity of PIC (BGN thousand)	Balance sheet assets of PIC (BGN thousand)	Balance sheet assets of the managed supplementary pension insurance funds (BGN thousand)				Number of persons insured					
			UPF	OPF	VPF	OS	Total	UPF	OPF	VPF	OS	Total
PIC DOVERIE PLC	18,950,	28,568	546,040	137,935	85,694	0	769,669	1,014,686	76,123	162,945	0	1,253,754
PIC SAGLASIE PLC	7,596	11,190	169,482	65,587	19,044	0	254,113	361,470	36,224	36,313	0	434,007
PIC DSK-RODINA AD	8,373	10,134	129,141	18,899	35,366	466	183,872	287,714	17,607	42,260	4,259	351,840
PIC ALLIANZ BULGARIA PLC	17,134	21,980	310,613	73,842	243,728	0	628,183	545,081	36,451	257,470	0	839,002
ING PIC PLC	3,111	5,448	146,330	20,954	51,063	0	218,347	252,985	15,719	36,027	0	304,731
PIAD CCB SILA	8,513	9,454	62,270	11,306	9,207	0	82,783	147,614	12,330	21,021	0	180,965
PIC LUKOIL GARANT- BULGARIA AD	3,944	5,033	60,111	25,802	32,649	0	118,562	114,378	14,221	34,531	0	163,130
PIC FUTURE JSC	4,041	4,546	22,092	3,391	4,390	0	29,873	70,968	5,412	5,443	0	81,823
PIC TOPLINA AD	3,821	4,146	5,946	9,974	1,972	0	17,892	19,016	7,168	8,398	0	34,582
PENSION INSURANCE INSTITUTE AD	5,200	5,220	0,1	0	0	0	0,1	2	0	0	0	2
<b>TOTAL:</b>	<b>80,683</b>	<b>105,719</b>	<b>1,452,025</b>	<b>367,690</b>	<b>483,113</b>	<b>466</b>	<b>2,303,294</b>	<b>2,813,914</b>	<b>221,255</b>	<b>604,408</b>	<b>4,259</b>	<b>3,643,836</b>

## Main shareholders in pension insurance companies as of 31 December, 2008

PIC	Shareholders	BULSTAT	Percent of shares/ units possessed directly	Percent of shares/ units possessed indirectly
PIC DOVERIE PLC	BZP GROUP AD	130131469	80.29 %	
	ZPAD BULSTRAD AD	000694286	12.29 %	
PIC SAGLASIE PLC	CHIMIMPORT AD	000627519	49.28 %	
	FINANCE CONSULTING EAD	103765841	19.09 %	
PIC DSK-RODINA AD	DSK BANK AD	121830616	97.00 %	
PIC ALLIANZ BULGARIA PLC	ALLIANZ BULGARIA HOLDING AD	0040812785	65.40 %	
	NATSIONALNA ELEKTRICHESKA KOMPANIA EAD	0000649348	34.00 %	
ING PIC PLC	ING CONTINENTAL EUROPE HOLDING		100.00 %	
PIC CCB-SILA PLC	CCB GROUP ASSETS MANAGEMENT EAD	121749139	89.26 %	99,20 %
	CENTRAL COOPERATIVE BANK AD	831447150	9.95 %	99,20 %
PIC LUKOIL GARANT-BULGARIA PLC	CHIMIMPORT INVEST AD	831541734	84.60 %	
PIC FUTURE JSC	INTERHOTEL SANDANSKY – BULGARIA AD	101511550	25.00 %	
	UNIVERS 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 TOPLINA AD	LM IMPEX EOOD	122073062	46.40 %	
	BRIKEL EAD	123526494	30.00 %	
PENSION INSURANCE INSTITUTE AD	PELA EOOD	820178630	74.00 %	
	EST AD	130524198	25.00 %	

### Statutorily set indicators of pension insurance companies and supplementary pension insurance funds

Indicator	Measure	Average value	
		31.12.2007	31.12.2008
Capital adequacy of pension insurance companies	%	193.62	155.15*
Liquidity of pension insurance companies	coefficient	49.99	42.42*
Liquidity of universal pension fund	coefficient	165.86	203.91
Liquidity of occupational pension funds	coefficient	118.51	201.32*
Liquidity of voluntary pension funds	coefficient	55.00	154.89
Liquidity of voluntary pension funds under occupational schemes	coefficient	-	11.17**
Charged investment fee of the voluntary pension funds	%	9.99	0.00
Average amount of fee from insurance contributions in voluntary pension funds	%	3.50	3.36
Average amount of fee from insurance contributions in voluntary pension funds under occupational schemes	%	-	4.05**

### Financial and economic indicators of pension insurance companies and supplementary pension insurance funds

Pension insurance companies				
Indicator	Measure	31.12.2007	31.12.2008	
1. Analysis of the pension insurance companies' equity				
1.1.	Extent of coverage of the registered capital	%	167.67	123.85*
1.2.	Earnings capacity of equity	%	23.15	-19.37*
2. Analysis of the of the pension insurance companies' assets				
2.1.	Extent of coverage of assets of supplementary pension insurance funds	%	14.42	8.19
2.2.	Earnings capacity of assets of pension insurance companies	%	18.26	-21.41
2.3.	Growth in assets of pension insurance companies	%	50.72	-9.03
3. Analysis of the income and expenses of pension insurance companies				
3.1.	Efficiency of pension insurance companies' activity	%	150.73	107.43
3.2.	Fees and deductions per insured person in supplementary pension insurance funds	BGN	15.18	14.46
3.3.	Expenses from activity per insured person in supplementary pension insurance funds	BGN	21.30	36.21
3.4.	Fees and deductions per BGN 100 of the supplementary pension insurance funds assets	BGN	2.44	2.55
3.5.	Expenses from activity per BGN 100 of supplementary pension insurance funds assets	BGN	3.80	7.19
Supplementary pension insurance funds				
1. Assets				



1.1.	Rate of return of the managed assets of the universal supplementary pension insurance funds	coefficient	0.14	-0.22
1.2.	Rate of return of the managed assets of the occupational supplementary pension insurance funds	coefficient	0.15	-0.24
1.3.	Rate of return of the managed assets of the voluntary supplementary pension insurance funds	coefficient	0.16	-0.33
1.4.	Rate of return of the managed assets of the voluntary supplementary pension insurance funds under occupational schemes	coefficient	-	-1.07**
1.5.	Managed assets per insured person in universal supplementary pension insurance funds	BGN	425.78	463.94
1.6.	Managed assets per insured person in occupational supplementary pension insurance funds	BGN	1,677.74	1,422.68
1.7.	Managed assets per insured person in voluntary supplementary pension insurance funds	BGN	1,168.25	740.33
1.8.	Managed assets per insured person in voluntary supplementary pension insurance funds under occupational schemes	BGN	-	109.42**
1.9.	Growth in the assets of universal supplementary pension insurance funds	%	73.26	18.06
1.10	Growth in the assets of occupational supplementary pension insurance funds	%	31.95	-11.44
1.11	Growth in the assets of voluntary supplementary pension insurance funds	%	37.12	-29.23
2. Persons insured in pension insurance funds				
2.1.	Growth in the number of person insured in universal supplementary pension insurance funds	%	8.10	6.56
2.2.	Growth in the number of person insured in occupational supplementary pension insurance funds	%	7.52	6.70
2.3.	Growth in the number of person insured in voluntary supplementary pension insurance funds	%	4.75	1.93

**Note:** The average value of all indicators is calculated as an arithmetic average of the value of the indicators for all pension insurance companies/ supplementary pension insurance 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 change for the year and their initial value at the beginning of the year.

\* The average value of the indicator does not include the value of the indicator of the licensed in 2008 Pensionnoosiguritelten Institut AD.

\*\* The indicator's value of the only voluntary pension fund under occupational schemes which carries out activities.



Pension funds	Voluntary pension funds (VPF)						Voluntary pension funds under occupational schemes (VPFOS)					
	2008			2007			2008			2007		
	amount (BGN thousand)	share (%)	amount (BGN thousand)	share (%)	amount (BGN thousand)	share (%)	amount (BGN thousand)	share (%)	amount (BGN thousand)	share (%)	amount (BGN thousand)	share (%)
<b>Total investments, including:</b>	<b>461,587</b>	<b>100.00%</b>	<b>635,109</b>	<b>100.00%</b>	<b>376</b>	<b>100.00%</b>	<b>376</b>	<b>100.00%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Debt securities issued or guaranteed by EU Member States, other countries or their central banks	111,388	24.13 %	136,164	21.44 %	296	78.67 %	296	78.67 %	-	-	-	-
Corporate bonds	100,792	21.84 %	95,094	14.97 %	-	-	-	-	-	-	-	-
Mortgage bonds	17,592	3.81 %	25,384	4.00 %	-	-	-	-	-	-	-	-
Municipal bonds	2,629	0.57 %	6,028	0.95 %	-	-	-	-	-	-	-	-
Shares, rights and units, incl.:	102,185	22.14 %	221,430	34.86 %	36	9.57 %	36	9.57 %	-	-	-	-
<i>shares and rights of special investment purpose companies (SIPC)</i>	<b>20,841</b>	<b>4.51 %</b>	<b>36,077</b>	<b>5.68 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>shares and units of collective investment schemes (CIS)</i>	<b>34,122</b>	<b>7.39 %</b>	<b>57,341</b>	<b>9.03 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>shares and rights other than these of SIPC and CIS</i>	<b>47,222</b>	<b>10.23 %</b>	<b>128,012</b>	<b>20.16 %</b>	<b>36</b>	<b>9.57 %</b>	<b>36</b>	<b>9.57 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Bank deposits	78,395	16.98 %	109,898	17.30 %	44	11.76 %	44	11.76 %	-	-	-	-
Investment properties	48,607	10.53 %	41,111	6.47 %	-	-	-	-	-	-	-	-

Pension funds	Supplementary pension insurance funds			
	2008		2007	
	amount (BGN thousand)	share (%)	amount (BGN thousand)	share (%)
<b>Total investments, including:</b>	<b>2,189,059</b>	<b>100.00%</b>	<b>2,224,416</b>	<b>100.00 %</b>
Debt securities issued or guaranteed by EU Member States, other countries or their central banks	690,025	31.52 %	543,285	24.42 %
Corporate bonds	477,762	21.83 %	404,824	18.20 %
Mortgage bonds	72,971	3.33 %	74,676	3.36 %
Municipal bonds	21,661	0.99 %	38,113	1.71 %
Shares, rights and units, incl.:	367,509	16.79 %	724,104	32.55 %
<i>shares and rights of special investment purpose companies (SIPC)</i>	66,129	3.02 %	95,614	4.30 %
<i>shares and units of collective investment schemes (CIS)</i>	127,947	5.85 %	223,149	10.03 %
<i>shares and rights other than these of SIPC and CIS</i>	173,433	7.92 %	405,341	18.22 %
Bank deposits	476,325	21.76 %	361,794	16.26 %
Investment properties	82,806	3.78 %	77,620	3.49 %